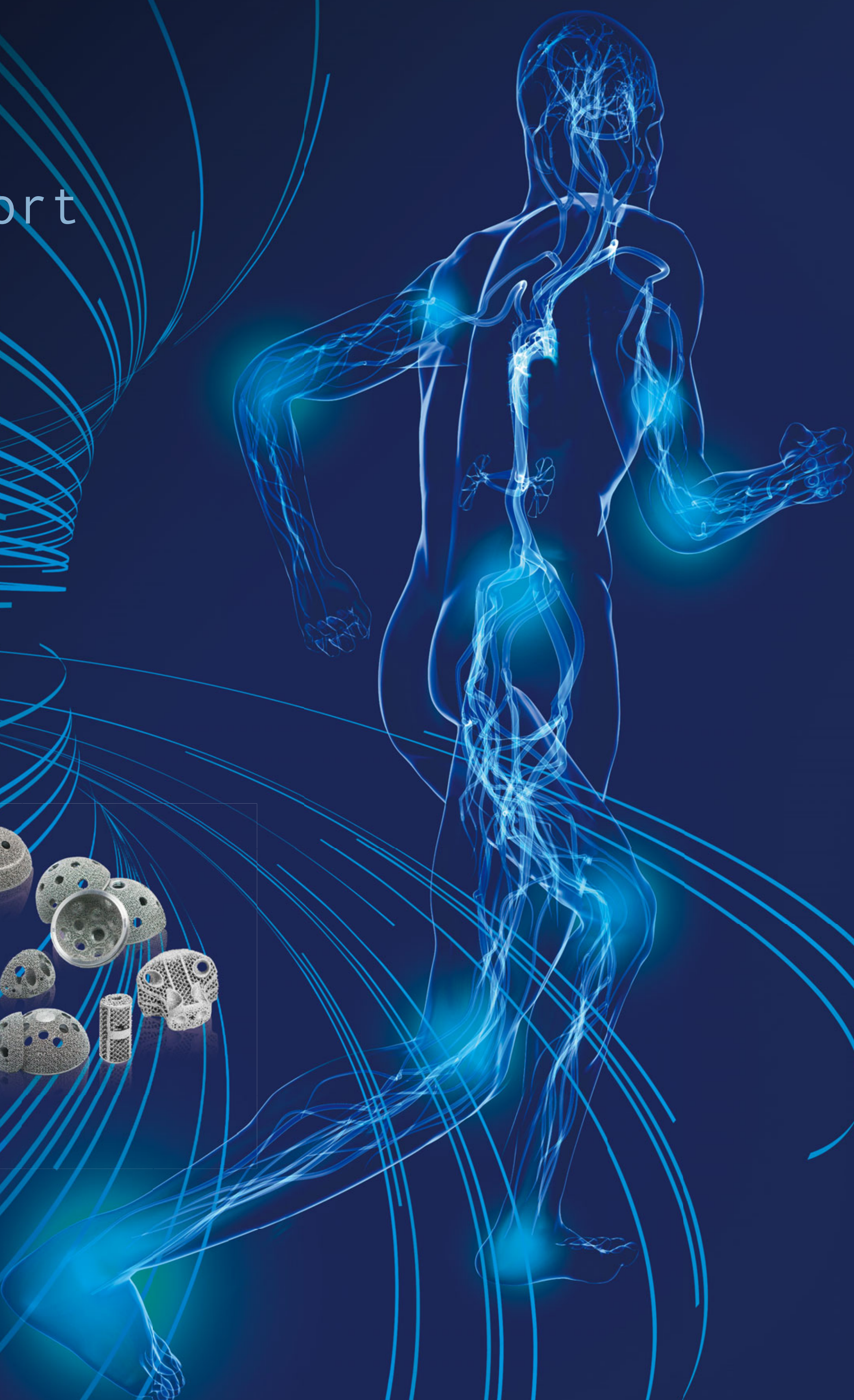
爱康醫療控股有限公司

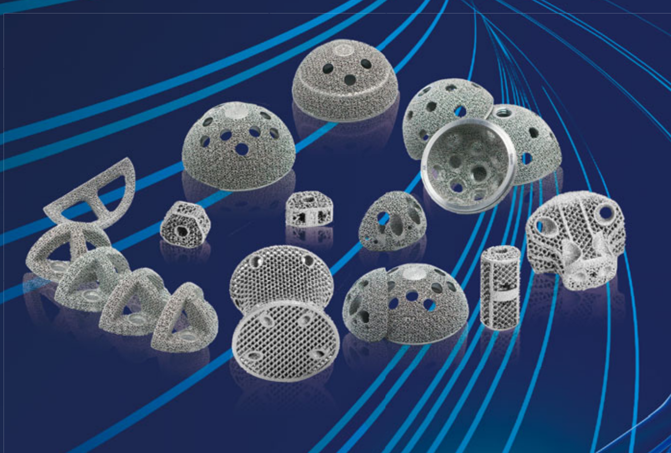
AK Medical Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1789

2018 Annual Report





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CORPORATE INFORMATION

DIRECTORS

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

Non-executive 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, Prince's Building
10 Chater Road, Central, Hong Kong

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

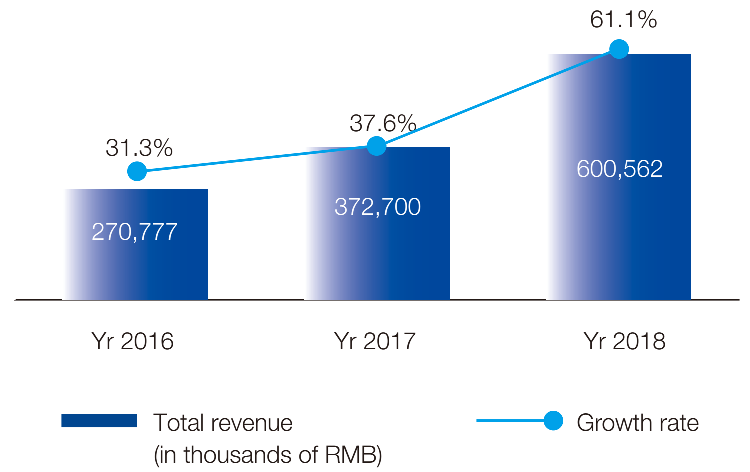
The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 1789.HK)

FINANCIAL HIGHLIGHTS

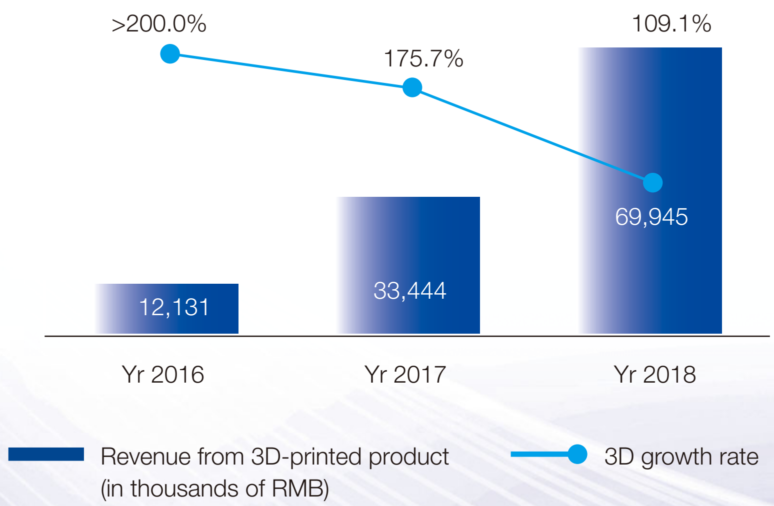
Year ended 31 December

	2018 RMB'000	2017 RMB'000	Variance %
Revenue	**600,562**	372,700	61.1%
Gross Profit	**408,881**	263,790	55.0%
Profit for the year attributable to equity shareholders of the Company	**144,936**	105,376	37.5%
Gross Profit Margin	**68.1%**	70.8%	
Gross Profit Margin exclude JRI	**70.1%**	70.8%	
Net Profit Margin	**24.1%**	28.3%	
Net Profit Margin exclude JRI	**27.6%**	28.3%	
Earnings per share			
Basic	**RMB0.14**	RMB0.14	
Diluted	**RMB0.14**	RMB0.14	

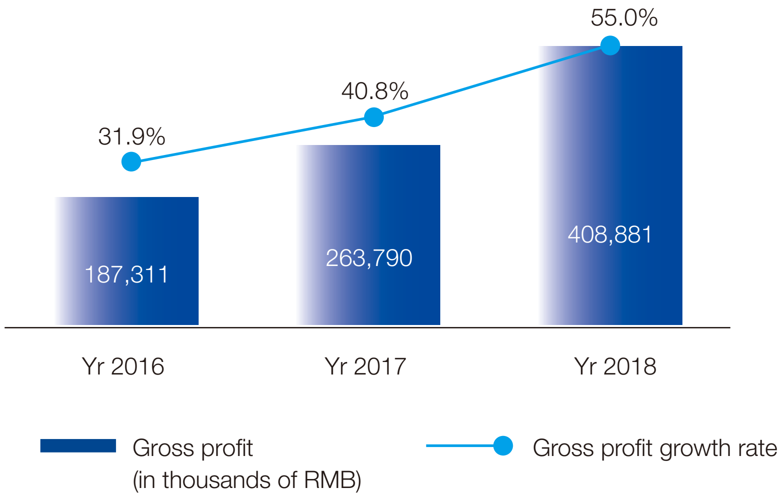
Growth of total revenue



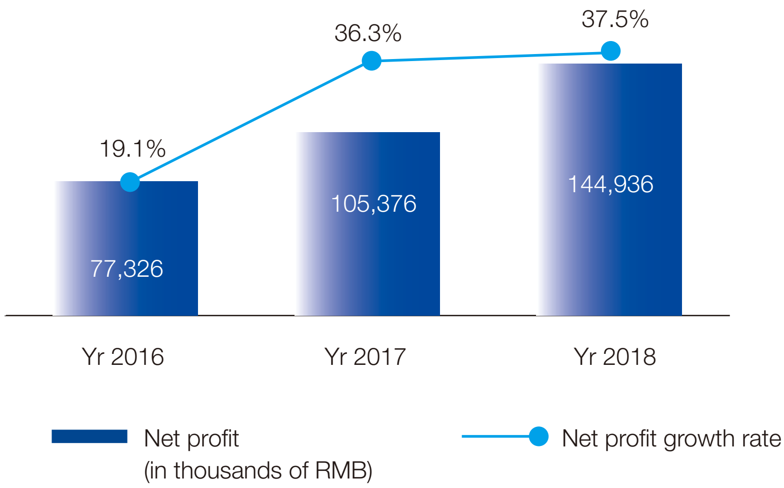
Growth of revenue from 3D-printed product



Growth of gross profit



Growth of net profit



FIVE YEARS' FINANCIAL SUMMARY

	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**600,562**	372,700	270,777	206,164	148,278
Net Profit	**144,936**	105,376	77,326	64,907	51,721
Assets					
Non-current assets	**267,811**	126,039	83,078	59,777	35,610
Current assets	**824,989**	731,568	322,457	223,973	177,037
Total assets	**1,092,800**	857,607	405,535	283,750	212,647
Liabilities					
Current liabilities	**228,486**	179,362	99,034	100,819	51,065
Non-current liabilities	**22,556**	10,262	12,108	5,993	5,631
Total liabilities	**251,042**	189,624	111,142	106,812	56,696
Total equity	**841,758**	667,983	294,393	176,938	155,951

In 2018, China's medical reform has entered a new stage. Having grasped the opportunities arising from the reform in the medical sector and with the unremitting efforts of all the staff, AK Medical has achieved fruitful results in 2018. For the year ended 31 December 2018, the Group achieved an annual revenue of RMB600.6 million, representing an increase of 61.1% as compared to the same period in 2017; profit amounted to RMB144.9 million, representing a growth of 37.5% as compared to the same period in 2017.

In 2018, the Company made good progress in the 3D-printed products business and the hip and knee products business. In 2018, our 3D-printed products achieved sales revenue of RMB69.9 million. The increase in revenue from sales of our 3D-printed products was 109.1% as compared with 2017. The rapid growth of 3D-printed products was primarily due to the fact that we are the first company to provide 3D-printed orthopedic implant products in China. After continuous market nurturing, the technical advantages of our 3D-printed products are being recognized by an increasing number of surgeons.

Other than our products, we also provide our customers with personalized 3D Accurate Construction Technology (3D ACT) solutions, to assist surgeons in simulating and planning for implant surgeries to achieve their expectation and accomplish the purpose of precision surgeries. For the year ended 31 December 2018, such platform has covered 822 hospitals, an increase of 276 cases compared with 2017. The platform has assisted doctors in designing 3,678 surgical solutions, recording an increase of 1,062 cases compared with 2017. The accumulation of surgical solutions on this platform will help us better understand the feature of diseases in Chinese patients and help us better develop prosthesis suitable for Chinese patients. Meanwhile, as an aid to marketing, this platform played an important role in entering into high-end market, especially in the Class III hospitals in the first- and second-tier cities in the PRC.

In 2018, our R&D and registrations have achieved fruitful results, and we were honored with the First Prize of Beijing Science and Technology Award. Our A3 Total Knee System gained the United States FDA pre-market notification clearance, making the system the first FDA-approved Chinese manufactured joint prosthesis. During the year, we have obtained 4 registration certificates for Class III medical devices approved by the National Medical Products Administration. In 2018, AK Medical testing centers have passed the China National Accreditation Service for Conformity Assessment ("**CNAS**") certification. This demonstrated that the testing capability of and reports from testing centers of AK Medical could gain recognition from the member countries and regions of the international group under the Mutual Recognition Agreement.

In April 2018, we acquired JRI Orthopedics Limited (the "**JRI**"), a British orthopedic company, and the Group has made a significant step towards internationalization.

As a leader in orthopedic joint industry in the PRC, AK Medical will continue to strengthen our leading position in the industry, adopt proactive development strategies to consolidate the leading position of the Group in the field of orthopedic joint and forge an influential orthopedic brand. We will continue to develop 3D-printed orthopedic products and boost the Group's business growth with 3D-printing technology. We are also committed to research and development as the core of the Group's development and establish a R&D system driven by technology and market. In addition, in the complex and ever-changing environment, we will actively respond to policies initiated by the government and grasp the opportunities arising from the trend of import substitution.

Going forward, AK Medical will seize the opportunities arising from the development of the medical device industry in China and is committed to the mission of "striving to improve the quality of life for hundreds of millions of patients" and aim for the vision of "becoming an honorable world-class medical enterprise", so as to promote sustainable development of AK Medical as well as deliver returns to shareholders, customers and the society!

BUSINESS OVERVIEW AND OUTLOOK

Overview

In 2018, China's medical reform has entered a new stage. In March 2018, the State Council rolled out the "Reform Plan of State Institutions (國家機構改革方案)", setting out the establishment of the National Health Commission, the State Administration for Market Regulation and the National Healthcare Security Administration. The institutional reform in the medical and healthcare sector has had a profound impact on the future of medical reform and policy implementation. China is committed to linking activities in the medical care, medical insurance and pharmaceutical areas and implementing regulatory control over processes of production, circulation and end-use. Medical insurance cost control was the keynote of the annual pharmaceutical policy. The implementation of the policy regarding the centralized procurement of drugs in "4+7" cities has created the most significant impact during the year, which caused a huge shock to the entire healthcare industry. It will also have a far-reaching influence on the future of the whole industry.

The rolling out of the medical insurance cost control policy has also expedited the import substitution rate of related industries in certain extent. Leveraging on the opportunities brought about by the trend of import substitution, the Group promoted its business growth on a steady pace. As at 31 December 2018, we obtained 30 product registration certificates for Class III medical devices and three product registration certificates for Class II medical devices approved by the National Medical Products Administration ("**NMPA**"). We are the orthopedic company with the largest number of registration certificates for Class III medical devices for orthopedic joint products in China and our products can meet the needs of all kinds of orthopedic joint surgeries.

For the year ended 31 December 2018, the Group achieved annual revenue of RMB600.6 million, representing an increase of 61.1% as compared to 2017; the Group achieved profit of RMB144.9 million, representing a growth of 37.5% as compared to 2017.

3D-printed Products Business

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

For the year ended 31 December 2018, we had a total of three 3D-printed products registration certificates approved by the NMPA, namely 3D-printed acetabular cup and augment, 3D-printed spinal interbody cages and 3D-printed artificial vertebral bodies, respectively. We are the only orthopedic company which launched 3D-printed metal implants approved by NMPA in the PRC market.

In 2018, our 3D-printed products achieved sales revenue of RMB69.9 million, with the increase rate of 109.1% compared with year 2017. The rapid growth of 3D-printed products was primarily due to the fact that we remained the only company which could provide 3D-printed orthopedic implant products in the PRC market. After more than 3 years of market nurturing, the technical advantages of our 3D-printed products are being recognized by an increasing number of orthopedists. In 2018, we conducted an upgrade to the original 3D-printed products and introduced 3D-printed metal augments and buttress for revision surgeries, and 3D-printed lumbar interbody fusion cage for decompression fusion surgery. The launch of new products also contributed to the sales revenue of 3D-printed products.

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 and accomplish the purpose of precision surgeries. For the year ended 31 December 2018, such platform has covered 822 hospitals, an increase of 276 cases compared to the figure in 2017. The platform has assisted doctors in designing 3,678 surgical solutions, recording an increase of 1,062 cases compared to the figure in 2017. The accumulation of surgical solutions on this platform will help us better understand the characteristics of orthopedic diseases in Chinese patients and help us better develop prosthesis suitable for Chinese patients. Meanwhile, as an aid to marketing, this platform played an important role in helping us to enter into high-end medical market and especially in the Class III hospitals in the first- and second-tier cities in the PRC.

Hip and Knee Products Business

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

In 2018, we continued to provide our customers and patients with a full range of orthopedic joint products, including hip and knee implants and tools for primary, complex, revision and reconstruction surgeries.

In 2018, our hip and knee products delivered RMB497.1 million in revenue, representing a year-on-year increase of 56.8%. Such rapid growth in the sales revenue from hip and knee products was attributable to our superior product quality and extensive sales channels, and at the same time, JRI's hip products also contributed to the sales revenue. The growth in hip and knee products has been driven by the rapid growth of 3D-printed products, and has also benefited from the trend of import substitution.

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 talents to enhance the strength of the Group's internal R&D team. In April 2018, the first post-doctor successfully completed study in AK Medical postdoctoral workstation. Secondly, we step up cooperation with external experts to explore the R&D of innovative products. In addition to the ongoing strategic cooperation with Peking University Third Hospital in the 3D-printing area, we are also cooperating with a number of experts from Beijing Jishuitan Hospital to develop new products. Thirdly, we develop good interaction with surgeons through the 3D ACT platform, thus accumulating data to enhance R&D capabilities.

In 2018, our R&D and registrations have achieved fruitful results, where we have obtained four product registration certificates for Class III medical devices approved by NMPA. Our A3 Total Knee System gained the United States FDA pre-market notification clearance, making the system the first FDA-approved Chinese manufactured joint prosthesis. This shows that our products have been recognized by the United States FDA in terms of technology and quality.

In 2018, AK Medical also obtained China National Accreditation Service for Conformity Assessment ("**CNAS**") certification. This demonstrated that the testing capability of and reports from testing centers of AK Medical could gain recognition from the member countries and regions of the international group under the Mutual Recognition Agreement, and the testing centers have the ability to conduct conformity assessment activities according to relevant requirements and to issue conformity assessment certificates and reports.

In 2018, AK Medical's "Clinical Application and Key Technology Research of 3D Printing Titanium Alloy Orthopedic Implants" completed by the core technology research and development unit was awarded the Beijing Science and Technology First Prize.

Our R&D capabilities are also exhibited on the number of patents we have obtained. As of 31 December 2018, we have obtained a total of 52 invention patents, 148 utility patents, two patents under Patent Cooperation Treaty ("**PCT**"), and two appearance patents, with 146 invention patents, 86 utility patents and six patents under PCT pending for approval.

ITI Medical (Changzhou Facilities)

Established in March 2016, ITI Medical Co., Ltd. is a wholly-owned subsidiary of AK Medical, with the registered capital of USD13,200,000, total investment scale of USD37,500,000 and total construction volume of 35,000m^2. The annum production capacity of artificial joints will reach 300,000 sets after the completion of the construction project.

The construction of ITI Medical planned to last for three years and will be completed in two phases. As of the end of 2018, the first phase is still under construction. It is expected to commence operation in 2019. For the R&D aspect, ITI Medical has obtained two registration certificates for Class III medical devices, and has acquired the production license.

Sales and Marketing

In 2018, we continued to strengthen the management of the sales system, expand our internal sales team, broaden the sales network and put greater effort in marketing. As of 31 December 2018, we have established a wide and sound distributor system over all regions of the PRC (for the purpose of this annual report, excluding the Hong Kong Special Administrative Region of the PRC, the Macao Special Administrative Region of the PRC and Taiwan), covering over 5,000 hospitals, one-third of which are Class III hospitals, with an increase of over 1,000 hospitals from 2017.

The success acquisition of JRI helped the Group gradually establish an international resources coordination platform. Taking advantages of the international resources of JRI, we have organized a series of education and training activities for surgeons. By ways of academic training and practice, we facilitated the information exchange and concept promotion of the orthopedic field between China and Europe. The brand building of AK Medical was also strengthened.

Acquisition of JRI

In April 2018, the Group completed the acquisition of the entire shares in JRI at a consideration of Great Britain Pound 16,732,000. JRI is a private company limited by shares incorporated with in England and Wales and is principally engaged in designing, developing and manufacturing orthopedic implants and surgical instruments. It is one of the earliest orthopedic companies in the world to develop and produce hip implants with hydroxyapatite coating which enable the biological fixation with the patients' bone and improve the longevity of such hip implants. Apart from hip implants, it also develops and distributes full shoulder replacement implants and offers a series of orthobiologics.

After the completion of the acquisition, JRI has established a new board of directors and the board of directors appointed new executive management team who oversee the daily business operations of JRI within the scope of authority. In the meantime, we have also promoted the coordination and integration of the onshore and offshore resources of the Group from the following aspects. Firstly, we stabilized the production capacity of JRI and ensured the supply for AK Medical brand of high-end hip implant product lines. Secondly, we built an academic platform leveraging on JRI's resources on overseas experts and hospitals to organize a series of high-end market academic activities and increase customer retention. Thirdly, through cooperation in the R&D and registration projects, the R&D and registration teams of the two countries collaborate to prompt the products under the AK Medical brand to obtain CE mark and expand the overseas sales channels in the future.

PROSPECTS

Against the backdrop of the development of medical device industry in the PRC, as a leader in orthopedic joint industry in the PRC, we will continue to strengthen our leading position in the industry and adopt proactive development strategies, including but not limited to the following:

1. Consolidating the leading position of the Group in the field of orthopedic joint and forging an influential orthopedic brand

We will continue to maintain our leading position in the field of orthopedic joint and further expand the market share of our brand. At the same time, we will gradually penetrate into other segments of orthopedics and gradually build the Group into a well-established orthopedic platform step by step.

2. Persistently developing 3D-printed orthopedic products and boosting the Group's business growth with 3D-printing technology

In 2019, we will continuously deepen the research and development of 3D-printing technology, which is regarded as one of the most important development strategies of the Group and conduct further research and development of 3D-printed standardized and customized products to increase the proportion of sales income in 3D-printed products to the Group's sales income. At the same time, we will also continuously promote our 3D ACT PTIP among hospitals and orthopedic surgeons to accumulate more case data for future product development. We will maintain a high speed growth for the Group's business with the leading technology of 3D-printing.

3. Commitment to research and development as the core of the Group's development and establish a R&D system driven by technology and market

We always believe that the R&D capability is the core competitiveness of the Group's development. In the coming year, we will continue to increase the investment in the R&D, and will establish a better R&D system through the dual-drive of market and technology.

4. Actively responding to policies initiated by government and grasping the opportunities arising from the trend of replacing import products

In 2018, the instructional reform of the PRC government and the implementation of new policies and regulations have brought material impact on the healthcare industry. While the "two invoice policy" is still in use in some regions, the centralized procurement reform has caused shocks in the drug field. It will bring uncertainties to the development of the medical device industry in the coming year. We will conduct analysis and research on these policies, capture 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.

FINANCIAL REVIEW

Overview

	Year ended 31 December		
	2018	2017	Variance
	RMB'000	RMB'000	%
Revenue	**600,562**	372,700	61.1%
Gross Profit	**408,881**	263,790	55.0%
Profit for the year attributable to equity shareholders of the Company	**144,936**	105,376	37.5%
Earnings per share			
Basic	**RMB0.14**	RMB0.14	
Diluted	**RMB0.14**	RMB0.14	

Faced with a challenging market for medical devices, the Group has benefited from its leading 3D-printed technology and continuous diversification of product lines, and have leveraged on opportunities brought by import substitution. Hence, for the year ended 31 December 2018, the Group kept its rapid growth and achieved revenue of RMB600.6 million, which represented an increase of 61.1% as compared with 2017. After eliminating the impact of consolidation of JRI, the subsidiary acquired in April 2018, the Group still achieved a rapid growth rate of 42.7%. The Group maintained its leading position in the Chinese joint implants market with a further increase in market share. We consider that we will grow our business even further and continue to improve the quality of life for hundreds of millions of patients, with our subsequent R&D of more new products, implementation of the dual-brand global strategy and our advantageous 3D ACT platform.

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

Revenue

	Year ended 31 December		
	2018	2017	Variance
	RMB'000	RMB'000	%
Hip replacement implants[1]	**351,958**	215,305	63.5%
Knee replacement implants	**145,098**	101,667	42.7%
3D-printed products[2]	**69,945**	33,444	109.1%
Third party orthopedic products	**11,866**	14,913	(20.4%)
Others[3]	**21,695**	7,371	194.3%
Total	**600,562**	372,700	61.1%

Notes:

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

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

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

Our revenue amounted to RMB600.6 million for the year ended 31 December 2018, representing an increase of 61.1% as compared with RMB372.7 million for the year ended 31 December 2017. After eliminating the impact of revenue consolidation from JRI, the Group still achieved a growth rate of 42.7%. The significant increase of revenue was mainly driven by the increase of the sales of 3D-printed products which helped the Group to further develop its brand name and hence improved the sales of hip and knee products as well.

Hip and knee replacement implants products

Our hip and knee replacement implants products include knee replacement implants and hip replacement implants. The knee replacement implants recorded revenue of RMB145.1 million for the year ended 31 December 2018, representing an increase of 42.7% as compared with RMB101.7 million for the year ended 31 December 2017. Such increase was mainly attributable to the increase of sales driven by the Group's provision of knee implant products with a relatively high price-performance ratio to the market.

Our hip replacement implants recorded revenue of RMB352.0 million for the year ended 31 December 2018, representing an increase of 63.5% as compared with RMB215.3 million for the year ended 31 December 2017. In addition to the attribution of hip implants revenue consolidation of RMB55.5 million from JRI (a wholly-owned subsidiary acquired in April 2018), such increase was partly attributable to the fact that the Group tapped into more hospitals by virtue of 3D printing technology and its product performance was recognized by more hospitals and distributors, which enabled the sales growth of hip replacement implants. Meanwhile, as a higher sales proportion in the product portfolio came from the new products we launched during the previous period, the average selling unit price of hip replacement implants grew accordingly in 2018, which also boosted the revenue growth of hip replacement implants.

3D-printed products

Our 3D-Printed Products mainly include 3D-printed hip replacement implants, 3D-printed artificial vertebral bodies and spinal interbody cages. Our 3D-printed products recorded revenue of RMB69.9 million for the year ended 31 December 2018, representing an increase of 109.1% as compared with RMB33.4 million for the year ended 31 December 2017. Such increase was mainly due to the fact that our 3D-printed products were the only 3D-printed orthopedic products commercialized in China with relevant registration certificates. Upon their launch, such products have been highly recognized by the market and hence delivered such sales growth.

Third party orthopedic products

To enrich our product portfolio, we also distribute the orthopedic products produced by third parties. In 2018 and 2017, our revenue from distributing third party orthopedic products amounted to RMB11.9 million and RMB14.9 million, representing 2.0% and 4.0% of our revenue, respectively.

Domestic and Overseas Sales

Most of our revenue came from China with 14.6% of the revenue from overseas sales. A breakdown of our sales revenue from China and overseas is as follows:

	Year ended 31 December		
	2018	2017	Variance
	RMB'000	RMB'000	%
China	**513,130**	363,426	41.2%
United Kingdom	**43,944**	–	N/A
Other countries[1]	**43,488**	9,274	368.9%
Total	**600,562**	372,700	61.1%

Notes:

(1) Other countries including Spain, Argentina, Indonesia etc.

Cost of Sales

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

For the year ended 31 December 2018, our cost of sales was RMB191.7 million, representing an increase of 76.0% as compared with RMB108.9 million for the year ended 31 December 2017. The increase in cost of sales is in part due to the consolidation of financial statements of JRI, and in part due to the increase in our sales of hip and knee products and 3D-printed products.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. Our gross profit grew by 55.0% to RMB408.9 million for the year ended 31 December 2018 from RMB263.8 million for the year ended 31 December 2017. The increase in gross profit was primarily driven by the increase in our overall business scale.

Gross margin is calculated as gross profit divided by revenue. Our gross margin was 68.1% for the year ended 31 December 2018, down from 70.8% for the year ended 31 December 2017, which was primarily owing to the lower gross profit margin of JRI, the wholly-owned company acquired in this year.

Other Income, net

Other income net primarily consists of ad hoc government grants we received from time to time and non-operating expenses such as donation.

Other income, net for the year ended 31 December 2018 was RMB4.9 million, representing an increase of RMB2.2 million as compared with RMB2.7 million for the year ended 31 December 2017. The increase was mainly attributable to the increase in government grants.

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, travelling and transportation expenses etc.

Selling and distribution expenses were RMB122.9 million for the year ended 31 December 2018, representing an increase of RMB72.5 million as compared with RMB50.4 million for the year ended 31 December 2017. On top of the sales expenses of RMB19.8 million caused by the merger of JRI, the increase was primarily due to (i) an increase in expenses incurred by external services, academic promotion and industry conferences; (ii) an increase in salary, benefits, transportation fees and travel expense as a result of an increasing number of sales personnel and (iii) an increase of various expenses such as the corresponding logistic expenses alongside with the expansion of business scale.

General and Administrative Expenses

Our general and administrative expenses primarily consist of compensation and benefits for our administrative personnel, consulting expenses for acquisition, audit fee, share option expenses, amortisation of intangible assets recognized during acquisition etc.

General and administrative expenses amounted to RMB74.1 million for the year ended 31 December 2018, representing an increase of 31.8% as compared with RMB56.2 million for the year ended 31 December 2017, which was mainly due to the general and administrative expenses of RMB18.7 million incurred from the merger of JRI.

Research and Development Expenses

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

Research and development expenses for the year ended 31 December 2018 was RMB45.6 million, representing an increase of 30.4% from RMB35.0 million for the year ended 31 December 2017. Such increase was mainly due to our on-going R&D of new products in 2018, and the increase in testing fees for registration of new products by ITI, our subsidiary.

Net Finance Income

Net finance income was RMB3.3 million for the year ended 31 December 2018, representing an increase of RMB2.8 million from RMB0.5 million for the year ended 31 December 2017. Such increase was primarily attributable to the increase in capital held by the Company in 2018 as compared with 2017, which generated extra interest income.

Income Tax Expenses

Income tax expense was RMB29.6 million for the year ended 31 December 2018, representing an increase of 47.8% as compared with RMB20.0 million for the year ended 31 December 2017. Such increase was primarily due to an increase in our profit before tax resulting from our expansion of operations. At the same time, the withholding income tax that withholds 10% of the expected profit available for distribution from the operating entities in China for the year ended 31 December 2018 also led to the increase in income tax.

Liquidity and Financial Resources

As of 31 December 2018, we had cash and cash equivalents of RMB421.1 million, as compared with RMB517.5 million as of 31 December 2017. The Board's approach to manage the liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities so as to avoid any unacceptable losses or damage to the Group's reputation.

Net Current Assets

We had net current assets of RMB596.5 million as at 31 December 2018, representing an increase of RMB44.3 million as compared with RMB552.2 million as of 31 December 2017. Such increase primarily represents the proceeds from the operations of the Group.

Foreign Exchange Exposure

We are exposed to foreign currency risks, primarily through overseas 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 are primarily USD and Euro. For the year ended 31 December 2018, the Group recorded a net exchange loss of RMB1.9 million, as compared to an exchange loss of RMB0.6 million for the year ended 31 December 2017. So far, the Group has not had any significant hedging arrangements to manage foreign exchange risks but has been actively monitoring and overseeing its foreign exchange risks.

Capital Expenditure

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

For the year ended 31 December 2018, the Group's total capital expenditure amounted to approximately RMB86.2 million, which was primarily used in (i) construction of buildings; (ii) acquiring equipment and machinery; and (iii) the expenditure for R&D projects under the development stage.

Charge/Pledge of Assets

As of 31 December 2018, we did not have any charge of assets or pledge of assets.

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 2018, the Group had net assets of approximately RMB841.8 million, as compared to RMB668.0 million as of 31 December 2017, comprising current assets of RMB825.0 million, non-current assets of approximately RMB267.8 million, current liabilities of RMB228.5 million and non-current liabilities of approximately RMB22.5 million.

Borrowings and Gearing Ratio

As of 31 December 2018, we did not have any outstanding bank loans or other borrowings. Accordingly, no gearing ratio is presented.

Contingent Liabilities

As of 31 December 2018, we did not have any material contingent liabilities (as of 31 December 2017: Nil).

Significant Investments

As of 31 December 2018, we did not hold any other significant investments in the equity interests of any other companies, except for the acquisition of JRI.

Future Plans for Material Investments and Capital Assets

As of 31 December 2018, we did not have other plans for material investments and capital assets, except for the construction of Changzhou Facilities as disclosed in the prospectus of the Company dated 7 December 2017 (the "**Prospectus**").

Employee and Remuneration Policy

As of 31 December 2018, the Group had 575 employees (31 December 2017: 345 employees). Total staff remuneration expenses including Directors' remuneration for the year ended 31 December 2018 amounted to RMB103.4 million (for the year ended 31 December 2017: RMB52.0 million). The increase of staff remuneration is mainly from the consolidation of JRI's expenses of RMB33.4 million. The addition of head count and cost of option plan also contributed to the increase.

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

Use of Proceeds from Initial Public Offering

The net proceeds from the initial public offering of the Company were approximately HKD477.0 million. The net proceeds have been utilized in the manner consistent with that disclosed in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

The net proceeds from the initial public offering of the Company will be utilized in accordance with the purposes set out in the Prospectus. As of 31 December 2018, the Group applied the net proceeds for the following purposes.

	Percentage of total amount	**Use of proceeds in the same manner and proportion as stated in the Prospectus** (in millions of Hong Kong dollars)	**Actual use of proceeds up to 31 December 2018** (in millions of Hong Kong dollars)	**Balance as at 31 December 2018** (in millions of Hong Kong dollars)
Construction of Changzhou Facilities and upgrade of our existing facilities	41%	195	92	103
Development and upgrade of our 3D-printed products and PTIP, funding the R&D of 3D-printed products	21%	100	32	68
For other R&D activities	15%	73	27	46
Funding potential acquisitions and developing strategic alliances	15%	73	73	–
For general corporate purposes	8%	36	36	–
Total	**100%**	**477**	260	217

Subsequent Event

As of the date of this annual report, the Group had no material events since 31 December 2018.

DIRECTORS

Executive Directors

Mr. Li Zhijiang (李志疆), aged 51, 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. He is the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Li is the spouse of Ms. Zhang Bin, an executive Director and a senior vice president of 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. Mr. Li has resigned as a director of Beijing Ximai Kesi Medical Device Limited since 5 March 2018. He has been appointed as a non-executive director of JRI Orthopedics Limited on 10 April 2018. He has also been the general manager of AK Medical Beijing since May 2003. 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 51, 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 49, 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 41, 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 was appointed as a vice president of the Company on 21 December 2018.

Ms. Zhao has over 10 years of experience in the accounting industry. She has 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, and was appointed as a non-executive director of JRI Orthopedics Limited on 10 April 2018. 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 57, 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 the Shenzhen Stock Exchange, stock code: 300685) and a director of Suzhou Medical System Technology Co., Ltd. (a company listed in the Shanghai Stock Exchange, stock code: 603990), and a non-executive director of Union Medical Healthcare Limited (a company listed in the Hong Kong Stock Exchange, stock code: 2138).

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 45, 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. He is a member of the Audit Committee of the Company.

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. 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 company listed in the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, A-share stock code: 756, H-share stock code: 719) since 20 March 2015 and an independent non-executive director of Nanjing Pharmaceutical Co., Ltd (a company listed in the Shanghai Stock Exchange, stock code: 600713) since 23 April 2018.

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 84, 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. He is a member of the Nomination Committee of the Company.

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 43, 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. He is the chairman of the Audit Committee and a member of the Remuneration Committee of the Company.

Mr. Kong has over 20 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 Hong Kong 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 Hong Kong 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 (an indirect wholly-owned subsidiary of Hutchison Telecommunications Hong Kong Holdings Limited (stock code: 00215), a company of which is listed on the Main Board of the Hong Kong Stock Exchange) 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. Kong was also awarded the Chartered Governance Professional qualification of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in September 2018.

Mr. Li Shu Wing David (李澍榮), aged 54, 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. He is the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company.

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 Research degree from SBS Swiss Business School in March 2018, 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 45, 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 68, 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 46, 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 36, 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 46, has been the director and general manager of Beijing Ximai Kesi Medical Device Limited since March 2018, primarily responsible for managing operation of Beijing Ximai Kesi Medical Device Limited. 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, and the general manager of the sales department of AK medical Beijing from January 2017 to March 2018.

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 52, 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 in the Hong Kong 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 41, 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 50, 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 40, 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 37, 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.

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

REPORT OF THE DIRECTORS

The board (the "**Board**") of directors (the "**Directors**") of AK Medical Holdings Limited (the "**Company**") is pleased to present this report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018.

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 2018, the Group achieved an annual revenue of RMB600.6 million, representing an increase of 61.1% as compared to the same period in 2017; the Group achieved profit of RMB144.9 million, representing a growth of 37.5% as compared to the same period in 2017.

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 18 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.

Talent Risk

Our success depends on our ability to retain members of our management team and key personnel. The industrial expertise and contributions of our executive Directors and other members of our senior management are crucial to our success. If we lose any of our key management members and are unable to recruit and retain replacement personnel with equivalent qualifications or talents in a timely manner, the growth of our business could be adversely affected.

As the orthopedic industry is quickly growing, it is very significant for us to attract more qualified and skilled management, technical, R&D, sales and marketing, and other personnel.

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

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in Mainland China and UK while the Company is a holding company incorporated in the Cayman Islands with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Our establishments and operations accordingly shall comply with relevant laws and regulations in Mainland China, UK, the Cayman Islands and Hong Kong. In 2018, our businesses were in compliance with all the relevant laws and regulations in Mainland China, UK, the Cayman Islands and Hong Kong in all material aspects.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 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 cents per ordinary share for the year ended 31 December 2018 (2017: HKD3.5 cents) to the shareholders whose names appear on the register of members of the Company on Thursday, 4 July 2019. The final dividend, if approved by the shareholders of the Company at the annual general meeting (the "**AGM**") to be held on 17 June 2019, will be payable on or around Monday, 15 July 2019.

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, 12 June 2019 to Monday, 17 June 2019, 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, 11 June 2019.

(b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Tuesday, 2 July 2019 to Thursday, 4 July 2019, 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, 28 June 2019.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

BORROWINGS

As of 31 December 2018, the Group has no banking borrowings.

PLEDGE OF ASSETS

As of 31 December 2018, no assets of the Group were pledged.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, sales to the Group's five largest customers accounted for approximately 14.7% of the Group's total sales and sales to the largest customer included therein amounting to approximately RMB22.3 million, which amounts to approximately 3.7% of the Group's total sales.

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 58.6% of the Group's total purchases for the year and purchase from the largest supplier included therein amounting to approximately RMB36.1 million, which amounts to approximately 28.0% 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 2018.

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2018 are set out in note 28 to the consolidated financial statements in this annual report.

RESERVES

Details of the movements in the reserves of the Group for the year ended 31 December 2018 are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report.

As of 31 December 2018, the Company had a share premium balance of RMB435.4 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. Dang Gengting, Mr. Kong Chi Mo and Mr. Li Shu Wing David 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 2018, 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 2018 is as follow:

Annual Income	Number of Persons
Below RMB500,000	4
RMB500,000 to 999,999	4
Over RMB1,000,000	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 2018.

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 2018 or at any time during the year ended 31 December 2018.

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 2018. 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 2018, 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	585,157,500 (L)	56.24%
	Interest of spouse	10,125,000 (L)	0.97%
Ms. Zhang Bin (Note 4)	Interest of controlled corporation	10,125,000 (L)	0.97%
	Interest of spouse	585,157,500 (L)	56.24%
Mr. Zhang Chaoyang (Note 5)	Interest of controlled corporation	65,818,500 (L)	6.33%
Ms. Zhao Xiaohong (Note 6)	Interest of controlled corporation	12,285,000 (L)	1.18%
	Beneficial interest	4,000,000 (L)	0.38%

Notes:

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

(2) The percentage is calculated based on the total number of issued shares as at 31 December 2018.

(3) Mr. Li Zhijiang, being the founder of LZY Trust who can influence how the trustee exercises his discretion, is deem to be interested in 585,157,500 long position in the Company's shares. In addition, Mr. Li Zhijiang is the husband of Ms. Zhang Bin. Therefore, Mr.Li Zhijiang is deemed to be interested in Ms Zhang Bin's interest in the Company's shares pursuant to the SFO.

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

(5) Mr. Zhang Chaoyang, being the sole director of Suntop Limited, is the sole shareholder of Suntop Limited which holds 65,818,500 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.

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

As at 31 December 2018, 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	585,157,500 (L)	56.24%
	Interest of spouse	10,125,000 (L)	0.97%
Ms. Zhang Bin	Interest of controlled corporation	10,125,000 (L)	0.97%
	Interest of spouse	585,157,500 (L)	56.24%
Mr. Zhang Chaoyang	Interest of controlled Corporation	65,818,500 (L)	6.33%
Ximalaya Limited	Beneficial owner	585,157,500 (L)	56.24%
Suntop Limited	Beneficial owner	65,818,500 (L)	6.33%
Trident Trust Company (HK) Limited (Note 3)	Trustee of a discretionary trust	585,157,500 (L)	56.24%
Rainbow Holdings Limited (Note 3)	Interest in a controlled corporation	585,157,500 (L)	56.24%
OrbiMed Advisors II Limited (Note 4)	Interest in a controlled corporation	75,000,000 (L)	7.21%
OrbiMed Asia GP II, L.P. (Note 4)	Interest in a controlled corporation	75,000,000 (L)	7.21%
OrbiMed Asia Partners II L.P. (Note 4)	Beneficial owner	75,000,000 (L)	7.21%

Notes:

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

(2) The percentage is calculated based on the total number of issued shares as at 31 December 2018.

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

(4) 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 1 January 2018 to 31 December 2018 (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 2018, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 32,225,000, representing approximately 3.1% 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.

During the Reporting Period, no share options were granted under the Pre-IPO Share Option Scheme.

The details of movements in the options granted under the Pre-IPO Share Option Scheme during the Reporting Period by category of grantees are set out below:

Category and Name of grantee	Date of grant of share option	Outstanding as at 1 January 2018	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/ lapsed during the Reporting Period	Outstanding as at 31 December 2018	Exercise period of share options	Exercise price of the share options
Director								
Zhao Xiaohong	17/11/2017	4,000,000	0	0	0	4,000,000	10 YEARS	HKD 1.34
Senior Management and Other Employees of the Group								
Senior Management and Other Employees	17/11/2017	32,000,000	0	2,975,000	800,000	28,225,000	10 YEARS	HKD 1.34
Total		**36,000,000**	**0**	**2,975,000**	**800,000**	**32,225,000**		

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

Details of the Pre-IPO Share Option Scheme are set out in Note 25 to the consolidated financial statements.

(b) Share Option Scheme

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

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

1. Purpose

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

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

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

2. Participants

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

(i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;

(ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries;

(iii) any advisors, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and

(iv) such other persons who, in the sole opinion of our Board, will contribute or have contributed to our Group, the assessment criteria of which are:

(aa) contribution to the development and performance of our Group;

(bb) quality of work performed for our Group;

(cc) initiative and commitment in performing his/her duties; and

(dd) length of service or contribution to our Group.

3.	Total number of securities available for issue under the Share Option Scheme together with the percentage of the issued shares that it represents as at the date of the annual report	100,000,000 ordinary shares and 9.61% of the existing issued share capital.
4.	Maximum entitlement of each participant	The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised, outstanding options and shares which were the subject of options which have been granted and accepted under the Share Option Scheme and any other share option schemes of our Company but subsequently canceled to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as of the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by our Company to our shareholders containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant), the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and

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

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

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

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

		(dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c); (ee) the number of shares in respect of which the option is offered; (ff) the exercise price and the manner of payment of such price for the shares on and in consequence of the exercise of the option; (gg) the date of the expiry of the option; (hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in item 7 below; and (ii) such other terms and conditions (including, without limitation, any minimum period for which an option shall be held before it can be exercised and/or any performance targets which must be achieved before the option can be exercised) relating to the offer of the option which in the opinion of the Board are fair and reasonable but not being inconsistent with the Share Option Scheme and the Listing Rules.
5.	Period within which the securities must be taken up under an option	An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, except that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the Listing Date.
6.	Minimum period, if any, for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Directors.
7.	Amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the document constituting acceptance of the option duly signed by the grantee, together with a remittance in favor of our Company of HK$1.00 by way of consideration for the grant thereof is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for shares may be accepted in respect of less than the number of shares for which it is offered provided that it must be accepted in respect of a board lot for dealing in shares on the Hong Kong Stock Exchange or an integral multiple thereof and such number is clearly stated in the document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

8.	Basis of determining the exercise price	The exercise price of a share in respect of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, except that such price will not be less than the highest of: (i) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Hong Kong Stock Exchange is open for the business of dealing in securities; (ii) the average of the closing prices of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.
9.	The remaining life of the Share Option Scheme	The Share Option Scheme remains in force until 20 December 2027.

During the Reporting Period, no share options were granted, exercised, cancelled or lapsed by the Company.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Except as disclosed in note 32 to the Accountant's Report, the text of which is set out in consolidated financial statement, during and the end of 2018, 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 2018.

DIVERSITY OF DIRECTORS

The Company has adopted its diversity policy with respect to the composition of the Board. In assessing candidates running for directorships, the Nomination Committee will consider a number of factors, including but not limited to gender, age, educational background, professional experience, technical expertise and the ability to fulfill the requirements of the Board. Details on the biographies and experience of the Directors are set out on pages 19 to 22 of this 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 2018, the Group made a total donation of RMB1,303,090 to support public health and welfare.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on 17 June 2019. 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 40 to 51 of this annual report.

SUBSEQUENT EVENTS

No material events have occurred since 31 December 2018.

AUDITOR

The Company has appointed KPMG as the auditor of the Company for the year ended 31 December 2018. 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, 25 March 2019

CORPORATE GOVERNANCE REPORT

The board of directors (the "**Directors**") of the Company (the "**Board**") is pleased to present this Corporate Governance Report for the year ended 31 December 2018 in the Company's annual report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

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

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

The Board is of the view that throughout the year ended 31 December 2018, the Company has complied with the code provisions as set out in the CG Code, except for code provision A.2.1 (the details of which are set forth below).

DIRECTORS' SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 2018.

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

BOARD OF DIRECTORS

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

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

Board Composition

The Board of the Company currently comprises the following Directors:

Executive Directors

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

Non-executive 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 19 to 22 of the Annual Report for the year ended 31 December 2018.

The relationships between the Directors are disclosed in the respective Director's biography under the section "Board of Directors and Senior Management" on pages 19 to 22.

Board Meetings and Directors' Attendance Records

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

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

Name of Directors	**Attendance/Number of Meetings**	
	Board Meetings	**Annual General Meeting**
Executive Directors		
Mr. Li Zhijiang *(Chairman)*	5/5	1/1
Ms. Zhang Bin	5/5	1/1
Mr. Zhang Chaoyang	5/5	1/1
Ms. Zhao Xiaohong	5/5	1/1
Non-executive Directors		
Mr. Li Wenming	5/5	1/1
Dr. Wang David Guowei	5/5	1/1
Independent Non-executive Directors		
Mr. Dang Gengting	4/5	0/1
Mr. Kong Chi Mo	5/5	1/1
Mr. Li Shu Wing David	5/5	1/1

Chairman and Chief Executive Officer

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

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

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

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

Independent Non-executive Directors

During the year ended 2018, 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 2018 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 COMMITTEE

The Board has established three 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 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.

The Audit Committee held two meetings to review, in respect of the year ended 2018, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, and appointment of external auditors.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

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

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

Remuneration Committee

The Remuneration Committee consists of three members, namely Mr. Li Shu Wing David, Independent Non-executive Director, Mr. Li Zhijiang, Executive Director, and 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.

Remuneration Committee met once 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

The remuneration of the Directors and the senior management by band for the year ended 31 December 2018 is set out below:

Annual Income	**Number of Persons**
Below RMB500,000	9
RMB500,000 to RMB999,999	4
Over RMB1,000,000	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, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee met once to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

The attendance record of each Director at the said Nomination Committee meeting of the Company held 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

Board Diversity Policy

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

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

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

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

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

Director Nomination Policy

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

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

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

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

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 2018, there was no change in the composition of the Board.

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

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code, 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 2018.

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, for the year ended 31 December 2018, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

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 2018.

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 66 to 70 of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, KPMG, in respect of audit services for the year ended 31 December 2018 is set out below:

Service Category	Fees Paid/Payable RMB
Audit Services	3,176,000
Audit related services*	1,600,000
	4,776,000

* Audit related services are the audit services for the acquisition of JRI.

JOINT COMPANY SECRETARIES

The Company has engaged Tricor Services Limited, 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.

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 year under review, 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.

Policies relating to Shareholders

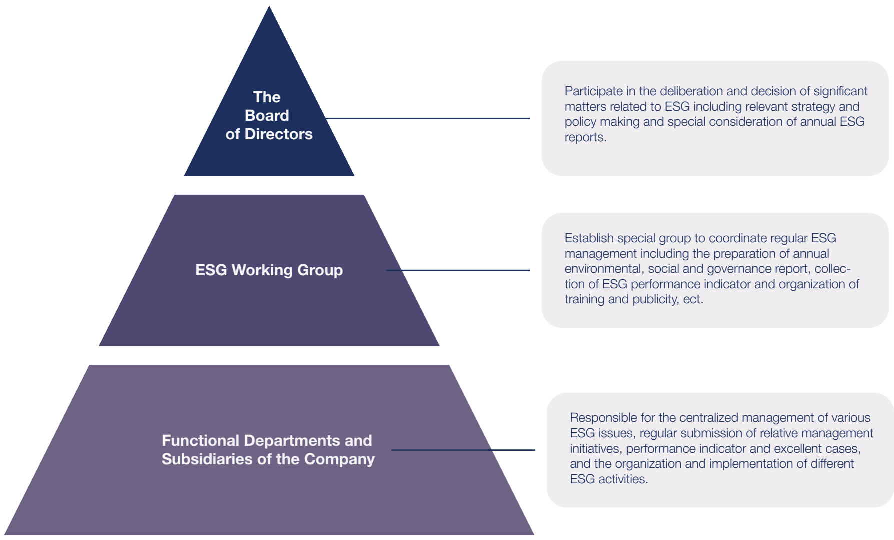
The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a policy on payment of dividends ("**Dividend Policy**") pursuant to code provision E.1.5 of the CG Code that has become effective from 1 January 2019. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval.

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

ESG GOVERNANCE

According to the characteristics of the industry in which the business is placed, the Company sorted out the issues 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 to enrich the content of ESG information disclosure. The Company has established an ESG management mechanism which is implemented by the board of directors, the working groups and related functional departments to clarify the specific division of labor and obligation on ESG.



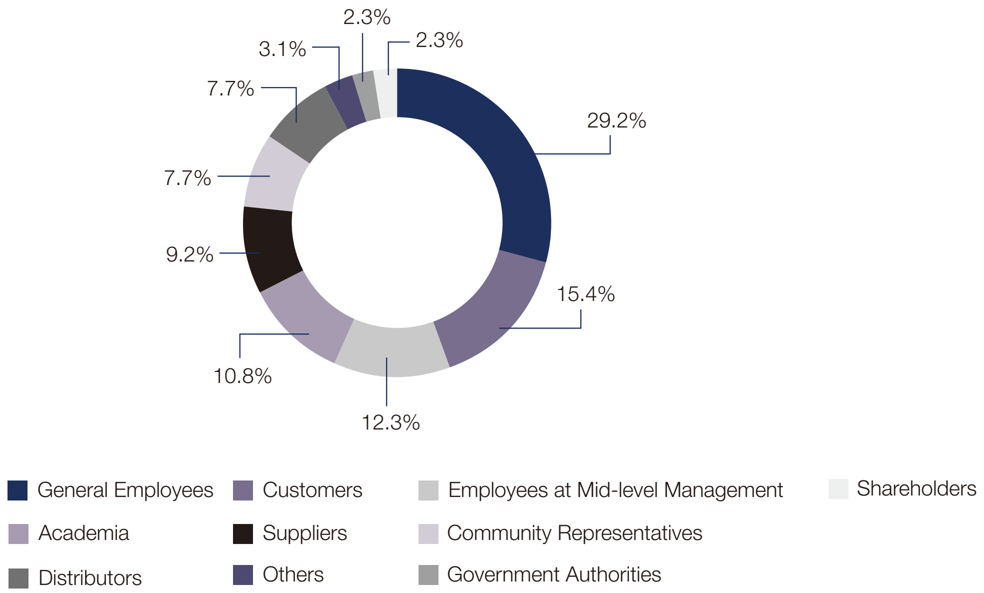
In 2018, the Company released *ESG Working Group Management Measures*（《ESG工作小組管理辦法》）, clarifying that the working group is managed by the Board of Directors. Additionally, the Company appointed ESG specialists in different departments such as integrated management, customer services, purchasing, human resources, administrative, marketing, research and development center, production center and subsidiaries to form an ESG working group responsible for issues involving the communication among stakeholders for various ESG issues, internal and external significance assessment and ESG information management and statistics. The ESG working group should report to the Board of Directors and management on a regular basis in the respect of the ESG management condition, clarify ESG risks and opportunities and implement the ESG decision of the Company.

STAKEHOLDERS INVOLVEMENT

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

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

In 2018, the ESG working group of the Company began questionnaire survey on stakeholders for the first time to have a systematical and comprehensive understanding of the stakeholders' comments on our ESG relative activities and obtained related recommendations on ESG matters for an important reference of future continuous improvement. The Company collected a total of 130 valid questionnaire and stakeholders constitution are as follow:



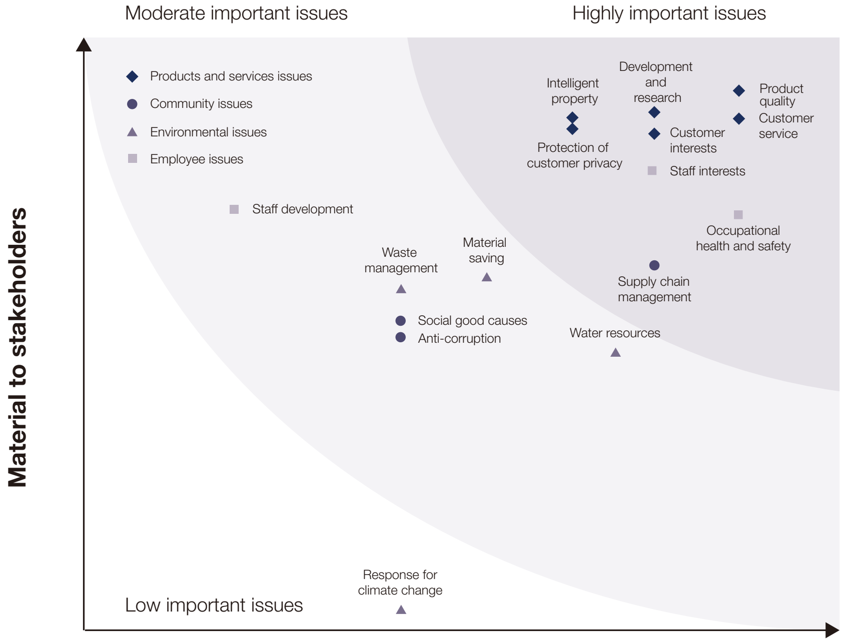
RESPONSE TO THE ESG REPORTING PRINCIPLES OF THE STOCK EXCHANGE

Materiality: In order to further clarify the key areas of corporate ESG practices and information disclosure, enhancing the pertinence and responsiveness of the report, the Company identified the subjects of sustainable development and determined the significance in accordance with the *"Environmental, Social and Governance Reporting Guide"* (hereinafter collectively referred to as "ESG Reporting Guide") set out in Appendix 27 to the *Rules Governing the Listing of Securities* on the Stock Exchange of Hong Kong Limited to ensure that the information disclosed in the report covers the key issues which are related with the Company's development and the stakeholders' concerns. The deciding factors mainly refer to:

- The Company's values, policies, strategies, operation management systems, long-term and short-term goals
- Relevant laws, regulations, international agreements or voluntary agreements that have a strategic value to the Company and its stakeholders
- The material judgment results of information disclosure on environment, society and governance among 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. Based on the extensive stakeholders' questionnaire and the judgment of the management of the Company, we have decided the corresponding materiality as shown below:

Material ESG Issues Matrix of AK Medical in 2018



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

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

Consistency: The Company set up a unified ESG information collection system after listing to clarify the statistical method of ESG information. In 2018, the Company completed the acquisition of 100% share capital of JRI Orthopaedics Limited (hereinafter referred to as "JRI"), a British medical device company and included the related ESG performance in the report disclosure unless otherwise stated. The period in this report is from 1 January 2018 to 31 December 2018 which is consistent with the previous years.

ENVIRONMENT

Waste Management

The Company imposes strict waste management and complies with the relevant national laws and regulations, including the *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》), *the Water Pollution Prevention and Control Law of the PRC* (《中華人民共和國水污染防治法》), *the 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* (《中華人民共和國大氣污染防治法》) and *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》), prevents and controls pollution and strictly observes red line of environmental protection. At the same time, the Company established the Safety Management System for Hazardous Chemicals in accordance with the national *Safety Management Ordinance for Hazardous Chemicals* (《危險化學品安全管理條例》) to ensure the safe transfer of hazardous chemical waste. JRI also complies with British environmental protection laws and regulations, including *Environment Protection Act, Clean Air Act* and *Waste Electrical and Electronic Equipment Regulations 2013*. In the respect of various wastes generated from operation and production, JRI formulated environmental control procedure to clearly set out its disposal procedures while regularly monitor the particulates and waste water discharge in order to meet the emission standard.

In 2018, the Company developed a series of energy-conservation and emission reduction measures based on actual conditions: in the use of Titanium alloy precision forging blanks and each blank reduces waste of 11g, reducing the emission of particulates; conducting regularly maintenance of the dust removal emissions system and replace with the ultra-fine filtration system to achieve the filter dust removal to the extent of 99.99%, reducing the emission of atmospheric pollutant.

The main pollutants are noise pollution, air pollution, waste water and solid waste during the course of production. The Company conducted long-term control toward surrounding noise by repairing and maintaining the noise barriers where the noise incurred on a timely basis and sealed the bare electric machinery to assure that the surrounding noise standard has achieved level III; for the dust, particulate dust, the Company established dust treatment and recycling systems, which is handled by professional company after collection; the waste water generated during the product cleaning and grinding process has been handled by the Company in accordance with the discharge standard, and discharged after meeting standard; the particulate dust and the dust and small amount of solid waste (Aluminum trioxide, scrap) produced during the production process are collected by the Company and placed into the closed solid waste storage area, which is regularly handled by solid waste treatment plants; the waste liquid (water-based cutting fluid and stainless steel cleaning agents), harmful wastes, hazardous chemical wastes are collected classifiably and handed over to a qualified third party for treatment. In 2018, the volume of water discharge per RMB10,000 of output value was 0.2 tons; the volume of waste liquid production per RMB10,000 of output value was 1.0 kg; the volume of dust production per RMB10,000 of output value was 0.3 kg and the volume of solid waste handling per RMB10,000 of output value was 0.2 kg.

Waste Emission and Disposal in recent two years:

Waste type		2017	2018 (excluding JRI)*	2018
Waste Water	Total water discharge volume	8,960.8 tons	**11,852.6 tons**	**14,406.6 tons**
	Biochemical oxygen demand (BOD)	242.0 kg	**261.5 kg**	**277.5 kg**
	Chemical oxygen demand (COD)	603.8 kg	**652.6 kg**	**684.6 kg**
	Suspended solids (SS)	118.2 kg	**174.0 kg**	**197.0 kg**
	Ammoniacal nitrogen (NH3)	0.9 kg	**1.0 kg**	**1.0 kg**
Waste Liquid	Total waste liquid production	2.7 tons	**1.0 tons**	**60.8 tons**
	Waste liquid handling volume	2.7 tons	**1.0 tons**	**60.8 tons**
Dust	Total dust production	989.9 kg	**963.0 kg**	**16,163.0 kg**
	Dust handling volume	980.0 kg	**963.0 kg**	**16,163.0 kg**
Solid Waste	Titanium waste handling volume	2,400.0 kg	**4,288.1 kg**	**6,232.1 kg**
	Cobalt-chromium-molybdenum waste handling volume	2,200.0 kg	**4,035.3 kg**	**4,272.3 kg**
	Other waste handling volume	/	/	**4,185.0 kg**

*Note: In 2018, the Company completed the overall acquisition of the JRI. Due to the significant difference in production techniques, JRI has significant differences in respect of the type of waste and density as compared to the local enterprises of the Company in the PRC. To comply with the "Consistency Principle" of the Stock Exchange ESG Report and improve the data comparability, the Report discloses the waste performances in 2018 according to different organizational boundaries, in which the scope of disclosure for 2018 (excluding JRI) and 2017 remains consistent.

Use of Resources

The Company's major products are traditional joint implants and 3D-printed products. The key production processes of traditional joint implants 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 process 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 course of production and daily operation, the energy and resource consumption are mainly electricity, water, petrol, gasoline and diesel. Raw materials used in production are mainly polyethylene, stainless steel, titanium alloy and cobalt-chromium-molybdenum, as well as cardboard boxes, packaging boxes and plastic film used in packaging process. As compared to the traditional manufacturing industry, the Company uses 3D-printing technology in business, which consumes less energy and resources and there is no material impact on environment and natural resources.

Focusing on the impact of climate change on the environment, the Company strived to strengthen emission reduction management in the course of operation and production and held emission reduction action. In accordance with the *Energy Conservation Law of the PRC* (《中華人民共和國節約能源法》), in order to reduce resource consumption, the Company formulated energy consumption and emission reduction polices to manage the energy resources consumption such as energy, water resources and production materials in the course of production; JRI also complied with the requirements of *Energy Performance of Buildings (England and Wales) Regulations 2007* and so forth, forming the QSE (Quality, Safety, Environment) department to precisely plan and monitor production energy consumption, building energy consumption and office energy consumption.

The Company conducted exploration and practice of energy saving and consumption reduction in production. As at the end of the reporting period, the Company mainly focused on product technique development, the new technique has completed development, and it is estimated that water usage can be reduced by 40 tons per year, while reducing waste water discharge. JRI has installed variable speed control device on air equipment for product cleaning to improve production efficiency and reduce energy consumption. In 2018, the Company's volume of water usage per RMB10,000 of output value is 0.3 tons, the volume of packaging materials consumption per RMB10,000 of output value is 0.7 kg, and the volume of energy use per RMB10,000 of output value is 9.5 kg of standard coals.

Volume of Energy and Resource Consumption in recent two years:

Energy consumption type		2017	2018 (excluding JRI)*	2018
Energy use	Electricity consumption	134.0 ten thousand KWh	**174.3 ten thousand KWh**	**294.9 ten thousand KWh**
	Gasoline consumption	11.0 ten thousand liters	**16.5 ten thousand liters**	**19.7 ten thousand liters**
Water use	Water usage (municipal water supply)	9,740.0 tons	**14,535.8 tons**	**18,690.8 tons**
Raw materials	Polyethylene	9.0 tons	**11.1 tons**	**11.9 tons**
	Stainless steel	82.0 tons	**106.0 tons**	**113.6 tons**
	Titanium alloy	17.0 tons	**24.1 tons**	**35.0 tons**
	Cobalt-chromium-molybdenum	21.0 tons	**27.5 tons**	**28.7 tons**
	POM stick	/	**1.0 tons**	**1.0 tons**
Packaging materials	Cardboard boxes	5.2 tons	**11.2 tons**	**21.4 tons**
	Product packaging boxes	8.0 tons	**10.9 tons**	**13.3 tons**
	Product plastic film	3.1 tons	**4.0 tons**	**6.5 tons**
	Bubble bag	/	**0.1 tons**	**0.1 tons**
	Other materials	/	**0 tons**	**2.1 tons**

*Note: To comply with the "Consistency Principle" of the Stock Exchange ESG Report and improve the data comparability, the Report discloses the waste performances in 2018 according to different organizational boundaries, in which the scope of disclosure for 2018 (excluding JRI) and 2017 remain consistent.

The Company's greenhouse gases all derive from various types of energy consumption, and do not involve other types of greenhouse emissions in the course of daily life. In 2018, the Company emitted 0.03 tons of CO2 equivalent per RMB10,000 of output value.

The Company's greenhouse gas emissions in recent two years are as follows:

Type	2017	2018 (excluding JRI)*	2018
Scope 1 (direct emissions)	242.6 tons	**99.3 tons**	**104.0 tons**
Scope 2 (indirect emissions)	1,185.0 tons	**1,514.9 tons**	**1,974.9 tons**
Total	1,427,6 tons	**1,614.2 tons**	**2,078.9 tons**

*Note: To comply with the "Consistency Principle" of the Stock Exchange ESG Report and improve the data comparability, the Report discloses the waste performances in 2018 according to different organizational boundaries, in which the scope of disclosure for 2018 (excluding JRI) and 2017 remain consistent.

Green Office

In response to the national energy saving and emissions reduction policies and forge a new workplace with environmental protection and energy conservation in mind, the Company formulated the *Green Office Management Regulations* (《綠色辦公管理規定》) to improve awareness of employees to save energy and protect environment. The employees are encouraged to print on both sides and recycle waste papers. The Company promotes LED energy saving lamps and encourages employees to save water and electricity. General waste and electronic waste from office work are classified and managed, achieving the goal of "Reduction, Recycle and Detoxification" of solid waste. In 2018, the Company continued to deepen the green office activities, began to use OA system and promoted paperless office to reduce the paper consumption. JRI set the "upper and lower limit" to office temperature, and conducted continuous monitor. Meanwhile, employees are encouraged to use public transport to reduce their carbon footprint.

In 2018, AK Medical Beijing recycled approximately 1.5 tons of waste paper, 40 units of No.5 battery and 80 units of No.7 battery. ITI Medical produced 0.5 tons of office waste and JRI produced 2 tons of office waste and 0.1 tons of electronic waste.

EMPLOYEE

Adhering to the "people-oriented" operation philosophy, the Company recognizes that maintaining a good relationship with employees is one of the success keys to an enterprise. We fully respect each employee, and create harmony office environment in a bid to build a win-win labor relationship.

Employment

In strict compliance with the relevant laws and regulations, including the *Labor Law of the PRC* (《中華人民共和國勞動法》), the *Labor Contract Law of the PRC* (《中華人民共和國勞動合同法》), 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》), the Company formulated internal systems, including 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》), to safeguard the legal rights and interests of the staff. The Company implemented labor contract system for all employees, and instituted the labor contracts in accordance with national relevant laws and regulations. New employees shall sign the labor contract with the Group when joining and the labor union was set up to protect the legal rights of employees.

The distribution of employment types is as follows:

Employee type (people)	2017	2018
Employee with labor contract	345	**575**
Employee with labor agreement	12	**9**
Interns	0	**1**
Total	357	**585**

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

Age	Number of employees		Number of turnover staff		Turnover rate	
	2017	2018	2017	2018	2017	2018
Under 30 (exclusive of 30)	105	**154**	37	**58**	26.1%	**27.4%**
30-50 (exclusive of 50)	224	**368**	48	**84**	17.7%	**18.6%**
50 and above	16	**53**	1	**2**	5.9%	**3.6%**
Total	345	**575**	86	**144**	20.0%	**20.0%**

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

Gender	Number of employees		Number of turnover staff		Turnover rate	
	2017	2018	2017	2018	2017	2018
Male	211	**370**	40	**77**	15.9%	**17.2%**
Female	134	**205**	46	**67**	25.6%	**24.6%**
Total	345	**575**	86	**144**	20.0%	**20.0%**

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

Region	Number of employees		Number of turnover staff		Turnover rate	
	2017	2018	2017	2018	2017	2018
PRC employees	345	**461**	86	**122**	20.0%	**20.9%**
Hong Kong, Macau and Taiwan employees	0	**0**	0	**0**	/	/
Overseas employees	0	**114**	0	**22**	/	**16.2%**
Total	345	**575**	0	**144**	20.0%	**20.0%**

Employee Remuneration and Benefits

The Company strictly complies with the *Social Insurance Law of the PRC* (《中華人民共和國社會保險法》) and the *Administrative Regulation on Housing Fund* (《住房公積金管理條例》) and has formulated the *Compensation Management System* (《薪酬管理制度》) and enriched the employees incentive policies. For all staff who signed the labor contracts, the Company pays medical insurance, pension insurance, unemployment insurance, occupational injury insurance, maternity insurance and housing fund and provides remuneration and benefits (including allowances, performance-based bonus and rewards).

We strive to create comfortable office environment for employees by organizing all kinds of care activities. We 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, and various lectures will be organized to fulfill a better care for female employees. During every important festival and holiday, celebrating activities will be held for employees to activate the atmosphere in the office.

We attach great importance to the physical and mental health of employees, provide diversified benefits and care for employees, and encourage employees to strike a balance between work and life. In October 2018, on the fifteen anniversary of the establishment of AK Medical, the Company organized the factory open day walking activity, in which the employees and their family members have participated. The event conveyed the positive energy of the Company, fully demonstrated the Company's value of "responsibility, quality, sharing and passion", and enhanced team cohesion.

Employee development

The Company regards talents as the foundation of its development, and values the professional knowledge and skills upgrading of its employees. While building up comprehensive training, assessment and promotion system for employees, the Company provides personal development opportunities for staff to achieve sustainable development with them.

With the expansion of business, the Company faces more new goals and challenges and the management team of the Company also needs to cope with work requirement in higher level. In 2018, the Company organized a variety of training programs (including Cadre Training Camp, training for newly appointed management members) for managers. Through trainings on management theories, practices and tools, the Company aims to improve staff's professional quality and management ability and creates a learning, advanced and high standard management team. For new employees, the Company organizes induction training for each staff. Trainings are offered in the form of lecture, interaction sharing and development training. The contents of training cover corporate development, self-understanding, emotion management and working skills. On top of improving comprehensive competency, the trainings also help employees to adapt and integrate into the Company. In 2018, the percentage of employee trained of each hierarchy is above 95%.

Health and Safety Management

The health and safety of employees is the top priority of the Company. The Company strictly complied with the *Labour Law of the People's Republic of China* (《中華人民共和國勞動法》), the *Safety Production Law of the People's Republic of China* (《中華人民共和國安全生產法》) and the *Law of the People's Republic of China on Prevention and Control of Occupational Diseases* (《中華人民共和國職業病防治法》), and has formulated internal systems, including the *Safety Production Responsibility Management System* (《安全生產責任制管理制度》) and *Employee Training System* (《員工培訓制度》). The Company established a sound safety production management system, strengthened the corporate safety production management to prevent and reduce production safety accidents. The Company has established the equipment safety department in order to coordinate the management of security, fire safety, safety production and occupational disease prevention.

In terms of employee health, the Company conducts occupational hazard testing for positions with health and safety risks every year, and arranges occupational health checkups for employees who are exposed to safety and health risks, and such employees will be equipped with appropriate personal protective equipment. The Company regularly holds various safety production educations and trainings, formulates the safety-related Annual Training Plan (《年度培訓計劃》), and publicizes occupational hazards to ensure that all employees fully understand the safety and health risks of their positions and raise their awareness of safety and health protection.

In 2018, 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 RMB647,100 in safety management. Number of work-related deaths was nil and total days of lost work due to occupational injury was 45 days.

PRODUCT RESPONSIBILITY

As a pioneer in the field of bone and joints in China, AK Medical always regards the quality of its products as the foundation of its development. The Company designs, develops, manufactures and markets orthopedic implants, focusing on implants for hip and knee replacements. It is also a pioneer that has commercialized the application of 3D-printing technology in orthopedic joint and spine replacement implants in China.

Quality Control

Orthopedic implants and instruments, the Company's primary products, are classified as Class III medical devices and Class II medical devices respectively. To ensure that all products are guaranteed safe and effective through strict control and management, the Company's conventional products and 3D-printed products are regulated by NMPA. The Company strictly complies with the relevant laws and regulations, including the *Product Quality Law of the PRC* (《中華人民共和國產品質量法》), *Industrial Product Quality Responsibility Case* (《工業產品質量責任案例》), *Measures for the Inspection and Management of Medical Device Production Quality Management Regulations* (《醫療器械生產質量管理規範的檢驗管理辦法》), the *Medical Device Recall Management Measures* (《醫療器械召回管理辦法》), and the *Consumer Protection Law of the PRC* (《中華人民共和國消費者權益保護法》). It has established a robust system of medical device quality control, which includes the Quality Manual (《質量手冊》) and the corresponding process and management systems, and it has obtained the ISO13485 Certification.

The Company focuses on improving the quality control of products and services, developing a detailed Quality Manual (《質量手冊》) and establishing an Integrated Management System (IMS) to comprehensively control the quality, environment, health and safety factors involved in product production. The Quality Manual sets out clear quality and safety management policies and employee job descriptions, which include operational controls and process controls related to important quality factors. In addition, when new employees receive induction training, they will receive important training related to quality, environment and health in the Quality Manual. In accordance with the requirements of ISO13485 Certification, the Company has established a product recall management system and procedures. In 2018, no product recall incident occurred due to quality or health reasons.

In June 2018, our A3 Total Knee System gained the United States Food and Drug Administration pre-market notification clearance, achieving a breakthrough in the FDA certification of domestic knee joint products. In July 2018, The Biomechanical Testing Center of the Company was approved by CNAS (China National Accreditation Service for Conformity Assessment), which indicated that the hardware facilities, software conditions and testing capabilities of the AK Medical Testing Center have reached an internationally recognized level. This is also the strategic result of the Company's perfect quality management system.

Product Innovation

The Company's strong R&D capability is one of the core competitiveness we have maintained for a long time, and is also the guarantee for the steady growth and development of the core business. The Company is committed to using its own scientific research and development technology to contribute to the medical community. In 2018, the National Medical Products Administration announced the "2018 Medical Device Industry Standard Revision Project". The Company has participated in the drafting of three medical additive manufacturing industry standards, and promoted the establishment of standards of the entire industry through the accumulation of 3D printing orthopedics.

The Company attaches great importance to product R&D and innovation, and invests heavily in product research and development to continuously improve the safety and efficacy of its products. Relying on 3D printing orthopedic application engineering research center based on big data and Internet medical interaction platform, the Company is committed to 3D ACT (Accurate Constructive Technology) solution in orthopedic implant development, surgical technology research, medical interaction platform development and application, and innovates to foster the ultimate transformation of results, through the 3D printing technology to benefit patients. In 2018, the Company obtained four Class III medical device registration certificates approved by the NMPA. Among them, the modular reconstruction system ("AMRS") is the first tumor-type joint prosthesis approved by NMPA through clinical trials. The Company's "Clinical Application and Key Technology Research of 3D Printing Titanium Alloy Orthopedic Implants" completed by the core technology research and development unit was awarded the "Beijing Science and Technology First Prize" in 2018.

The Company places great emphasis on cultivation of talents. The Company has established the postdoctoral working station and AK Institute and also has cooperated with science institutes, such as Peking University, to cultivate professional talents for the industry and build up a professional backup team for breaking through product innovation. In 2018, the Company further performed the functions of the postdoctoral working station as a cradle of science and technology, undertook the research and development on enterprise's forward-looking subjects and relevant products, actively conducted studies with Peking University and increasingly invested its science research efforts, to bring the Company's technical advantage of joint implant prosthesis into full play, especially the 3D-Printing technology in the medical field, and foster compound talents at a high level. In addition, the Company has formulated the *Patents and Articles Award Management Measures (2013 Revision)* (《專利及文章的獎勵管理辦法(2013修訂版)》) based on the *Patent Law of the People's Republic of China* (《中華人民共和國專利法》) in order to encourage all employees to create inventions in artificial joints and related fields, to further strengthen internal innovation capability and to enhance the core competitiveness.

During the reporting period, the Company has newly obtained 34 patents, including 12 invention patents, 22 utility model patents, and 2 PCT international patent. As at the end of 2018, the Company had accumulated 204 patents, of which 52 were invention patents (including transfers), 148 were utility model patents (including transfers), 2 were PCT international patents, and 2 were design patents.

Customer Complaints and Handling

The Company sells products to hospitals through a distribution mode, and customers are mainly distributors. We formulated a process control procedure relating to services for customers to ensure product quality while actively enhancing service quality. We regularly have an intensified communication and analysis with clients for the use of our products, and also provide product training and on-site Q&A service for customers. We conduct client satisfactory investigation on products and services each year, actively exploring the effective ways for providing better services for customers.

In 2018, the Company received 5 complaints from customers with 100% of customer complaint completed and customer satisfaction rate was 100%.

SUPPLY CHAIN MANAGEMENT

As the expansion of the Company's business, our supply chain network has extended to various regions. We adhere to the principle of mutual benefits, establishing stable and close partnerships with suppliers by highly transparent and responsible procurement process and supplier management measures, which efficiently promote the growth of the economic, environmental and social benefits of the whole supply chain.

In selection of suppliers, the Company has established the *Qualified Supplier Selection, Evaluation and Re-evaluation System* (《合格供方選擇、評價和重新評價制度》) and the *Procurement Control Program* (《採購控制程式》), which clarified the management responsibilities of all related departments and stipulated the corresponding criteria for supplier selection, evaluation and re-evaluation. We ensure the quality of procurement and increase the efficiency of procurement by *the List of Qualified Suppliers* (《合格供方名冊》), the *Quality Supplier Processing and Change Record* (合格供方質量問題處理及變動記錄) and the *Qualified Supplier Performance and Annual Review Form* (《合格供方業績及年度評審表》) for use in supplier evaluation.

The Company formulated a specified selection, review and exiting system for suppliers. In selection of suppliers, the Company will identify suppliers as three categories, A, B, and C, Class A is an important supplier of major raw materials, Class B is a supplier of important auxiliary materials, and Class C is a supplier of general auxiliary materials, corresponding to different monitoring levels. Suppliers passed the monitoring system will be recorded in the quality control system. The Company will conduct a review on qualification of suppliers. Any products/materials of detective suppliers will be separated, and requested to take remedy measures.

Since the Company's output and production costs depend on its ability to purchase qualified raw materials at competitive prices, the Company mainly purchases raw materials from large suppliers with good reputation. In 2018, the Company had 53 suppliers from Asia, 7 suppliers from Europe, in which 9 suppliers were onsite surveyed.

ANTI-CORRUPTION

The Company attaches great importance to the operation of integrity and strictly forbids any form of corruption. On the basis of complying with the relevant laws and regulations, including the *Anti-Unfair Competition Law of the People's Republic of China* (《中華人民共和國反不正當競爭法》), the *Tender Law of the People's Republic of China* (《中華人民共和國招標投標法》), and the Opinions on Issues concerning the *Application of Law in the Handling of Criminal Cases Involving the Acceptance of Bribes* (《關於辦理受賄刑事案件適用法律若干問題的意見》), with the consideration of the reality that the Company sells products to hospitals through distributors, the Company formulated distribution agreements which includes standard anti-corruption clauses, which require distributors to obey relevant anti-corruption agreements. We have the rights to terminate the cooperation with distributors who disobey the regulations.

The Company attached importance to the construction of anti-corruption and self-discipline awareness. It formulated the *Administrative Regulations on Employees' Integrity and Self-discipline* (《關於員工廉潔自律管理規定》), incorporated anti-corruption clauses into the *Employee Handbook* (《員工手冊》), and prevented staff from corruption and bribery by implementation of corresponding internal control system. The Company trains the staff on the subject of anti-corruption every year, and raises their legal awareness to enable the staff adhere to the high standards of honest operation during the process of working, preventing any kind of corruption and bribery behaviors. In 2018, the employees received anti-corruption training for 28.5 hours in total and there was no anti-corruption related lawsuit occurred.

COMMUNITY RESPONSIBILITY

The Company pursues the mission of "strive for improving hundreds of millions of patients' life quality", undertaking its own social responsibilities, conducting educational training, communication with local hospitals and charity activities in communities. As such, the Company is committed to achieving the co-development of the enterprise and the community.

In 2012, the Company established "AK Institute", aiming to set up an insightful and influential learning platform with substantial content. "AK Institute" provides professional education and training services for orthopedic medical workers to facilitate medical information exchange in orthopedic field and promotion of latest medical technology and concepts. As of 31 December 2018, we have successfully organized 127 training courses.

To promote the communication of ideas and technology with local hospitals, in 2018, AK Institute organized learning classes in Peking University Third Hospital and Hulunbuir, Inter Mongolia, etc., to provide lectures, medial case discussion, and operation in operating room which help doctors in local hospitals to improve the surgical techniques, to enhance their ability of disease treatment, devoting our effort in penetration and development of standard procedure of local surgery techniques.

The Company focuses on the medical industry development, health and education for patients. In 2015, an engineering technology research center for 3D-Printing orthopedic application (3D打印骨科應用工程技術研究中心) ("3D.ERC") was established after obtaining the approval from Beijing Municipal Science and Technology Commission (北京市科學技術委員會). 3D.ERC center positions itself on physician-technician interaction, industry and in-depth cooperation, effective information interaction, innovation of science and technology and services, transforming the research results of 3D medical-printing into reality. In 2018, 3D.ERC center conducted communication activities in hospitals in Shantou, Jining, promoting 3D-printing orthopedic application in the treatment field. To further convey 3D printing techniques to doctors and patients, the Company introduces various medical knowledge and treatment proposals through "AK courses in 3 minutes" in its Wechat public account.

The Company regularly organizes charity activities every year to enable the public benefit from our caring actions. In 2018, the Company participated in Xing'an league Walking Charitable Free Medical Consultations (興安盟健步行走慈善義診活動) in Inner Mongolia to provide free medical checkup for local patients, and donate joint implants to reduce the family financial burdens of patients, which demonstrated the Company's responsibilities and undertaking. In 2018, the cumulative fund and time for community involvement of the Company are RMB1.3 million and about 200 hours.

KPMG

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 71 to 128, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 2018 and of its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2018 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 notes 4 and 2(r) to the consolidated financial statements and the accounting policies on page 96 and 92.	
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 customer takes possession of and accepts the products. The actual point in time when revenue is recognised varies depending on the specific terms and conditions of the sales contracts entered into with customers. The Group's customers are mainly distributors and 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 granted to customers entitle the customer to discounts on future purchases. They are primarily volume based and are earned by customers after achievement of specified milestones under the Group's loyalty programme. The calculation of the amount recognised in respect of expected sales rebates and sales returns is based on historical experience and expectations of future customer behaviour, and requires certain management judgments and estimations. We identified the recognition of revenue as a key audit matter because revenue is a key performance indicator of the Group and is, therefore, subject to possible manipulation through the timing of revenue recognition to meet targets or expectations. In addition, the variety of terms of sale may affect the timing of the recognition of revenue and significant management judgment can be required to estimate sales rebates and sales returns.	Our audit procedures to assess the recognition of revenue included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to revenue recognition and the calculation of the amount of the transaction price allocated to expected sales rebates and the amount of expected sales returns; • inspecting, on a sample basis, customer contracts to identify terms and conditions relating to goods acceptance, sales rebates and the rights of return of goods sold and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; • selecting a sample of sales rebate transactions recorded during the year and comparing the parameters used in the calculation of the rebate (including sales volumes and rebate rates) with the relevant source documents (including sales invoices, sales contracts and cumulative sales data recorded) to assess whether the methodology adopted in the calculation of the sales rebate was in accordance with the terms and conditions defined in the corresponding customer contract; • comparing the actual sales rebates recorded after the financial year end with the contract liabilities recognised for sale rebates by management at the financial year end date in order to assess the reliability of management's process for determining the amount of the sales rebate and to assess if the related revenue had been accounted for in the appropriate financial period;

KEY AUDIT MATTERS (continued)

Revenue recognition	
Refer to notes 4 and 2(r) to the consolidated financial statements and the accounting policies on page 96 and 92.	
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 refund liabilities recognised at the financial year end; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with relevant underlying documentation, which included goods dispatch notes, shipping documents and goods receipt notes, as applicable under the different sales contracts, to assess whether the related revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the respective sales contracts; and • inspecting underlying documentation for journal entries relating to revenue which were considered to meet specific risk-based criteria.

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.

KPMG
Certified Public Accountants

8the Floor, Prince's Building
10 Chater Road
Central, Hong Kong
25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2018 RMB'000	2017 (Note) RMB'000
		Year ended 31 December	
Revenue	4	**600,562**	372,700
Cost of sales		**(191,681)**	(108,910)
Gross profit		**408,881**	263,790
Other income, net	5	**4,943**	2,680
Selling and distribution expenses		**(122,877)**	(50,397)
General and administrative expenses		**(74,125)**	(56,222)
Research and development expenses		**(45,595)**	(34,963)
Operating profit		**171,227**	124,888
Net finance income	7	**3,273**	496
Profit before taxation	6	**174,500**	125,384
Income tax	8	**(29,564)**	(20,008)
Profit for the year		**144,936**	105,376
Profit attributable to equity shareholders of the Company		**144,936**	105,376
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		**3,347**	(3,233)
Other comprehensive income, net of tax		**3,347**	(3,233)
Total comprehensive income		**148,283**	102,143
Total comprehensive income attributable to equity shareholders of the Company		**148,283**	102,143
Earnings per share			
Basic	11(a)	**RMB0.14**	RMB0.14
Diluted	11(b)	**RMB0.14**	RMB0.14

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 77 to 128 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 12.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At 31 December 2018 RMB'000	At 31 December 2017 (Note) RMB'000
Non-current assets			
Property, plant and equipment	13	**165,547**	104,670
Intangible assets	14	**38,148**	10,458
Goodwill	15	**27,826**	–
Deferred tax assets	26(b)	**12,908**	10,366
Prepayments for property, plant and equipment		**23,382**	545
		267,811	126,039
Current assets			
Inventories	17	**166,401**	86,817
Trade receivables	18	**184,204**	121,198
Deposits, prepayments and other receivables	19	**17,668**	6,071
Other financial assets	29(d)	**35,662**	–
Cash and cash equivalents	20	**421,054**	517,482
		824,989	731,568
Current liabilities			
Trade payables	21	**55,869**	43,048
Contract liabilities	22	**52,895**	–
Accruals and other payables	23	**103,851**	95,389
Obligations under finance leases	24	**599**	–
Current tax	26(a)	**15,272**	13,281
Deferred revenue	22	**–**	22,668
Provisions		**–**	4,976
		228,486	179,362
Net current assets		**596,503**	552,206
Total assets less current liabilities		**864,314**	678,245

	Note	At 31 December 2018 RMB'000	At 31 December 2017 (Note) RMB'000
Non-current liabilities			
Deferred income	27	**10,522**	7,903
Obligations under finance leases	24	**347**	–
Deferred tax liabilities	26(b)	**11,687**	2,359
		22,556	10,262
NET ASSETS		**841,758**	667,983
Capital and reserves			
Share capital	28(b)	**8,779**	8,450
Reserves	28(c)	**832,979**	659,533
Total equity attributable to equity shareholders of the Company		**841,758**	667,983
Total equity		**841,758**	667,983

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

Approved and authorised for issue by the board of directors on 25 March 2019 and signed on behalf of the board by:

Li Zhijiang
Director

Zhao Xiaohong
Director

The notes on pages 77 to 128 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital RMB'000 28(b)	Share premium RMB'000 28(c)(i)	Treasury shares RMB'000 28(c)(iv)	Capital reserve RMB'000 28(c)(ii)	Share option reserve RMB'000 28(c)(v)	Exchange reserve RMB'000 28(c)(vi)	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2017		1	109,940	–	55,174	–	4,269	125,009	294,393
Total comprehensive income for the year		–	–	–	–	–	(3,233)	105,376	102,143
Dividends declared	12	–	(34,136)	–	–	–	–	(39,000)	(73,136)
Capitalisation issue	28(b)(i)	6,336	(6,336)	–	–	–	–	–	–
Issuance of new shares	28(b)(i)	2,113	341,728	–	–	–	–	–	343,841
Equity settled share-based transactions	25	–	–	–	–	742	–	–	742
Balance at 31 December 2017 (note)		8,450	411,196	–	55,174	742	1,036	191,385	667,983
Impact on initial application of IFRS 9		–	–	–	–	–	–	(623)	(623)
Adjusted Balance at 1 January 2018		**8,450**	**411,196**	**–**	**55,174**	**742**	**1,036**	**190,762**	**667,360**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**3,347**	**144,936**	**148,283**
Shares issued under over-allotment option	28(b)(iv)	**304**	**52,844**	**–**	**–**	**–**	**–**	**–**	**53,148**
Equity settled share-based transactions	25	**–**	**–**	**–**	**–**	**4,981**	**–**	**–**	**4,981**
Shares issued under share option scheme	28(b)(v)	**25**	**3,414**	**(3,439)**	**–**	**–**	**–**	**–**	**–**
Dividends declared	12	**–**	**(32,014)**	**–**	**–**	**–**	**–**	**–**	**(32,014)**
Balance at 31 December 2018		**8,779**	**435,440**	**(3,439)**	**55,174**	**5,723**	**4,383**	**335,698**	**841,758**

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 77 to 128 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December	
	2018	2017 (Note)
	RMB'000	RMB'000
Operating activities		
Profit before taxation	**174,500**	125,384
Adjustments for:		
Depreciation of property, plant and equipment	**15,510**	10,937
Amortisation of intangible assets	**5,230**	1,304
Recognisation of deferred income	**(1,405)**	(605)
Interest income	**(5,130)**	(1,118)
Credit losses for trade receivables	**443**	3,760
Loss on sales of property, plant and equipment	**52**	31
Fair value change on other financial assets	**(662)**	–
Equity-settled share-based payment expenses	**4,981**	742
	193,519	140,435
Changes in operating activities		
Inventories	**(37,322)**	(19,012)
Trade receivables	**(38,804)**	(43,428)
Deposits, prepayments and other receivables	**(3,661)**	2,145
Contract liabilities	**52,895**	–
Trade payables	**5,208**	9,820
Accruals and other payables	**7,799**	41,211
Deferred revenue	**(22,668)**	746
Provisions	**(4,976)**	1,716
Obligations under finance leases	**(489)**	–
Cash generated from operations	**151,501**	133,633
Income tax paid	**(23,509)**	(16,981)

	Year ended 31 December	
	2018	2017 (Note)
	RMB'000	RMB'000
Net cash generated from operating activities	**127,992**	116,652
Investing activities		
Interest received	**4,553**	1,118
Proceeds from sale of property, plant and equipment	**205**	–
Acquisition of subsidiaries	**(123,799)**	–
Acquisition of other financial assets	**(35,000)**	–
Acquisition of intangible assets	**(2,846)**	(5,191)
Acquisition of property, plant and equipment	**(70,683)**	(46,858)
Government grants received relating to assets	**4,024**	300
Net cash used in investing activities	**(223,546)**	(50,631)
Financing activities		
Issuance of new shares	**53,148**	369,386
Dividends paid	**(32,014)**	(73,136)
Proceeds from equity settled share-based payment	**3,439**	–
Cash paid relating to other financing activities	**(28,748)**	(1,531)
Net cash (used in)/generated from financing activities	**(4,175)**	294,719
Net (decrease)/increase in cash and cash equivalents	**(99,729)**	360,740
Cash and cash equivalents at beginning of year	**517,482**	160,597
Effect of movements in exchange rates on cash hold	**3,301**	(3,855)
Cash and cash equivalents at end of year	**421,054**	517,482

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 77 to 128 form part of these financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The IASB has issued certain 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 Hong Kong dollars (HK$). The Company's primary subsidiaries were incorporated in the People's Republic of China (the "**PRC**") and the subsidiaries considered RMB as their functional currency. The Group determined to present these financial statements in RMB, unless otherwise stated.

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries.

The financial statements are prepared on the historical cost basis, except that other financial assets – investment in structured deposit are stated at their fair value.

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, Financial instruments

(ii) IFRS 15, Revenue from contracts with customers

(iii) IFRIC 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, Prepayment features with negative compensation which have been adopted at the same time as IFRS 9.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB'000
Retained earnings	
Recognition of additional expected credit losses on:	
– trade receivables	(733)
Related tax	110
Net decrease in retained earnings at 1 January 2018	(623)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

For further details on the Group's accounting policy for accounting for credit losses, see notes 2(j)(i) and (ii).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under IAS 39	(5,813)
Additional credit loss recognised at 1 January 2018 on:	
– Trade receivables	(733)
Loss allowance at 1 January 2018 under IFRS 9	(6,546)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (continued)

b. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 9 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):

– the determination of the business model within which a financial asset is held.

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to contracts in progress were presented in the statement of financial position under "deferred revenue", "accruals and other payables" or "provisions", respectively.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(ii) IFRS 15, Revenue from contracts with customers (continued)

Presentation of contract assets and liabilities (continued)

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

a. Refund assets and refund liabilities related to sales return amounting to RMB2,240,000 and RMB7,216,000, which were previously included in "provisions" are now reclassified to "Deposits, prepayments and other receivables" and "accruals and other payables" respectively; and

b. Deferred revenue amounting to RMB22,668,000 and advance and deposit from customers amounting to RMB18,715,000 are now included in the "contract liabilities", respectively.

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018.

The following tables summarise the estimated impact of adoption of IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under IFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under IAS 18 and IAS 11 if those superseded standards had continued to apply to 2018 instead of IFRS 15. These tables show only those line items impacted by the adoption of IFRS 15:

	Amounts reported in accordance with IFRS 15 (A) RMB'000	Hypothetical amounts under IASs18 and 11 (B) RMB'000	Difference: Estimated impact of adoption of IFRS 15 on 2018 (A)-(B) RMB'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of IFRS 15:			
Deposits, prepayments and other receivables	3,256	-	3,256
Total current assets	3,256	-	3,256
Accruals and other payables	103,851	125,267	(21,416)
Provisions	-	7,235	(7,235)
Contract liabilities	52,895	-	52,895
Deferred revenue	-	20,988	(20,988)
Total current liabilities	156,746	153,490	3,256
Line items in the consolidated cash flow statement for year ended 31 December 2018 impacted by the adoption of IFRS 15:			
Changes in operating activities			
Deposits, prepayments and other receivables	(3,661)	(405)	(3,256)
Contract liabilities	52,895	-	52,895
Accruals and other payables	7,799	29,215	(21,416)
Deferred revenue	(22,668)	(1,680)	(20,988)
Provisions	(4,976)	2,259	(7,235)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(iii) IFRIC 22, "Foreign currency transactions and advance consideration"

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

(d) Subsidiaries

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(f) Other investments in debt and equity securities

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

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

(A) Policy applicable from 1 January 2018

Investments other than equity investments

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

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(r)(ii)).

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Other investments in debt and equity securities (continued)

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see note 2(j)(i) – policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in note 2(r)(ii), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see note 2(j)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(g) 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(j)).

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

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

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

–	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
–	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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets

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

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

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

Software	3–10 years
Patents and products licenses	5–10 years
Brand name	10 years
Technical know-how	10 years

Both the period and method of amortisation are reviewed annually.

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

(i) Leased assets

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) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets (continued)

(iii) 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.

(j) Credit losses and impairment of assets

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

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables);

Financial assets measured at fair value, including wealth management products measured at FVPL is not subject to the ECL assessment.

Measurement of ECLs

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

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

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

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(A) Policy applicable from 1 January 2018 (continued)

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

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

– failure to make payments of principal on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(A) Policy applicable from 1 January 2018 (continued)

Basis of calculation of interest income (continued)
Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in principal payments;

– it becoming probable that the customer will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

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

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

(B) Policy applicable prior to 1 January 2018
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 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)

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

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

(B) Policy applicable prior to 1 January 2018 (continued)
If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss was 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, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were 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 decreased and the decrease could 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 was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

– For available-for-sale investment, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was 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 were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and 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)

(k) Inventories

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

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

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

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

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

(l) Trade and other receivables

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

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

(m) Cash and cash equivalents

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

(n) Trade and other payables

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

(o) Employee benefits

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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).

(p) Income tax

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

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

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

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

  - the same taxable entity; or

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

(q) Provisions and contingent liabilities

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

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

(r) Revenue and other income

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

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

(i) Sale of goods

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

In the comparative period, revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue represented the sales value of goods sold less rebates, returns, discounts and value added tax ("**VAT**"). No significant adjustment was made to opening balance as at 1 January 2018 as a result of the change in accounting policy.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue and other income (continued)

(i) Sale of goods (continued)

Loyalty programme

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

(ii) Interest income

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

(iii) Government grants

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

(s) Translation of foreign currencies

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

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

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

(t) Related parties

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

a. has control or joint control over the Group;

b. has significant influence over the Group; or

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) 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(t)(i).

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

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

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

(u) Segment reporting

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

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND 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) Allowance for expected credit losses

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

(c) Impairment of goodwill

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

(d) 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.

(e) 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.

(f) Sales return or exchanges

The Group's distribution agreements do not allow product returns or exchanges without the management's consent. However, in practice, the Group has historically accepted certain returns and exchanges by distributors of orthopedic joint implants. The Group believes that sales exchanges would not result in any significant outflow of the Group's resources embodying economic benefits. Based on past experience, the percentage of subsequent returns will be approximately 2% of annual sales for certain products. Therefore, the Group has not recognised revenue for certain products expected to be returned at the estimated return rate of 2% of annual sales for 2018.

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.

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

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Hip replacement implants	**351,958**	215,305
– Knee replacement implants	**145,098**	101,667
– 3D-printed product	**69,945**	33,444
– Third party orthopedic products	**11,866**	14,913
– Others	**21,695**	7,371
	600,562	372,700

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue in 2018 (2017: nil). Details of concentrations of credit risk arising from major customers are set out in note 29(a).

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

(b) Segment reporting

The Group acquired JRI, a private company limited by shares incorporated in England and Wales on 10 April 2018 (see note 30). JRI's operation and assets are mainly based in the United Kingdom (the "**UK**"). After the acquisition, the Group manages its businesses by geographical location in which the entities operate. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the two reportable segment based on geographical location: China and the United Kingdom. No operating segments have been aggregated to form the reportable segments.

(i) Segment results, assets and liabilities

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

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

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

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting (continued)

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

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

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

Disaggregation of revenue from contracts with customers, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Revenue from external customers	**531,738**	372,700	**68,824**	–	**600,562**	372,700
Inter-segment revenue	**–**	–	**33,760**	–	**33,760**	–
Reportable segment revenue	**531,738**	372,700	**102,584**	–	**634,322**	372,700
Reportable segment profit	**177,836**	125,384	**230**	–	**178,066**	125,384
Interest income from bank deposits	**5,148**	1,118	**–**	–	**5,148**	1,118
Depreciation and amortisation for the year	**12,505**	12,241	**8,235**	–	**20,740**	12,241
Reportable segment assets	**889,830**	847,241	**161,956**	–	**1,051,786**	847,241
Additions to non-current assets during the year	**77,972**	30,986	**8,268**	–	**86,240**	30,986
Reportable segment liabilities	**216,033**	173,984	**15,606**	–	**231,639**	173,984

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting (continued)

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

	2018 RMB'000	2017 RMB'000
Revenue		
Reportable segment revenue	**634,322**	372,700
Elimination of inter-segment revenue	**(33,760)**	–
Consolidated revenue	**600,562**	372,700
Profit		
Reportable segment profit	**178,066**	125,384
Elimination of inter-segment profits	**(3,566)**	–
Consolidated profit before taxation	**174,500**	125,384
Assets		
Reportable segment assets	**1,051,786**	847,241
Elimination of inter-segment receivables	**(7,556)**	–
	1,044,230	847,241
Other financial assets	**35,662**	–
Deferred tax assets	**12,908**	10,366
Consolidated total assets	**1,092,800**	857,607
Liabilities		
Reportable segment liabilities	**231,639**	173,984
Elimination of inter-segment payables	**(7,556)**	–
	224,083	173,984
Current tax liabilities	**15,272**	13,281
Deferred tax liabilities	**11,687**	2,359
Consolidated total liabilities	**251,042**	189,624

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and goodwill ("**specified non-current assets**"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets and goodwill.

	Revenues from external customers		Specified non-current assets	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
– China	**513,130**	363,426	**181,491**	115,673
– United Kingdom	**43,944**	–	**73,412**	–
– Other countries	**43,488**	9,274	**–**	–
	600,562	372,700	**254,903**	115,673

5 OTHER INCOME, NET

	2018 RMB'000	2017 RMB'000
Government grants	**5,500**	1,625
Others	**(557)**	1,055
	4,943	2,680

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Note	2018 RMB'000	2017 RMB'000
Salaries, wages and other benefits		**94,272**	49,156
Contribution to defined contribution retirement scheme		**4,189**	2,140
Equity settled share-based transactions	25	**4,981**	742
		103,442	52,038

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

The Group's UK subsidiaries operate a stakeholder defined contribution personal pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the Group. Under the defined contribution personal pension scheme, the employer is required to make contributions to the plan at 7.5% of the employees' relevant income. Contributions to the plan vest immediately.

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

(b) Other items

	2018 RMB'000	2017 RMB'000
Cost of Inventories*	**199,000**	113,991
Amortisation of intangible assets	**5,230**	1,304
Depreciation of property, plant and equipment	**15,510**	10,937
Credit losses from trade and other receivables	**443**	3,760
Operating lease charges	**6,460**	6,058
Auditors' remuneration		
– Audit services	**3,176**	2,200
– Audit related services	**1,600**	–
	4,776	2,200

* Cost of inventories includes RMB43,210,000 in 2018 (2017: RMB17,501,000) 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

	2018 RMB'000	2017 RMB'000
Interest income from bank deposits	**5,148**	1,118
Foreign exchange loss	**(1,875)**	(622)
	3,273	496

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Amounts recognised in profit or loss

	2018 RMB'000	2017 RMB'000
Current tax		
Provision for the year	**26,974**	25,268
Over-provision in respect of prior years	**(1,474)**	(23)
Deferred tax		
Origination and reversal of temporary differences	**4,064**	(5,237)
	29,564	20,008

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

The Group has no assessable profit in Hong Kong for 2018 (2017: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2018 is 16.5% (2017: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for 2018 at the rates of taxation prevailing in the countries in which the Group operates.

Applicable statutory enterprise income tax rate of PRC subsidiaries of the Company for 2018 are 25% (2017: 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.

Taxation for subsidiaries operating mainly in the England and Wales were calculated at statutory enterprise income tax rate of 19% for 2018.

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

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

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

	2018 RMB'000	2017 RMB'000
Profit before taxation	**174,500**	125,384
Notional tax of PRC statutory tax rate of 25%	**43,625**	31,346
Effect of PRC preferential tax rate	**(18,887)**	(11,431)
Effect of lower tax rates in other countries	**(92)**	(1,336)
Effect of non-deductible expenses	**558**	112
Effect of unused tax losses not recognised	**3,163**	–
Effect of additional deduction on research and development expenses (note)	**(2,374)**	(1,019)
PRC dividend withholding tax	**5,045**	2,359
Over-provision in respect of prior years	**(1,474)**	(23)
Actual tax expenses	**29,564**	20,008

Note: According to the relevant PRC income tax law, certain research and development costs of PRC subsidiaries are qualified for 75% (2017:50%) additional deduction for tax purpose.

9 DIRECTORS' EMOLUMENTS

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

2018	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based payment RMB'000 (Note 25)	Total RMB'000
Executive directors						
Li Zhijiang (chairman)	–	764	600	11	–	1,375
Zhang Bin	–	386	60	–	–	446
Zhang Chaoyang	–	644	500	11	–	1,155
Zhao Xiaohong	–	614	475	11	553	1,653
Non-executive directors						
Li Wenming	150	–	–	–	–	150
Wang David Guowei	–	–	–	–	–	–
Independent Non-executive directors						
Dang Gengting	150	–	–	–	–	150
Kong Chi Mo	152	–	–	–	–	152
Li Shu Wing David	152	–	–	–	–	152
	604	2,408	1,635	33	553	5,233

9 DIRECTORS' EMOLUMENTS (continued)

2017	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based payment RMB'000 (Note 25)	Total RMB'000
Executive directors						
Li Zhijiang (chairman)	–	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

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 3 (2017: 2) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other 2 (2017: 3) individuals respectively, are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	**921**	1,384
Discretionary bonuses	**1,150**	1,036
Equity settled share-based transactions	**457**	–
Retirement scheme contributions	**11**	23
	2,539	2,443

The emoluments of the 2 (2017: 3) individuals with the highest emoluments are within the following bands:

	2018	2017
HK$		
Nil – 1,000,000	**Nil**	1
1,000,001–1,500,000	**1**	2
1,500,001–2,000,000	**1**	Nil

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB144,936,000 (2017: RMB105,376,000) and the weighted average number of issued ordinary shares of 1,037,191,781 (2017: 758,219,178 shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2018	2017
Issued ordinary shares at 1 January	**1,000,000,000**	100,000
Effect of capitalisation issue (note 28(b)(iii))	**–**	749,900,000
Effect of issue of shares upon initial public offering (note 28(b)(iii))	**–**	8,219,178
Effect of issue of shares under the over-allotment option (note 28(b)(iv))	**37,191,781**	–
Weighted average number of ordinary shares at 31 December	**1,037,191,781**	758,219,178

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB144,936,000 (2017: RMB105,376,000) and the weighted average number of issued ordinary shares of 1,047,691,162 (2017: 758,931,913 shares) after adjusting the effects of dilutive potential ordinary shares during the year, as follows:

Weighted average number of ordinary shares (diluted)

	2018	2017
Weighted average number of ordinary shares at 31 December	**1,037,191,781**	758,219,178
Effect of deemed issue of shares under the Company's share option scheme (note 25)	**10,499,381**	45,630
Effect of issue of shares under the over-allotment option (note 28(b)(iv))	**–**	667,105
Weighted average number of ordinary shares (diluted) at 31 December	**1,047,691,162**	758,931,913

12 DIVIDENDS

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

	2018 RMB'000	2017 RMB'000
Final dividend proposed after the end of the reporting period of HK$3.5 cents per ordinary share (2017: HK$3.5 cents per ordinary share)	**31,908**	32,014

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

12 DIVIDENDS (continued)

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

	2018 RMB'000	2017 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$3.5 cents per ordinary share	**32,014**	–

During 2017, the Company declared and paid dividends in cash totalling RMB73,136,000 to its then owners before the Listing.

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 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 and 1 January 2018	9,140	10,658	78,911	2,426	3,637	42,269	147,041
Acquisition of subsidiaries (note 30)	–	472	14,539	–	874	–	15,885
Additions	–	747	9,139	1,028	1,264	48,934	61,112
Disposals	–	(193)	(748)	(457)	–	–	(1,398)
Exchange adjustments	–	(13)	(388)	–	(23)	–	(424)
At 31 December 2018	9,140	11,671	101,453	2,997	5,752	91,203	222,216
Accumulated depreciation							
At 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 and 1 January 2018	(4,010)	(6,724)	(27,966)	(1,135)	(2,536)	–	(42,371)
Charged for the year	(398)	(2,712)	(11,144)	(298)	(958)	–	(15,510)
Written back on disposals	–	48	659	434	–	–	1,141
Exchange adjustments	–	2	62	–	7	–	71
At 31 December 2018	(4,408)	(9,386)	(38,389)	(999)	(3,487)	–	(56,669)
Net book value							
At 31 December 2018	4,732	2,285	63,064	1,998	2,265	91,203	165,547
At 31 December 2017	5,130	3,934	50,945	1,291	1,101	42,269	104,670

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	Patents and products licenses RMB'000	Technical know-how RMB'000	Brand name RMB'000	Capitalised development costs RMB'000	Total RMB'000
Cost:						
At 1 January 2017	3,524	4,057	–	–	1,395	8,976
Additions	649	3,823	–	–	719	5,191
At 31 December 2017 and 1 January 2018	4,173	7,880	–	–	2,114	14,167
Acquisition of subsidiaries (note 30)	2,563	3,177	16,794	8,250	–	30,784
Transfer from capitalised development costs	–	2,594	–	–	(2,594)	–
Additions	952	–	–	–	1,951	2,903
Exchange adjustments	(69)	(85)	(448)	(220)	–	(822)
At 31 December 2018	7,619	13,566	16,346	8,030	1,471	47,032
Accumulated amortisation						
At 1 January 2017	(1,079)	(1,326)	–	–	–	(2,405)
Charged for the year	(595)	(709)	–	–	–	(1,304)
At 31 December 2017 and 1 January 2018	(1,674)	(2,035)	–	–	–	(3,709)
Charged for the year	(1,721)	(1,652)	(1,245)	(612)	–	(5,230)
Exchange adjustments	15	12	19	9	–	55
At 31 December 2018	(3,380)	(3,675)	(1,226)	(603)	–	(8,884)
Net book value						
At 31 December 2018	4,239	9,891	15,120	7,427	1,471	38,148
At 31 December 2017	2,499	5,845	–	–	2,114	10,458

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

15 GOODWILL

	2018 RMB'000
Cost:	
At 31 December 2017 and 1 January 2018	**–**
Addition	**28,589**
Exchange adjustments	**(763)**
At 31 December 2018	**27,826**
Carrying amount:	
At 31 December 2018	**27,826**

Goodwill of RMB27,826,000 arising from the acquisition of the JRI Orthopaedics Limited ("**JRI**") from the Orthopaedic Research UK ("**ORUK**") was recorded during year ended 31 December 2018 (see note 30).

(Expressed in RMB'000 unless otherwise indicated)

15 GOODWILL (continued)

Impairment tests for cash-generating units containing goodwill

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2.4% which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 15.6%. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

16 INVESTMENTS IN SUBSIDIARIES

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

			Percentage of equity attributable to Company			
Name of company	**Place and date of incorporation/ establishment**	**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	United States dollars ("**US$**") 50,000	100%	100%	–	Investing holding company
Bright AK Limited ("**Bright AK HK**")	Hong Kong 07/07/2015	HK$10,000	100%	–	100%	Investing holding company
AK Medical International Limited ("**AK Medical HK**")	Hong Kong 28/07/2015	HK$1	100%	–	100%	Investing holding company
AK Medical Beijing 北京愛康宜誠醫療器材有限公司	The PRC 08/05/2003	RMB100,000,000	100%	–	100%	Design, develop, produce and market orthopedic joint implants and related products
Beijing XMKS Medical Co., Ltd. ("**AK Medical XMKS**") 北京西麥克斯醫療器械有限公司	The PRC 24/07/2007	RMB500,000	100%	–	100%	Sales of orthopedic joint implants products
ITI Medical Co., Ltd. (AK Medical Changzhou) 天衍醫療器材有限公司	The PRC 28/03/2016	US$13,200,000	100%	–	100%	Produce and market orthopedic joint implants and related products
JRI Orthopaedics Limited	The United Kingdom 06/04/1970	GBP 100,000	100%	–	100%	Design, develop, produce and market orthopedic joint implants and related products

17 INVENTORIES

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials	**28,891**	13,047
Work in progress	**32,251**	17,963
Finished goods	**105,259**	55,807
	166,401	86,817

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

	2018	2017
	RMB'000	RMB'000
Cost of inventories sold	**191,681**	108,910
Cost of inventories directly recognised as research and development expenses	**7,319**	5,081
	199,000	113,991

18 TRADE RECEIVABLES

	31 December	1 January	31 December
	2018	2018	2017
	RMB'000	RMB'000	RMB'000
Bills receivable	**44,002**	23,205	23,205
Trade debtors	**146,303**	103,806	103,806
Less: allowance for credit loss (note)	**(6,101)**	(6,546)	(5,813)
	140,202	97,260	97,993
	184,204	120,465	121,198

Note: Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on bills and trade receivables (see note 2(c)(i)).

18 TRADE RECEIVABLES (continued)

Ageing analysis

Bills receivable are bank acceptance bill received from customers, with expiration dates within 6 months.

As at 31 December 2018, the ageing analysis of trade debtors based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for credit loss, is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current to 3 months	**105,243**	67,504
3 to 6 months	**14,274**	14,638
6 to 12 months	**14,906**	12,010
Over 12 months	**5,779**	3,841
	140,202	97,993

The credit terms agreed with customers were normally ranged from 1 month to 6 months from the date of billing. No interest is charged on the trade receivables. Further details on the Group's credit policy are set out in note 29(a).

19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	31 December	1 January	31 December
	2018	2018	2017
	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	**9,397**	3,112	3,112
Deposits	**2,005**	1,895	1,895
Refund assets (note)	**3,256**	2,240	–
Others	**3,010**	1,064	1,064
	17,668	8,311	6,071

Note: Upon the adoption of IFRS 15, refund assets was reclassified from "provisions" to deposits, prepayments and other receivables (see note 23(ii)).

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

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Cash at bank	**420,964**	517,410
Cash on hand	**90**	72
Cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow statement	**421,054**	517,482

As at 31 December 2018, cash and cash equivalents of the Group held in bank in the PRC amounted to RMB228,628,000 (2017: RMB150,497,000). 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 2018, there was no liabilities for the Group arising from financing activities (2017: nil), except the finance leases of RMB946,000 from the acquisition of the JRI (see note 24).

21 TRADE PAYABLES

As at 31 December 2018, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Within 3 months	**48,301**	34,791
3 to 6 months	**4,238**	6,757
6 to 12 months	**1,434**	597
1 year to 2 years	**922**	604
Over 2 years	**974**	299
	55,869	43,048

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

22 CONTRACT LIABILITIES

	Note	**31 December 2018 RMB'000**	1 January 2018 (i) RMB'000	31 December 2017 RMB'000
Contract liabilities				
Sales rebates	(ii)	**20,988**	22,668	–
Advance and deposit from customers	(iii)	**31,907**	18,715	–
		52,895	41,383	–

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of IFRS 15, these amounts were reclassified from deferred revenue to contract liabilities (see note 2(c)(ii)).

(iii) Upon the adoption of IFRS 15, these amounts were reclassified from accruals and other payables (note 23) to contract liabilities (see note 2(c)(ii)).

Advance and deposit from customers primarily represent advances made by customers for purchases of products. The Group normally requires certain customers to pay 30%– 100% deposits upfront.

Sales rebates represents rebates granted to the customers the right to redeem the rebates through purchase of the Group's products at a discount in the future. Under the Group's loyalty programme, the sales rebates granted give the customer the right to purchase the Group's products at a discount in the future. The amount of this contract liability is estimated based on the stand-alone selling price of goods delivered and undelivered, and takes into account the amount of rebates granted to customers that have not been redeemed and the expected forfeiture rate.

RMB34,776,000 has been recognized as revenue in 2018 that was included in the contract liabilities at the beginning of the year. All the balances of the contract liabilities at 31 December 2018 are expected to be recognized as revenue within one year.

23 ACCRUALS AND OTHER PAYABLES

	Note	**31 December 2018 RMB'000**	1 January 2018 RMB'000	31 December 2017 RMB'000
Accrual of listing expenses		**–**	37,984	37,984
Advance and deposit from customers	(i)	**–**	–	18,715
Other taxes payable		**20,182**	18,085	18,085
Salary and welfare payable		**15,095**	12,365	12,365
Accrued charges		**30,483**	1,972	1,972
Refund liabilities	(ii)	**10,491**	7,216	–
Payables to contractors and equipment suppliers		**15,216**	563	563
Others		**12,384**	5,705	5,705
		103,851	83,890	95,389

Notes:

(i) As a result of the adoption of IFRS 15, advance and deposit from customers is included in contract liabilities and disclosed in note 22 (see note 2(c)(ii)).

(ii) Upon the adoption of IFRS 15, refund liabilities was reclassified from provisions to accruals and other payables (see note 2(c)(ii)).

The Group historically accepted certain returns from distributors of orthopaedic joint implants. A return liability relating to sales with a right of return in practice was recognised based on historical sales return data associated with similar products. A refund asset was recognised accordingly for a right to recover products from distributors on settling the refund liability.

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

24 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2018, the Group had obligations under finance leases repayable as follows:

	2018		**2017**	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	**Present value of the minimum lease payments RMB'000**	Total minimum lease payments RMB'000
Within 1 year	**599**	677	**–**	–
After 1 year but within 2 years	**347**	390	**–**	–
	946	1,067	**–**	–
Less: total future interest expenses		(121)		–
Present value of lease obligations		946		–

25 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 will become exercisable in four equal batches upon the satisfaction of certain performance targets in a financial year. The exercisable period will begin from the first business day after 1 May of the immediately following year, until 16 November 2027. In addition, any shares obtained from the exercise will be subject to claw-back if service conditions are not met.

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

	2018		2017	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
Outstanding at the beginning of the year	**1.34**	**36,000**	–	–
Exercised during the year	**1.34**	**2,975**	–	–
Forfeited during the year	**1.34**	**800**	–	–
Granted during the year	**–**	**–**	1.34	36,000
Outstanding at the end of the year	**1.34**	**32,225**	1.34	36,000
Exercisable at the end of the year	**1.34**	**17,600**	–	–

The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 9 years (2017: 10 years).

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(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.

Fair value of share options and assumptions

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

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

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

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2018 **RMB'000**	2017 RMB'000
At 1 January	**13,281**	8,917
Provision for the year	**26,974**	25,268
Over-provision in respect of prior year	**1,474**	23
Provisional tax paid	**23,509**	20,881
At 31 December	**15,272**	13,281

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

(b) Deferred tax assets and liabilities:

(i) Movement of each component of deferred tax assets and liabilities

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

Deferred tax arising from:	Sales rebate	Unrealised profits of intra-group transaction	Sales return	Tax losses	PRC Dividend withholding tax (iii)	Fair value adjustment in respect of net assets acquired in business combinations	Others (Note)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	3,288	712	489	–	(3,900)	–	2,181	2,770
Credited to profit or loss (note 8)	112	1,424	115	1,104	1,541	–	941	5,237
At 31 December 2017	3,400	2,136	604	1,104	(2,359)	–	3,122	8,007
Impact on initial application of IFRS 9	–	–	–	–	–	–	110	110
At 1 January 2018	3,400	2,136	604	1,104	(2,359)	–	3,232	8,117
Acquisition of subsidiaries	–	–	–	3,022	–	(4,757)	(1,168)	(2,903)
(Charged)/credited to profit or loss (note 8)	(252)	995	481	(315)	(5,044)	347	(276)	(4,064)
Exchange adjustment	–	–	–	(72)	–	126	17	71
At 31 December 2018	3,148	3,131	1,085	3,739	(7,403)	(4,284)	1,805	1,221

Note: Upon the initial application of IFRS 9, the Group has recognised deferred tax assets on the additional credit losses recognised under the ECL model (see note 2(c)(i)).

(ii) Reconciliation to the consolidated statement of financial position

	2018	2017
	RMB'000	RMB'000
Net deferred tax asset recognised	**12,908**	10,366
Net deferred tax liability recognised	**(11,687)**	(2,359)
	1,221	8,007

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

(b) Deferred tax assets and liabilities:

(iii) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB12,650,000 (2017: nil) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(iv) Deferred tax liabilities not recognised

Pursuant to Enterprise Income Tax Law in the PRC and its related regulations, the Group is subject to withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends receivable from its PRC subsidiaries in respect of their profits generated and on distribution of statutory surplus reserve upon liquidation. As at 31 December 2018, temporary differences relating to the reserves of the Company's PRC subsidiaries amounted to RMB261,663,000 (2017: RMB137,567,000), comprised retained earnings of RMB202,571,000 (2017: RMB105,074,000) and statutory surplus reserve of RMB59,092,000 (2017: RMB32,493,000). The Company controls the dividend policy of these subsidiaries and it has been determined that the 70% of profit for 2018 will not be distributable in the foreseeable future (2017: the retained earnings before 30 September 2017 and 70% of profit for the three months ended 31 December 2017 will not be distributed). The Company has no plan to liquidate these subsidiaries in the foreseeable future. As a result, no deferred tax liability was recognised for the above mentioned temporary differences.

27 DEFERRED INCOME

	Government subsidies for research and development projects RMB'000
At 1 January 2017	8,208
Additions	300
Government grant recognised as other revenue	(605)
At 31 December 2017 and 1 January 2018	7,903
Additions	4,024
Government grant recognised as other revenue	(1,405)
At 31 December 2018	10,522

28 CAPITAL AND RESERVES

(a) Movements in components of equity

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

Company

	Note	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2017		1	109,940	–	60,700	–	12,662	(2,133)	181,170
Total comprehensive income for the year		–	–	–	–	–	(11,431)	48,145	36,714
Dividends declared	12	–	(34,136)	–	–	–	–	(39,000)	(73,136)
Capitalisation issue	28(b)(iii)	6,336	(6,336)	–	–	–	–	–	–
Issuance of new shares	28(b)(iii)	2,113	341,728	–	–	–	–	–	343,841
Equity settled share-based transactions	25	–	–	–	–	742	–	–	742
Balance at 31 December 2017 and 1 January 2018		8,450	411,196	–	60,700	742	1,231	7,012	489,331
Total comprehensive income for the year		–	–	–	–	–	12,385	(12,056)	329
Dividends declared	12	–	(32,014)	–	–	–	–	–	(32,014)
Shares issued under over-allotment option	28(b)(iv)	304	52,844	–	–	–	–	–	53,148
Equity settled share-based transactions	25	–	–	–	–	4,981	–	–	4,981
Shares issued under share option scheme	28(b)(v)	25	3,414	(3,439)	–	–	–	–	–
Balance at 31 December 2018		8,779	435,440	(3,439)	60,700	5,723	13,616	(5,044)	515,775

(b) Share capital

	2018 No. of shares	**2018** Amount RMB'000	2017 No. of shares	2017 Amount RMB'000
Authorised-ordinary shares of HK$0.01 each:				
At 1 January	**20,000,000,000**	**168,981**	38,000,000	300
Increase (ii)	**–**	**–**	19,962,000,000	168,681
At 31 December	**20,000,000,000**	**168,981**	20,000,000,000	168,981
Ordinary shares, issued and fully paid:				
At 1 January	**1,000,000,000**	**8,450**	100,000	1
Capitalisation issue (iii)	**–**	**–**	749,900,000	6,336
Initial public offering	**–**	**–**	250,000,000	2,113
Shares issued under over-allotment option (iv)	**37,500,000**	**304**	–	–
Shares issued under share option scheme (v)	**2,975,000**	**25**	–	–
At 31 December	**1,040,475,000**	**8,779**	1,000,000,000	8,450

28 CAPITAL AND RESERVES (continued)

(b) Share capital (continued)

The holders of ordinary shares as at 31 December 2018 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.

(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.

(iv) 37,500,000 new shares were issued on 4 January 2018 by way of over-allotment option exercising in connection with its initial public offering. The proceeds less the listing costs directly attributable to the issue of shares, amounted to RMB53,148,000, with RMB304,000 representing the par value of these ordinary shares, were credited to the Company's share capital account. And the remaining proceeds amounted to RMB52,844,000 were credited to the Company's share premium account.

(v) 2,975,000 new shares were issued in 2018 pursuant to the share option scheme (see note 25). They have been presented as treasury shares until the relevant grants are no longer conditional on the satisfaction of service conditions.

28 CAPITAL AND RESERVES (continued)

(c) Reserves

(i) Share premium

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

(ii) Capital reserve

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

(iii) Statutory reserve

Retained profit of the Group contains statutory reserve of the PRC subsidiaries of RMB59,092,000.

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) Treasury shares

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

(v) Share option reserve

The Company adopted a share option scheme to employees as described in note 25. The Group recognises the grant-date fair value of the share options ratably over the vesting period. Accordingly, an amount of RMB4,981,000 (2017: RMB742,000) was charged as an equity-settled share-based payment to profit or loss with a corresponding increase in share option reserve for the year. Such share option reserve will be transferred to share premium as and when such option are exercised or when they expire.

(vi) Exchange reserve

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

(d) Distributability of reserves

At 31 December 2018, 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 RMB609,582,000 (2017: RMB480,881,000).

(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 2018, the Group did not have any interest-bearing debts.

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

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

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

The Group's cash and cash equivalents are held with banks, which have sound reputation.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group normally requires certain customers to pay 30%– 100% deposits upfront and the remaining trade receivables are normally due within 1 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.

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 2018, 3.7% (2017: 4.8%) of the total trade receivables was due from the Group's largest customer in 2018, and 16.8% (2017: 17.8%) was due from the five largest customers in 2018.

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

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

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

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

(a) Credit risk (continued)

The following table provides information about the trade receivables impaired individually for the Group.

	Expected loss rate	**Gross carrying amount**	**Loss allowance**
More than 1 years past due	100%	2,402	(2,402)

The following table provides information about the Group's PRC subsidiaries exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate	**Gross carrying amount**	**Loss allowance**
Current	1%	97,298	(949)
1-3 months past due	5%	19,690	(1,037)
4-6 months past due	5%	2,916	(147)
7-12 months past due	5%	808	(40)
More than 1 years past due	19%	3,980	(746)
		124,692	(2,919)

The following table provides information about the Group's UK subsidiaries exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate	**Gross carrying amount**	**Loss allowance**
1-3 months past due	1%	18,689	(260)
More than 3 months past due	100%	520	(520)
		19,209	(780)

Expected loss rates are based on historical loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(j)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of RMB30,498,000 were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	73,308

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

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

(a) Credit risk (continued)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 RMB'000	2017 RMB'000
Balance at 31 December 2017 under IAS 39	**5,813**	
Impact on initial application of IFRS 9	**733**	
Balance at 1 January	**6,546**	2,053
Amounts written off during the year	**–**	–
Reversals of impairment losses	**(1,461)**	–
Acquisition of subsidiaries	**573**	–
Credit losses recognised during the year	**443**	3,760
Balance at 31 December	**6,101**	5,813

(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 2018			
Trade payables	**55,869**	**55,869**	**55,869**
Accruals and other payables	**103,851**	**103,851**	**103,851**
Total	**159,720**	**159,720**	**159,720**

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

(b) Liquidity risk (continued)

	Carrying amount RMB'000	Contractual undiscounted cash outflow 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

(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 2017 and 2018 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 2018			
	HK$ RMB'000	**US$ RMB'000**	**EUR RMB'000**	**GBP RMB'000**
Cash and cash equivalents	**29,669**	**178,510**	**50**	**–**
Trade receivables	**–**	**4,641**	**–**	**–**
Trade payables	**–**	**–**	**–**	**–**
	29,669	**183,151**	**50**	**–**

	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)

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

(c) Currency risk (continued)

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

As at 31 December 2018, 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 RMB1,261,000 and RMB7,784,000, respectively (2017: RMB15,462,000 and RMB198,000).

(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.

	Fair value measurements as at 31 December 2018 categorised into			
	Fair value at 31/12/2018 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Recurring fair value measurement				
Financial assets:				
Other financial assets – investments in structured deposit at FVPL	**35,662**	**–**	**35,662**	**–**

No asset is measured at fair value as at 31 December 2017.

There were no changes in valuation techniques in 2018.

30 ACQUISITION OF SUBSIDIARIES

On 10 April 2018, the Group acquired JRI, a private company limited by shares incorporated in England and Wales and principally engaged in designing, manufacturing and supplying orthopaedic implants and related instruments, from ORUK, at a consideration of GBP16,732,000 (equivalent to RMB149,151,000). Acquisition-related costs amounted to RMB6,659,000, of which RMB5,659,000 and RMB1,000,000 were recognised in general and administrative expenses in the consolidated statement of profit or loss for the year 2018 and 2017, respectively.

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

	Fair value of net identifiable assets acquired as at the acquisition date RMB'000
Property, plant and equipment	15,885
Intangible assets	30,784
Deferred tax assets	3,022
Inventories	42,262
Trade and bills receivables	24,995
Deposits, prepayments and other receivables	5,885
Cash and cash equivalents	25,352
Trade payables	(7,613)
Accruals and other payables	(14,084)
Deferred tax liabilities	(5,926)
Net identifiable assets	120,562
Goodwill	28,589
Fair value of considerations	149,151
Cash considerations paid in 2018	149,151
Net cash outflow arising from the acquisition in 2018	(123,799)

The allocation of the purchase price is determined based on the Directors' estimates of the fair value of the identifiable assets and liabilities of the JRI as at 10 April 2018, and with reference to a valuer report dated 30 June 2018 prepared by Colliers International (Hong Kong) Ltd, an independent valuer. The independent valuer report are prepared using the income approach and with reference/benchmark to the valuer's industry knowledge and past experience of comparable cases, as well as a high-level analysis on the proportions of potential intangible assets as compared to the business enterprise value implied by the purchase consideration.

The allocation of the purchase price represents the recognition of identifiable intangible assets as identified through the valuation report arising from the acquisition at their respective fair value (namely technical know-how and brand name approximately RMB25,043,000 in total), and the recognition of related deferred tax liabilities of RMB4,758,000, as if the acquisition had been completed on 1 April 2018.

For the period from 1 April 2018 to 31 December 2018, the JRI contributed revenue of RMB102,584,000 and profit of RMB230,000 to the Group's results. Had the acquisition of the JRI occurred on 1 January 2018, management estimates that consolidated revenue would have been RMB624,711,000 and consolidated profit for the year would have been RMB150,137,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 April 2018.

30 ACQUISITION OF SUBSIDIARIES (continued)

JRI has direct interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment and nature of legal entity	Registered capital	Percentage of equity attributable to the Target Company: Target Group's effective interest	Percentage of equity attributable to the Target Company: Held by the Target Company	Principal activities
JRI (Manufacturing) Limited	UK 04/04/1977 limited liability company	GBP100,000	100%	100%	Non-trading company
Joint Replacement Instrumentation Limited	UK 04/11/1988 limited liability company	GBP100,000	100%	100%	Non-trading company
Osmetis Limited	UK 26/02/2016 limited liability company	GBP1	100%	100%	Non-trading company
SMPL	UK 04/09/2007 limited liability company	GBP120,000	100%	100%	Provision of orthopaedic and instruments to the medical industry

31 COMMITMENTS

(a) Capital commitments of the Group mainly in respect of construction in progress outstanding as at 31 December 2018 not provided for in this financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Contracted for	**14,851**	40,084
Authorised but not contracted for	**92,574**	78,761
	107,425	118,845

(b) As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**9,230**	6,311
After 1 year but within 5 years	**10,618**	7,865
	19,848	14,176

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.

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

In 2018, 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
Mr. Sun Hongbo	Senior management
Ximalaya Limited	Controlling shareholder

(b) Key management personnel remuneration

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and other emoluments	**6,569**	6,623
Discretionary bonuses	**3,254**	1,992
Retirement scheme contributions	**116**	162
Equity settled share-based transactions	**2,782**	82
	12,721	8,859

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

33 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 25 March 2019, the directors proposed a final dividend. Further details are disclosed in note 12.

34 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

As at 31 December 2018, the directors consider the immediate parent to be Ximalaya Limited and the ultimate controlling parties of the Group to be Mr. Li Zhijiang. Ximalaya Limited is incorporated in British Virgin Islands and does not produce financial statements available for public use.

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

Statement of financial position

	Note	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
Non-current asset			
Interests in subsidiaries		**188,751**	–
		188,751	–
Current assets			
Deposits, prepayments and other receivables		**181,883**	165,126
Cash and cash equivalents		**168,586**	364,054
		350,469	529,180
Current liability			
Accruals and other payables		**23,445**	39,849
		23,445	39,849
Net current assets		**327,024**	489,331
Total assets less current liabilities		**515,775**	489,331
NET ASSETS		**515,775**	489,331
Capital and reserves			
Share capital	28(b)	**8,779**	8,450
Reserves	28(c)	**506,996**	480,881
Total equity		**515,775**	489,331

Approved and authorised for issue by the board of directors on 25 March 2019 and signed on behalf of the board by:

Li Zhijiang
Director

Zhao Xiaohong
Director

(Expressed in RMB'000 unless otherwise indicated)

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 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 16, Leases	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
Amendments to IAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard 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 standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

IFRS 16 Leases

As disclosed in note 2(i), 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 some leases as the lessor and others 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.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. The Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 31(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB19,848,000 for properties, the majority of which is payable within one year after the reporting date. Upon the initial adoption of IFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to RMB9,502,000, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.