愛康醫療控股有限公司

AK Medical Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1789

2019

INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS

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

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

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

JOINT COMPANY SECRETARIES

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

AUTHORIZED REPRESENTATIVES

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

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

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

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

PRINCIPLE PLACE OF BUSINESS IN HONG KONG

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

AUDITOR

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

HONG KONG LEGAL ADVISER

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

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

SHARE REGISTRAR IN HONG KONG

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

COMPANY WEBSITE

www.ak-medical.net

PRINCIPAL BANK

Agricultural Bank of China
Bank of China
Bank of Communications
East West Bank
Hang Seng Bank Limited

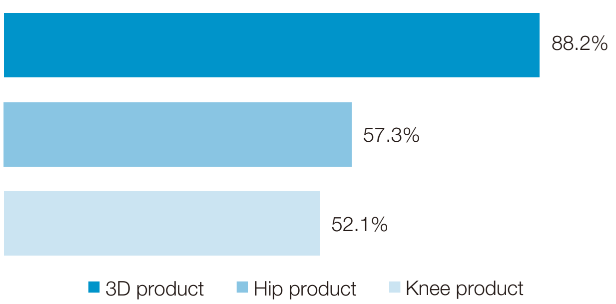
LISTING INFORMATION AND STOCK CODE

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

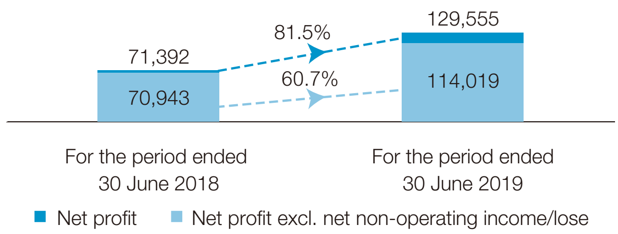
FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2019 RMB'000	2018 RMB'000	Variance %
Revenue	**437,783**	275,007	59.2%
Gross Profit	**304,579**	190,809	59.6%
Net Profit for the Period	**129,555**	71,392	81.5%
Net Profit attributable to equity shareholders of the Company	**129,555**	71,392	81.5%
Earnings per share			
Basic	**RMB0.12**	RMB0.07	
Diluted	**RMB0.12**	RMB0.07	

Growth Rate



Growth of Net profit



CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

During the first half of 2019, China's medical system reformation was being implemented on an on-going basis. As market demand remained high, AK Medical grasped the market opportunity and its businesses grew rapidly by leveraging on its various product lines and high-quality products. As of 30 June 2019, the Group achieved a sales revenue of RMB437.8 million, representing an increase of 59.2% as compared with that of the corresponding period of last year. Net profit of RMB129.6 million was achieved, representing an increase of 81.5% as compared with that of the corresponding period of last year.

As the first company that has commercialized the application of 3D-printing technology in orthopedic joint and spine implants, AK Medical Holdings Limited engages in the design, development, manufacture and marketing of orthopedic implants, leading the market in China.

During the first half of 2019, the Company has made good progress on the operations of 3D-printed products and the regular hip and knee joint products. This has not only improved our overall profitability, but also expanded the influence of "AK" brand in the market, which further consolidated our leading position in the orthopedic implants market. At the same time, the Company made breakthrough in its 3D-printing spine business. Since the product launched in 2016, the 3D-printed spine products have been introduced to over 150 hospitals, of which over 90% were Class III hospitals, primarily due to the fact that our products have been providing better clinical solutions for relatively complex fusion surgery.

In respect of the operations of regular hip and knee products, during the first half of 2019, we continued to provide our customers and patients with a full range of orthopedic joint products, including hip and knee implants and instruments for primary, complex, revision and reconstruction surgeries. The rapid growth in the sales revenue from regular hip and knee products was attributable to our deeply-rooted product lines, superior product quality and extensive sales channels.

During the first half of 2019, AK Medical has achieved fruitful results in the R&D. Beijing AK Medical, a subsidiary of the Group, obtained two new Class III registration certificates for medical devices approved by NMPA, namely bio-type femoral stem and bio-acetabular component. As of 30 June 2019, AK Medical Beijing owned a total of 31 registration certificates for Class III medical devices as approved by NMPA.

Looking forward, AK Medical has long been upholding the vision of becoming a respectful world-class orthopedic company and striving for a better living quality of patients. During the first half of 2019, we developed a new three-year strategy. In the future, we will consider 3D-printing technology as the driver of the business, and develop multiple orthopedic business lines. Through the management and enhancement of marketing system, R&D system, manufacturing system, risk management and internal control system and human resources and organization system, the Group will strive to establish an international brand image, so as to promote the sustainable development of AK Medical, as well as deliver returns to our shareholders, customers and the society.

BUSINESS OVERVIEW AND OUTLOOK

During the first half of 2019, the government of the People's Republic of China ("PRC" or "China") (for the purpose of this interim report, excluding the Hong Kong Special Administrative Region of the PRC, The Macao Special Administrative Region of the PRC and Taiwan) continued to push forward its medical system reform. On 29 May 2019, the Eighth Meeting of the Central Committee for Comprehensive Deepening Reform passed the "Reform Plan of High-value Medical Consumables Governance (關於治理高值醫用耗材的改革方案)", which proposed to rationalize the pricing mechanism of high-value medical consumables and improve the process of supervision and management. After the meeting, provinces and municipalities responded positively and launched various kinds of exploration and reform plans for tender and procurement with different ideas proposed. During the same period, the National Healthcare Security Administration officially launched the pilot program of the Diagnosis Related Group (DRG). A total of 30 cities, including Beijing and Shanghai, participated in the pilot program, which will be promoted in three years, implementing relatively unified classification rules for DRG and establishing a payment system for DRG.

Although local governments at all levels have promulgated a series of policies on the governance of high-value medical consumables, unified rules to promote the implementation have not been set out, thus there has been no material impact on the operation of orthopedic companies. In the first half of 2019, market demand remained strong. By leveraging on its diversified product lines and excellent product quality, the Group actively explored the market with 3D-printing technology and international clinical education resources, grasped market opportunities and attained rapid growth in the business.

As at 30 June 2019, the Group recorded sales revenue of RMB437.8 million and a net profit of RMB129.6 million, representing an increase of 59.2% and 81.5% as compared to the same period of last year respectively.

3D-printed Products Business

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

As at 30 June 2019, we had a total of three Class III for 3D-printing registration certificates approved by the NMPA, namely 3D-printed acetabular cup and augment, 3D-printed spinal interbody cages and 3D-printed artificial vertebral bodies. We are the first orthopedic company which launched 3D-printed metal implants approved by NMPA in the PRC market.

As at 30 June 2019, our 3D-printed products achieved sales revenue of RMB51.3 million, representing an increase of 88.2% compared to the same period of last year. After more than 3 years of market nurturing and promotion and publishing related academic research results on 3D-printed products in scientific journals, the concept and products of 3D-printing have become increasingly recognized by surgeons.

In the first half of 2019, 3D-printed spine business also made a breakthrough. Since the launch of the product line in 2016, 3D-printed spine products have been adopted by more than 150 hospitals, over 90% of which are Class III hospitals, which is mainly due to the fact that our products have been providing better clinical solutions for relatively complex fusion surgery.

Hip and Knee Products Business

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

In the first half of 2019, we continued to provide our customers and patients with a full range of orthopedic joint products, including hip and knee implants and instruments for primary, complex, revision and reconstruction surgeries.

As of 30 June 2019, our hip and knee products delivered RMB366.3 million in revenue, representing a year-on-year increase of 55.7%, far surpassing the growth rate of the industry. Such rapid growth in the sales revenue from hip and knee products was attributable to our widely-covered product lines, superior product quality and extensive sales channels. In addition, besides of the mass market we covered expanding rapidly, with the development of our product technology, we can also benefit from the trend of import substitution.

In the first half of 2019, we also initiated instruments upgrade plan for certain products and improved the design and quality for instruments of several key products to provide surgeons with better experiences during the operations.

Research and Development

In the first half of 2019, Beijing AK Medical, a subsidiary of the Group, obtained two new Class III registration certificates approved by NMPA, namely bio-type femoral stem and bio-acetabular component. As of 30 June 2019, AK Medical brand owned 31 registration certificates for Class III medical devices approved by NMPA. During the Six months ended 30 June 2019 ("Reporting Period"), ITI Medical, a subsidiary of the Group, obtained two registration certificates for Class III medical devices approved by NMPA, namely cemented knee prothesis and uncemented hip prothesis. ITI Medical brand has now owned four Class III registration certificates for hip and knee joint implant, and has built the foundation for products launch and sales.

In the first half of 2019, we assisted China Association for Medical Devices Industry in formulating a series of industry standard. We took the lead to draft "Finite Element Analysis on 3D-printed Technology Implants" and "Appraisal Method and Judgment Indicator of Quality Consistency of 3D-printed metal implants", laying a foundation for quality consistency assessment of the 3D-printed medical devices and promoting the rapid development of customized medical devices. We assisted the Quality Supervision and Inspection Center of Tianjin Medical Device in revising its medical device standards, and obtained subsidies from the local government.

During the first half of 2019, the Company continued to undertake two key projects of the Beijing Science and Technology Commission and cooperated with several well-known provincial Class III A hospitals to jointly work on the R&D and design of the products.

In the first half of 2019, we have newly acquired 9 authorized invention patents, 57 utility model patents, and submitted 30 domestic invention patents and 7 PCT patents.

Sales and Operation

In the first half of 2019, with the marketing events such as international roadshows, discovery tours of artificial joints and face-to-face interaction with masters, the AK-JRI international resource coordination platform has started to show its effect. The Company gradually groped out an efficient way leveraging on international resources that are suitable for AK Medical, which played an important role in market development.

During the first half of 2019, the Company continued to expand its coverage in hospitals, and made a breakthrough in several provincial Class III A hospitals by applying 3D-printing technology and 3D ACT platform as solutions to complicated disease. With the increase in the volume of sales in hospitals, the Company has further established its brand image.

To manage the function of sales and marketing, the Company set up a sales management committee to monitor the performance targets weekly and coordinate among departments of sales, marketing and supply chain timely, set up independent human resource committee to enhance the building of sales and marketing team more effectively, established a training system which covers new staff training, promotion training and new product training, and set up an in-house lecturer team, committing to build a more professional sales and marketing team.

In terms of operation, the Company proactively constructed Information Technology system in the first half of 2019 to further upgrade Physician and Technician Interaction Platform ("PTIP") to provide 3D visual and interactive surgical planning tools for orthopaedic surgeons, implemented an Office Automation ("OA") system to manage the routine approval process, implemented the SAP process management module to strengthen the management of production process and cost. While strengthening internal control, these information measures enhanced the management and operation efficiency of the Company.

Outlook

The Group has long been upholding the vision of becoming a respectful world-class orthopedic company and striving for a better living quality of patients. During the first half of 2019, we stipulated a new three-year strategy. We consider 3D-printing technology as the driver of the business, and develop multiple orthopedic business lines. Through the management and enhancement of marketing system, R&D system, manufacturing system, risk management and internal control system and human resources and organization system, the Group will strive to establish an international brand image.

FINANCIAL REVIEW

Overview

Faced with a challenging market for medical devices, the Group has benefited from its leading 3D-printing technology and continuous diversification of product lines, and leveraging on opportunities brought by import substitution, the Company expands the market proactively. Hence, for the six months ended 30 June 2019, the Company kept its rapid growth, maintained its leading position in the Chinese joint implants market in terms of sales, and recorded a further increase in market share. We firmly believe that we will grow our business even further and continue to improve the quality of life for 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 interim report and should be read in conjunction with them.

Revenue

	Six months ended 30 June		
	2019	2018	Variance
	RMB'000	RMB'000	%
Hip replacement implants[(1)]	**255,507**	162,425	57.3%
Knee replacement implants	**110,830**	72,890	52.1%
3D-printed products[(2)]	**51,253**	27,240	88.2%
Third party orthopedic products	**7,250**	6,043	20.0%
Others[(3)]	**12,943**	6,409	102.0%
Total	**437,783**	275,007	59.2%

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 RMB437.8 million for the six months ended 30 June 2019, representing an increase of 59.2% as compared with RMB275.0 million for the six months ended 30 June 2018. The increase was mainly attributable to the established brand image of the Company by virtue of 3D-printing technology and 3D ACT platform and the Company's active market development with international clinical education resources, hence effectively improved the sales of 3D-printed products and regular hip and knee products.

Hip and Knee Implants Products

Our hip and knee implants products include hip implants and knee implants. Our hip implants recorded revenue of RMB255.5 million for the six months ended 30 June 2019, representing an increase of 57.3% as compared with RMB162.4 million for the six months ended 30 June 2018. Such increase was partly attributable to the fact that the Company tapped into more hospitals by 3D-printing technology and its product performance was recognized by more hospitals and distributors, which enabled the sales growth of regular hip implants. Meanwhile, as a higher sales proportion in the product portfolio came from the new products we launched during the previous period, the average unit selling price of regular hip implants grew accordingly in 2019, which also boosted the revenue growth of regular hip implants.

The knee implants recorded revenue of RMB110.8 million for the six months ended 30 June 2019, representing an increase of 52.1% as compared with RMB72.9 million for the six months ended 30 June 2018. Such increase was mainly attributable to the increase of sales driven by the Company's provision of cost-effective knee implants products to the market.

3D-printed Products

Our 3D-printed products mainly include 3D-printed hip implants, 3D-printed artificial vertebral bodies and spinal interbody cages. Our 3D-printed products recorded revenue of RMB51.3 million for the six months ended 30 June 2019, representing an increase of 88.2% as compared with RMB27.2 million for the six months ended 30 June 2018. Such increase was mainly due to the fact that our 3D-printed products have been highly recognized by the market for their technological innovation and functional superiority and hence delivered such sales growth.

Third Party Orthopedic Products

To enrich our product portfolio, we also distributed the orthopedic products produced by third parties. For the six months ended 30 June 2019 and the six months ended 30 June 2018, our revenue from distributing third party orthopedic products amounted to RMB7.3 million and RMB6.0 million, representing 1.7% and 2.2% of our revenue, respectively. The proportion of orthopedic products produced by third parties to total revenue declined.

Domestic and Overseas Sales

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

	Six months ended 30 June		
	2019	2018	Variance
	RMB'000	RMB'000	%
– China	**375,749**	244,263	53.8%
– United Kingdom	**28,122**	14,994	87.6%
– Other countries	**33,912**	15,750	115.3%
Total	**437,783**	275,007	59.2%

The Group manages its business through geographical branches operated by entities. The Group has identified two reportable segments in a manner consistent with the way in which data is reported internally to the Group's top executives for resource allocation and performance assessment. No operating segments are consolidated to form the following reportable segments:

	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Six months ended 30 June						
Revenue from external customers	**390,825**	250,180	**46,958**	24,827	**437,783**	275,007
Inter-segment revenue	**–**	–	**21,378**	10,377	**21,378**	10,377
Revenue of reportable segments	**390,825**	250,180	**68,336**	35,204	**459,161**	285,384
Profit of reportable segments	**142,516**	86,849	**13,674**	2,452	**156,190**	89,301
As at June 30/December 31						
Assets of reportable segments	**1,057,326**	889,830	**185,331**	161,956	**1,242,657**	1,051,786
Liabilities of reportable segments	**274,195**	216,033	**25,199**	15,606	**299,394**	231,639

The measurement method used for the profit of reportable segments is "profit before taxation of reportable segment".

Cost of Sales

For the six months ended 30 June 2019, our cost of sales was RMB133.2 million, representing an increase of 58.2% as compared with RMB84.2 million for the six months ended 30 June 2018. The increase in cost of sales was primarily due to an increase in sales volume of our regular products and 3D-printed products.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. Our gross profit grew by 59.6% to RMB304.6 million for the six months ended 30 June 2019 from RMB190.8 million for the six months ended 30 June 2018. 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 69.6% for the six months ended 30 June 2019, up from 69.4% for the six months ended 30 June 2018, which was primarily due to the increased proportion of products such as A3 knee products and 3D-printed products with a relatively high gross margin in the product portfolio.

Other Income

The Group's other income for the six months ended 30 June 2019 was RMB15.5 million, while its other income for the six months ended 30 June 2018 was RMB0.4 million. The increase in other income was primarily due to the insurance compensation received by JRI.

Selling and Distribution Expenses

Selling and distribution expenses were RMB84.4 million for the six months ended 30 June 2019, representing an increase of 68.2% as compared with RMB50.2 million for the six months ended 30 June 2018. The increase was primarily due to an increase in expenses incurred by external services, clinical education events and industry conferences; an increase in salary, benefits, transportation fees and travel expense as a result of an increased number of sales personnel; and an increase in various expenses such as the corresponding logistic expenses alongside with the expansion of business scale.

General and Administrative Expenses

General and administrative expenses amounted to RMB47.6 million for the six months ended 30 June 2019, representing an increase of 33.5% as compared with RMB35.6 million for the six months ended 30 June 2018. The increase was mainly due to the increase of the share option expense and labor cost caused by the increase of management personnel, as well as amortisation of intangible assets recognised from merging JRI.

Research and Development Expenses

Research and development expenses for the six months ended 30 June 2019 was RMB35.1 million, representing an increase of 79.6% as compared with RMB19.6 million for the six months ended 30 June 2018, which was mainly due to the increase of service fee from external corporative R&D institutions, testing fee, as well as the increase of labor cost such as R&D staff bonus.

Net Finance Income

Net finance income was RMB3.4 million for the six months ended 30 June 2019, representing an increase of RMB1.3 million from RMB2.1 million for the six months ended 30 June 2018. Such increase was primarily attributable to the increase in capital held by the Company in the first half year of 2019 as compared with the first half year of 2018, which generated extra interest income.

Income Tax

Income tax was RMB26.9 million for the six months ended 30 June 2019, representing an increase of 62.4% as compared with RMB16.6 million for the six months ended 30 June 2018. Such increase was primarily due to an increase in profit before tax resulting from our expansion of operations.

Liquidity and Financial Resources

As at 30 June 2019, we had cash and cash equivalents of RMB462.3 million, as compared with RMB421.1 million as at 31 December 2018. 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.

Current Assets

We had current assets of RMB952.4 million as at 30 June 2019, representing an increase of RMB127.4 million as compared with RMB825.0 million as of 31 December 2018. Such increase primarily represents the proceeds from the operations of the Company.

Foreign Exchange Exposure

Our principal business is located in China, and we are exposed to foreign currency risks, primarily including account receivables, account 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 relates generating from overseas sales and purchases. The currencies giving rise to this risk are primarily US$ and Euro. For the six months ended 30 June 2019, the Group recorded an exchange loss of RMB0.04 million, as compared to an exchange gain of RMB0.4 million for the six months ended 30 June 2018. So far, the Group has not had any hedging arrangements to manage foreign exchange risks but has been actively monitoring and overseeing its foreign exchange risks.

Capital Expenditure

For the six months ended 30 June 2019, the Group's total capital expenditure amounted to approximately RMB63.8 million, which was primarily used in (i) construction of factories; (ii) acquiring equipment, machinery, and software for manufacturing and R&D activities.

CHARGE OF ASSETS/PLEDGE OF ASSETS

As of 30 June 2019, we did not have any charge of assets or pledge of assets.

BORROWINGS

As of 30 June 2019, we did not have any outstanding bank loans and other borrowings. Accordingly, no gearing ratio is presented.

CONTINGENT LIABILITIES

As of 30 June 2019, we did not have any material contingent liabilities (as of 31 December 2018: nil).

SIGNIFICANT INVESTMENTS

As of 30 June 2019, we did not hold any other significant investments in the equity interests of any other companies.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As of 30 June 2019, we did not have other plans for material investments and capital assets, except for the construction of Changzhou Facilities as disclosed in the Prospectus.

EMPLOYEE AND REMUNERATION POLICY

As of 30 June 2019, the Group had 616 employees (30 June 2018: 539 employees). Total staff remuneration expenses including Directors' remuneration for the six months ended 30 June 2019 amounted to RMB65.6 million (for the six months ended 30 June 2018: RMB41.3 million).

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

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 Prospectus of the Company dated 7 December 2017 under the section headed "Future Plans and Use of Proceeds".

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 30 June 2019, 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	Actual use of proceeds up to 30 June 2019	Balance as at 30 June 2019
		(in millions of Hong Kong dollars)		
Construction of Changzhou Facilities and upgrade our existing facilities	41%	195	150	45
Development and upgrade of our 3D-printed products and PTIP, funding the R&D of 3D-printed products	21%	100	52	48
For other R&D activities	15%	73	43	30
Funding potential acquisitions and developing strategic alliances	15%	73	73	–
For general corporate purposes	8%	36	36	–
Total	100%	477	354	123

INDEPENDENT AUDITOR'S REPORT

Review report to the board of directors of AK Medical Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report of AK Medical Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 15 to 35, which comprises the consolidated statements of financial position as of 30 June 2019 and the related consolidated statements of profit or loss and other comprehensive income, and the consolidated statements of changes in equity and the condensed consolidated cash flow statements for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim financial reporting, issued by International Accounting Standards Board ("IASB"). The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim financial reporting.

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

26 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019 – unaudited

	Note	Six months ended 30 June 2019 RMB'000	2018 (Note) RMB'000
Revenue	3	**437,783**	275,007
Cost of sales		**(133,204)**	(84,198)
Gross profit		**304,579**	190,809
Other income		**15,536**	449
Selling and distribution expenses		**(84,407)**	(50,192)
General and administrative expenses		**(47,560)**	(35,634)
Research and development expenses		**(35,134)**	(19,565)
Operating profit		**153,014**	85,867
Net finance income	5	**3,435**	2,086
Profit before taxation	4	**156,449**	87,953
Income tax	6	**(26,894)**	(16,561)
Profit for the period		**129,555**	71,392
Profit attributable to equity shareholders of the Company		**129,555**	71,392
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		**756**	(6,875)
Other comprehensive income, net of tax		**756**	(6,875)
Total comprehensive income		**130,311**	64,517
Total comprehensive income attributable to equity shareholders of the Company		**130,311**	64,517
Earnings per share			
Basic	7(a)	**RMB0.12**	RMB0.07
Diluted	7(b)	**RMB0.12**	RMB0.07

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 – unaudited

	Note	30 June 2019 RMB'000	31 December 2018 (Note) RMB'000
Non-current assets			
Property, plant and equipment	8	**215,358**	165,547
Right-of-use assets	9	**34,224**	–
Intangible assets		**35,820**	38,148
Goodwill		**27,938**	27,826
Deferred tax assets		**13,981**	12,908
Prepayments for property, plant and equipment		**4,577**	23,382
		331,898	267,811
Current assets			
Inventories	10	**192,755**	166,401
Trade receivables	11	**244,072**	184,204
Deposits, prepayments and other receivables		**17,068**	17,668
Other financial assets	15	**36,208**	35,662
Cash and cash equivalents	12	**462,342**	421,054
		952,445	824,989
Current liabilities			
Trade payables	13	**68,103**	55,869
Contract liabilities		**40,597**	52,895
Accruals and other payables		**156,009**	103,851
Lease liabilities		**6,035**	–
Obligations under finance leases		**–**	599
Current taxation		**23,988**	15,272
		294,732	228,486
Net current assets		**657,713**	596,503
Total assets less current liabilities		**989,611**	864,314

	Note	30 June 2019 RMB'000	31 December 2018 (Note) RMB'000
Non-current liabilities			
Deferred income		13,511	10,522
Lease liabilities		6,637	–
Obligations under finance leases		–	347
Deferred tax liabilities		15,467	11,687
		35,615	22,556
Net assets		953,996	841,758
Capital and reserves			
Share capital	14(a)	8,804	8,779
Reserves		945,192	832,979
Total equity attributable to equity shareholders of the Company		953,996	841,758
Total Equity		953,996	841,758

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 – unaudited

	Note	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Exchange reserve RMB'000	Total equity RMB'000
Balance at 1 January 2018		8,450	411,196	–	55,174	742	190,762	1,036	667,360
Total comprehensive income for the period		–	–	–	–	–	71,392	(6,875)	64,517
Issuance of new shares		304	52,844	–	–	–	–	–	53,148
Equity settled share-based transactions		–	–	–	–	3,041	–	–	3,041
Shares issued under share option scheme	14(c)	2	274	–	–	–	–	–	276
Dividends approved in respect of the previous years	14(b)	–	(30,622)	–	–	–	–	–	(30,622)
Balance at 30 June 2018		8,756	433,692	–	55,174	3,783	262,154	(5,839)	757,720
Balance at 31 December 2018 (Note)		8,779	435,440	(3,439)	55,174	5,723	335,698	4,383	841,758
Impact on initial application of IFRS 16	2(c)	–	–	–	–	–	(971)	–	(971)
Balance at 1 January 2019		8,779	435,440	(3,439)	55,174	5,723	334,727	4,383	840,787
Adjusted balance at 1 January 2019									
Total comprehensive income for the period		–	–	–	–	–	129,555	756	130,311
Equity settled share-based transactions	14(c)	–	–	3,439	–	8,209	–	–	11,648
Shares issued under share option scheme	14(c)	25	3,349	–	–	–	–	–	3,374
Dividends approved in respect of the previous years	14(b)	–	(32,124)	–	–	–	–	–	(32,124)
Balance at 30 June 2019		8,804	406,665	–	55,174	13,932	464,282	5,139	953,996

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019 – unaudited

	Note	Six months ended 30 June 2019 RMB'000	2018 (Note) RMB'000
Operating activities			
Cash generated from operations		112,544	83,159
Tax paid		(15,647)	(8,538)
Net cash generated from operating activities		96,897	74,621
Investing activities			
Acquisition of property, plant and equipment		(63,571)	(19,733)
Acquisition of a subsidiary		–	(123,799)
Acquisition of financial assets		–	(35,000)
Other cash flows arising from investing activities		6,501	1,978
Net cash used in investing activities		(57,070)	(176,554)
Financing activities			
Capital injection		–	53,148
Cash payment relating to expenses of issuing new shares		–	(34,447)
Capital element of lease rentals paid		(2,636)	(150)
Interest element of lease rentals paid		(359)	(18)
Proceeds from shares issued under share option scheme		3,374	276
Other cash flows arising from financing activities		237	1,672
Net cash generated from financing activities		616	20,481
Net increase/(decrease) in cash and cash equivalents		40,443	(81,452)
Cash and cash equivalents at 1 January		421,054	517,482
Effect of movements in exchange rates on cash hold		845	(5,603)
Cash and cash equivalents at 30 June		462,342	430,427

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The accompanying notes form part of these financial statements.

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, Interim financial reporting, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 26 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs.

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

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2018 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 March 2019.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, Leases, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, Leases

IFRS 16 replaces IAS 17, Leases, and the related interpretations, IFRIC 4, Determining whether an arrangement contains a lease, SIC 15, Operating leases – incentives, and SIC 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

2 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 16, Leases (continued)

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

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 16(b).

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

2 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 16, Leases (continued)

(a) Changes in the accounting policies (continued)

(ii) Lessee accounting (continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value;

– right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value; and

– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

2 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 16, Leases (continued)

(c) Transitional impact

At the date of transition to IFRS 16, the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The incremental borrowing rates used for determination of the present value of the remaining lease payments ranged from 4.75% to 5%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 16(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	At 1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	19,848
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(4,148)
	15,700
Less: total future interest expenses	(1,393)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	14,307
Add: finance lease liabilities recognised as at 31 December 2018	946
Total lease liabilities recognised at 1 January 2019	15,253

2 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 16, Leases (continued)

(c) Transitional impact (continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	Capitalisation of operating lease contracts	Carrying amount at 1 January 2019
	RMB'000	RMB'000	RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Property, plant and equipment	165,547	(1,784)	163,763
Deferred tax assets	12,908	190	13,098
Right-of-use assets	–	15,736	15,736
Total non-current assets	267,811	14,142	281,953
Deposits, prepayments and other receivables	17,668	(806)	16,862
Total current assets	824,989	(806)	824,183
Lease liabilities (current)	–	6,304	6,304
Obligations under finance leases (current)	599	(599)	–
Current liabilities	228,486	5,705	234,191
Net current assets	596,503	(6,511)	589,992
Total assets less current liabilities	864,314	7,631	871,945
Lease liabilities (non-current)	–	8,949	8,949
Obligations under finance leases (non-current)	347	(347)	–
Total non-current liabilities	22,556	8,602	31,158
Net assets	841,758	(971)	840,787

2 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 16, Leases (continued)

(c) Transitional impact (continued)

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

	At 30 June 2019 RMB'000	At 1 January 2019 RMB'000
Included in "Right-of-use assets":		
Land use right	21,369	–
Properties leased for own use, carried at depreciated cost	10,392	12,753
Others	2,463	2,983
	34,224	15,736

(d) Transitional impact

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	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	6,035	6,666	6,304	6,938
After 1 year but within 2 years	2,621	3,000	3,743	4,290
After 2 years but within 5 years	4,016	4,326	5,206	5,689
	6,637	7,326	8,949	9,979
	12,672	13,992	15,253	16,917
Less: total future interest expenses		(1,320)		(1,664)
Present value of lease liabilities		12,672		15,253

(e) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss and other comprehensive income, as compared to the results if IAS 17 had been applied during the year.

2 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 16, Leases (continued)

(e) Impact on the financial result, segment results and cash flows of the Group (continued)

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under IFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16	**Add back: IFRS 16 depreciation and interest expense**	**Deduct: Estimated amounts related to operating lease as if under IAS 17 (note 1)**	**Hypothetical amounts for 2019 as if under IAS 17**	Compared to amounts reported for 2018 under IAS 17
	(A)	**(B)**	**(C)**	**(D=A+B+C)**	
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:					
Profit from operations	**153,014**	**2,982**	**(3,445)**	**152,551**	85,867
Finance costs	**3,435**	**359**	**–**	**3,794**	2,086
Profit before taxation	**156,449**	**3,341**	**(3,445)**	**156,345**	87,953
Income tax	**(26,894)**	**525**	**(533)**	**(26,902)**	(16,561)
Profit for the period	**129,555**	**3,866**	**(3,978)**	**129,443**	71,392
Reportable segment profit for the six months ended 30 June 2019 (note 3(b)) impacted by the adoption of IFRS 16:					
– Orthopedic implants – China	**142,516**	**1,431**	**(1,563)**	**142,384**	86,849
– Orthopedic implants – United Kingdom	**13,674**	**1,910**	**(1,882)**	**13,702**	2,452
– Total	**156,190**	**3,341**	**(3,445)**	**156,086**	89,301

2 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 16, Leases (continued)

(e) Impact on the financial result, segment results and cash flows of the Group (continued)

	2019			2018
	Amounts reported under IFRS 16	Estimated amounts related to operating leases as if under IAS 17 (notes 1 & 2)	Hypothetical amounts for 2019 as if under IAS 17	Compared to amounts reported under IAS 17
	(A)	(B)	(C=A+B)	
	RMB'000	RMB'000	RMB'000	RMB'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	112,544	(2,659)	109,885	83,159
Net cash generated from operating activities	96,897	(2,659)	94,238	74,621
Capital element of lease rentals paid	(2,636)	2,336	(300)	(150)
Interest element of lease rentals paid	(359)	323	(36)	(18)
Net cash generated from financing activities	616	2,659	3,275	20,481

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

3 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Hip replacement implants	**255,507**	162,425
– Knee replacement implants	**110,830**	72,890
– 3D-printed product	**51,253**	27,240
– Third party orthopedic products	**7,250**	6,043
– Others	**12,943**	6,409
	437,783	275,007
Disaggregated by geographical location of customers		
– Mainland China	**375,749**	244,263
– United Kingdom	**28,122**	14,994
– Other countries	**33,912**	15,750
	437,783	275,007

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

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue during the six months ended 30 June 2018 and 2019.

3 REVENUE AND SEGMENT INFORMATION (continued)

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

The Group manages its businesses by geography location in which the entities operate. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments. No operating segments have been aggregated to form the following reportable segments:

	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
For the six months ended 30 June	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**390,825**	250,180	**46,958**	24,827	**437,783**	275,007
Inter-segment revenue	**–**	–	**21,378**	10,377	**21,378**	10,377
Reportable segment revenue	**390,825**	250,180	**68,336**	35,204	**459,161**	285,384
Reportable segment profit	**142,516**	86,849	**13,674**	2,452	**156,190**	89,301
As at 30 June/31 December						
Reportable segment assets	**1,057,326**	889,830	**185,331**	161,956	**1,242,657**	1,051,786
Reportable segment liabilities	**274,195**	216,033	**25,199**	15,606	**299,394**	231,639

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

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Reportable segment profit	**156,190**	89,301
Elimination of inter-segment profit/(loss)	**259**	(1,348)
Consolidated profit before taxation	**156,449**	87,953

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Amortisation of intangible assets	**3,404**	900
Depreciation of property, plant and equipment	**8,533**	6,795
Depreciation of right-of-use assets	**2,982**	–
Impairment losses of trade and other receivables	**819**	593
Cost of inventories	**137,696**	92,609

5 NET FINANCE INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Interest income from bank deposits	**3,838**	1,707
Foreign currency exchange (loss)/gain	**(44)**	379
Interest on lease liabilities	**(359)**	–
	3,435	2,086

6 INCOME TAX

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current tax – the PRC Enterprise Income Tax	**27,043**	16,126
Current tax – Overseas	**2,774**	466
Deferred tax	**(2,923)**	(31)
	26,894	16,561

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

The Group has no assessable profit in Hong Kong during the reporting period and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate during the Relevant Periods is 16.5%. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

6 INCOME TAX (continued)

Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2019 at the rates of taxation prevailing in the countries in which the Group operates. The Company's subsidiaries operate mainly in the PRC and the applicable statutory enterprise income tax rate is 25% (for the six months ended 30 June 2018: 25%). Taxation for a subsidiary in the PRC was calculated at a preferential tax rate of 15% (for the six months ended 30 June 2018: 15%). Taxation for subsidiaries operating mainly in the England and Wales was calculated at statutory enterprise income tax rate of 19% (for the six months ended 30 June 2018: 19%).

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB129,555,000 (six months ended 30 June 2018: RMB71,392,000) and the weighted average of 1,037,500,000 ordinary shares (2018: 1,036,878,000 shares) in issue during the reporting period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB129,555,000 (six months ended 30 June 2018: RMB71,392,000) and the weighted average number of ordinary shares of 1,049,306,000 (2018: 1,041,570,000 shares).

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with a cost of RMB81,678,000 (six months ended 30 June 2018: RMB31,398,000). Items of property, plant and equipment with a net book value RMB124,000 (2018: RMB197,000) were disposed of during the six months ended 30 June 2019 resulting in a loss on disposal of RMB60,000 (2018: RMB52,000).

9 RIGHT-OF-USE ASSETS

As discussed in note 2, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. In addition, the depreciated carrying amount of the finance leased assets which were previously included in property, plant and equipment is also identified as right-of-use assets. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 2.

During the six months ended 30 June 2019, the additions to right-of-use assets of RMB21,369,000 is prepayment for land use right with a lease term of 50 years.

10 INVENTORIES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Raw materials	**42,873**	28,891
Work in progress	**34,385**	32,251
Finished goods	**115,497**	105,259
	192,755	166,401

11 TRADE RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Current to 3 months	**148,641**	105,243
3 to 6 months	**18,210**	14,274
6 to 12 months	**15,686**	14,906
Over 12 months	**13,850**	5,779
Trade receivables, net of loss allowance	**196,387**	140,202
Bills receivables	**47,685**	44,002
Bills and trade receivables, net of allowance	**244,072**	184,204

The credit terms agreed with commercial customers were normally ranged from 1 month to 6 months from the date of billing. Balances from hospitals customers are settled within the period set by the hospitals' payment policy, within 3 to 12 months. No interest are charged on the trade receivables.

12 CASH AND CASH EQUIVALENTS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Cash at banks	**462,306**	420,964
Cash on hand	**36**	90
Cash and cash equivalents in the statement of financial position and cash flow statement	**462,342**	421,054

13 TRADE PAYABLES

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Within 3 months	**59,620**	48,301
3 to 6 months	**6,624**	4,238
6 to 12 months	**721**	1,434
More than 1 year		
1 year to 2 years	**492**	922
Over 2 years	**646**	974
	68,103	55,869

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

14 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2019		2018	
	No. of shares	**Amount RMB'000**	No. of shares	Amount RMB'000
Authorised-ordinary shares of HK$0.01 each:				
At 1 January and 30 June	**20,000,000,000**	**168,981**	20,000,000,000	168,981
Ordinary shares, issued and fully paid:				
At 1 January	**1,040,475,000**	**8,779**	1,000,000,000	8,450
Issuance of new shares	**–**	**–**	37,500,000	304
Shares issued under share option scheme (Note 14(c))	**2,870,000**	**25**	250,000	2
At 30 June	**1,043,345,000**	**8,804**	1,037,750,000	8,756

(b) Dividends

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

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of HK$3.5 cents per ordinary share (2018: HK$3.5 cents per ordinary share)	**32,124**	30,622

(c) Equity settled share-based transactions

On 17 November 2017, 36,000,000 share options were granted for nil consideration to employees of the Company under the Company's employee share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest in four equal batches and the grantees shall be entitled to exercise, on the first business day immediately following 1 May 2018 until 16 November 2027, if certain performance conditions are met. The exercise price is HK$1.34.

2,870,000 options were exercised during the six months ended 30 June 2019 (2018: 250,000).

400,000 options were lapsed during the six months ended 30 June 2019 (2018: 500,000).

During the six months ended 30 June 2019, the management decided not to demand the grantee to return any entitlement or interest obtained from the exercise of the options granted if the grantee of share option terminates its service contract with the Company in the vesting period. As such, shares issued as a result of exercise of share options have not been presented as treasury shares.

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 30 June 2019 categorised into		
	Fair value at 30 June 2019 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Financial assets:				
Other financial assets-investments in structured deposit at fair value through profit or loss	36,208	–	36,208	–

There were no changes in valuation techniques in 2019.

16 COMMITMENTS

(a) Capital commitments of the Group in respect of construction in progress outstanding as at 31 December 2018, and 30 June 2019 not provided for were as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Contracted for	**29,543**	14,851
Authorised but not contracted for	**30,183**	92,574
	59,726	107,425

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

	At 31 December 2018 RMB'000
Within one year	9,230
After 1 year but within 5 years	10,618
	19,848

The Group is the lessee in respect of a number of properties and items of motor vehicles held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.

17 MATERIAL RELATED PARTY TRANSACTIONS

There is no material related party transaction in the six months ended 30 June 2019 and 2018, except for key management personnel remuneration. No material amounts were outstanding as at 30 June 2019 and 31 December 2018.

18 EVENTS AFTER THE REPORTING PERIOD

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

19 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

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

As at 30 June 2019, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

(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)	56.08%
	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)	56.08%
Mr. Zhang Chaoyang (Note 5)	Interest of controlled corporation	65,818,500 (L)	6.31%
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 30 June 2019.

(3) Ximalaya Limited, which is wholly owned by Rainbow Holdings Limited, holds 585,157,500 shares in the Company. Rainbow Holdings Limited is wholly owned by Trident Trust Company (HK) Limited, which is the trustee of LZY Trust. Mr. Li Zhijiang is the settlor of LZY Trust and can control how Trident Trust Company (HK) Limited as the trustee of LZY Trust exercises its discretion over LZY Trust. Accordingly, Mr. Li Zhijiang is deem to be interested in Ximalaya Limited's interest in the shares of the Company pursuant to the SFO. In addition, Mr. Li Zhijiang is the husband of Ms. Zhang Bin. Therefore, Mr. Li Zhijiang is deemed to be interested in Ms. Zhang Bin's interest in the shares of the Company pursuant to the SFO.

(4) Ms. Zhang Bin, being the sole director of Summer Limited, is the sole shareholder of Summer Limited which holds 10,125,000 shares. Therefore, Ms. Zhang Bin is deemed to be interested in Summer Limited's interest in the 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 shares of the Company pursuant to the SFO. In addition, Ms. Zhao directly holds options to subscribe for 3,930,000 shares of the Company pursuant to the Pre-IPO Share Option Scheme and 70,000 shares in the Company, pursuant to the exercise of options on 2 January 2019 granted under the Pre-IPO Share Option Scheme.

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

As at 30 June 2019, 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 Interest of spouse	585,157,500 (L) 10,125,000 (L)	56.08% 0.97%
Ms. Zhang Bin	Interest of controlled corporation Interest of spouse	10,125,000 (L) 585,157,500 (L)	0.97% 56.08%
Mr. Zhang Chaoyang	Interest of controlled corporation	65,818,500 (L)	6.31%
Ximalaya Limited	Beneficial owner	585,157,500 (L)	56.08%
Suntop Limited	Beneficial owner	65,818,500 (L)	6.31%
Trident Trust Company (HK) Limited (Note 3)	Trustee of a discretionary trust	585,157,500 (L)	56.08%
Rainbow Holdings Limited (Note 3)	Interest in a controlled corporation	585,157,500 (L)	56.08%
OrbiMed Advisors II Limited (Note 4)	Interest in a controlled corporation	75,000,000 (L)	7.19%
OrbiMed Asia GP II, L.P. (Note 4)	Interest in a controlled corporation	75,000,000 (L)	7.19%
OrbiMed Asia Partners II L.P. (Note 4)	Beneficial owner	75,000,000 (L)	7.19%
APG Investments Asia Limited (Note 5)	Investment manager	52,588,000 (L)	5.04%
APG Asset Management N.V. (Note 5)	Investment manager	52,588,000 (L)	5.04%
APG Groep N.V. (Note 5)	Investment manager	52,588,000 (L)	5.04%
Stichting Pensioenfonds ABP (Note 5)	Investment manager	52,588,000 (L)	5.04%
Stichting Depositary APG Emerging Markets Equity Pool (Note 5)	Depositary	52,588,000 (L)	5.04%

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 30 June 2019.

(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.

(5) These shares are held by Stichting Depositary APG Emerging Markets Equity Pool, acting as the depositary of APG Emerging Markets Equity Pool ("Pool"). The shares are controlled by APG Asset Management N.V. ("APG AM"), as the manager of the Pool, and by APG Investments Asia Limited, a wholly owned subsidiary of APG AM and a sub-manager of the Pool. APG AM is the wholly owned subsidiary of APG Groep N.V. APG Groep N.V. is majority owned by Stichting Pensioenfonds ABP, which is also a participating investor in the Pool.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the 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.

As at 30 June 2019, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme (including both exercised or outstanding options) was 28,955,000, representing approximately 2.78% 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").

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 2019	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/ lapsed during the Reporting Period	Outstanding as at 30 June 2019	Exercise period of Share Options	Exercise Price of the Share Options
Director								
Zhao Xiaohong	17/11/2017	4,000,000	0	70,000	0	3,930,000	10 YEARS	HKD1.34
Senior Management and Other Employees of the Group								
Senior Management and Employees	17/11/2017	28,225,000	0	2,800,000	400,000	25,025,000	10 YEARS	HKD1.34
Total		**32,225,000**	**0**	**2,870,000**	**400,000**	**28,955,000**		

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 of no less than four years from the date of grant of the options.

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

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

(b) Share Option Scheme

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

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

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

(iii) the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 100,000,000 shares, representing approximately 9.58% of the total issued share capital of the Company as at the date of this interim report;

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

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

No share options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 June 2019, we did not have any material acquisition and disposal of subsidiaries and affiliated companies.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry by the Company, all the directors confirmed that they have complied with the requirements as set out in the Model Code throughout the Reporting Period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the Reporting Period, save as provisions addressed below, the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules.

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be 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 his strong and consistent leadership, and should be overall beneficial to the management and development of the Group's business.

REVIEW BY THE AUDIT COMMITTEE

The Company has an audit committee with terms of reference aligned with the code provisions as set out in Appendix 14 to the Listing Rules for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The audit committee consists of 2 independent non-executive directors, Mr. Kong Chi Mo (Chairman), Mr. Li Shu Wing David and 1 non-executive director, Mr. Li Wenming.

The Group's interim results for the six months ended 30 June 2019 have been reviewed by all members of the audit committee. Based on such review, the audit committee was of the opinion that the Group's unaudited interim results were prepared in accordance with the applicable accounting standards as well as the Listing Rules and that adequate disclosures have been duly made.

INTERIM DIVIDEND

The Board did not recommend to declare any interim dividend to the shareholders for the six months ended 30 June 2019.

SUBSEQUENT EVENT

As of the date of this interim report, the Group had no material events since 30 June 2019.

INDEPENDENT REVIEW OF AUDITORS

The interim financial report for the six months ended 30 June 2019 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to the Shareholders.

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in information of directors during the Reporting Period and up to the date of this Interim Report are set out below:

Name of Director	Details of Change
Ms. Zhao Xiaohong	Appointed as a director of China Security Co., Ltd. (a company listed in Shanghai Stock Exchange, stock code: 600654) with effect from 21 May 2019.
Mr. Wang David Guowei	Ceased to be a director of Suzhou Medical System Technology Co., Ltd. (a company listed in Shanghai Stock Exchange, stock code: 603990) with effect from 6 May 2019.
Mr. Kong Chi Mo	Ceased to be an independent non-executive director of Starlight Culture Entertainment Group Limited (a company listed in Hong Kong Stock Exchange, stock code: 1159) with effect from 14 May 2019.

DISCLOSURE OF INFORMATION

The interim report of the Group for the six months ended 30 June 2019 containing all the relevant information required by the Listing Rules has been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://ak-medical.net).

By Order of the Board
AK Medical Holdings Limited
Li Zhijiang
Chairman
Hong Kong
26 August 2019