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

Annual 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
Dr. 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)*
Dr. Li Shu Wing David
Mr. Li Wenming

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

NOMINATION COMMITTEE
Mr. Li Zhijiang *(Chairman)*
Dr. Li Shu Wing David
Mr. 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
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road, Central, Hong Kong

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

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

SHARE REGISTRAR IN HONG KONG

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

COMPANY WEBSITE

www.ak-medical.net

PRINCIPAL BANKS

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

LISTING INFORMATION AND STOCK CODE

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

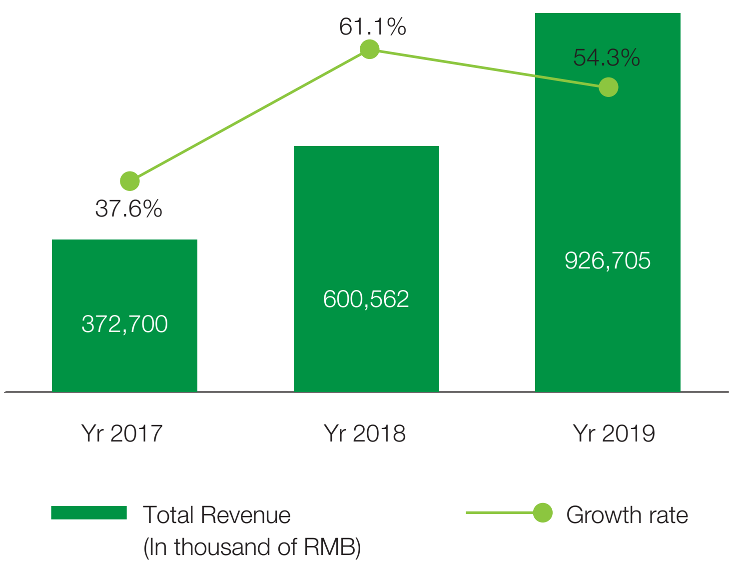
FINANCIAL HIGHLIGHTS

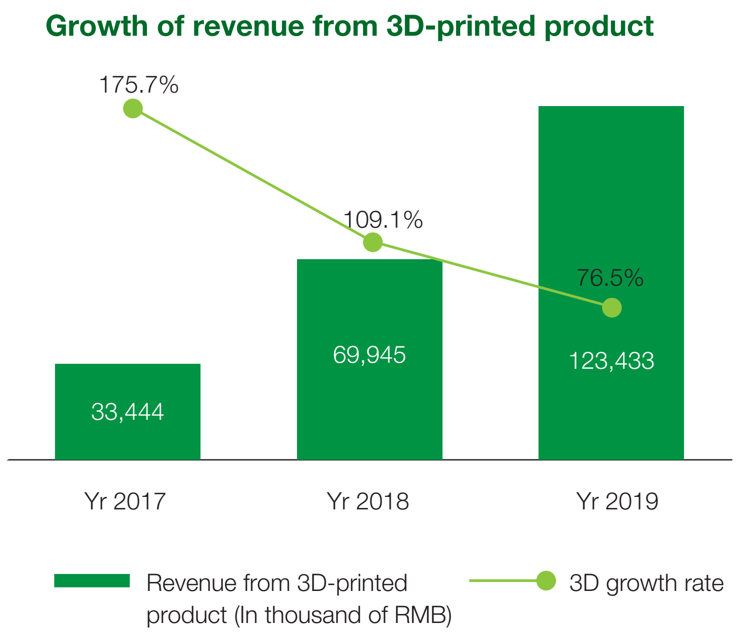
	Year ended 31 December		
	2019	2018	Variance
	RMB'000	RMB'000	%
Revenue	**926,705**	600,562	54.3%
Gross profit	**643,251**	408,881	57.3%
Profit for the year	**266,992**	144,936	84.2%
Profit for the year attributable to equity shareholders of the Company	**266,992**	144,936	84.2%
Profit for the year, net of non-operating gains or losses	**254,149**	144,936	75.4%
Earnings per share			
Basic	**RMB0.26**	RMB0.14	
Diluted	**RMB0.25**	RMB0.14	

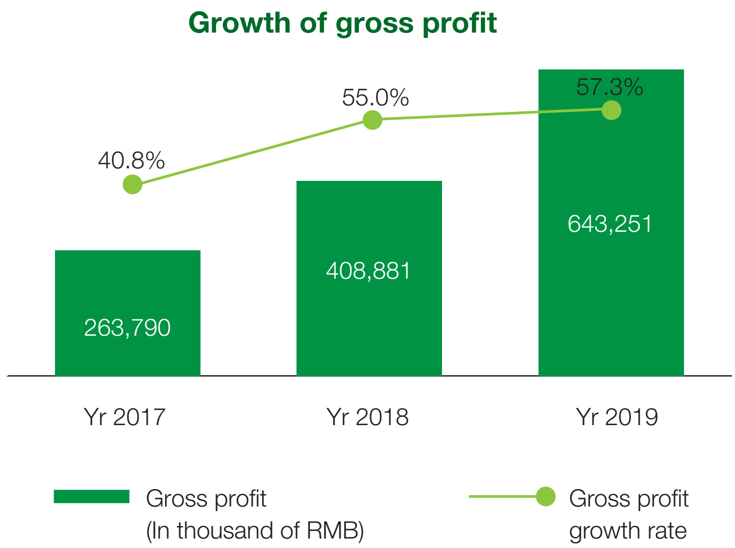
For the year ended 31 December 2019, the Group continued to maintain a rapid growth and achieved the revenue of RMB926.7 million, which was a significant increase of 54.3% as compared to 2018. The significant increase of revenue was mainly attributable to the established brand image of the Company by virtue of 3D-printing technology and 3D ACT platform and the active market development with international clinical education resources, hence effectively promoted the sales of 3D-printed products and regular hip and knee products. The net profit of the Group for the year ended 31 December 2019 also significantly increased by 84.2% as compared to 2018 as a result of the increase of revenue.

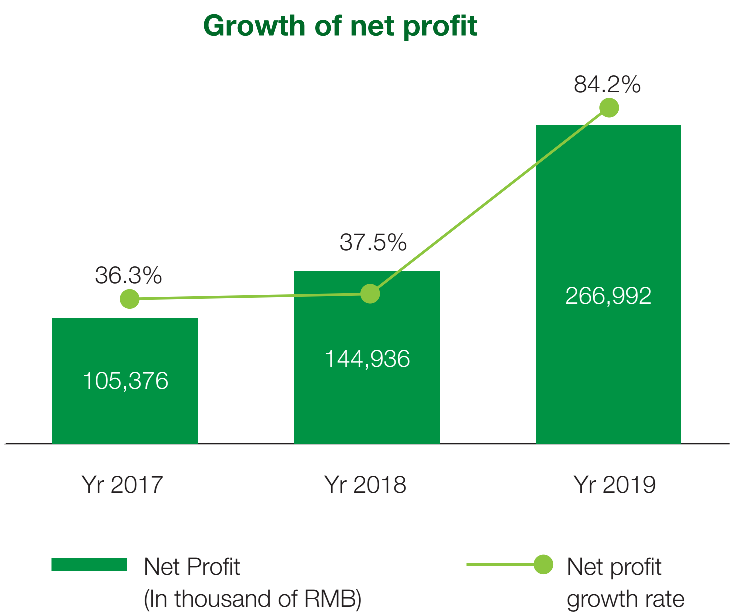
The Directors have resolved to recommend the payment of a final dividend of HK$7.5 cents per share for the year ended 31 December 2019.

Growth of total revenue




Growth of revenue from 3D-printed product
175.7%
109.1%
76.5%
33,444
69,945
123,433
Yr 2017
Yr 2018
Yr 2019
Revenue from 3D-printed product (In thousand of RMB)
3D growth rate


Growth of gross profit
40.8%
55.0%
57.3%
263,790
408,881
643,251
Yr 2017
Yr 2018
Yr 2019
Gross profit (In thousand of RMB)
Gross profit growth rate



FIVE YEARS' FINANCIAL SUMMARY

	2019 **RMB'000**	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	**926,705**	600,562	372,700	270,777	206,164
Profit for the year	**266,992**	144,936	105,376	77,326	64,907
Assets					
Non-current assets	**364,167**	267,811	126,039	83,078	59,777
Current assets	**1,118,059**	824,989	731,568	322,457	223,973
Total assets	**1,482,226**	1,092,800	857,607	405,535	283,750
Liabilities					
Current liabilities	**327,877**	228,486	179,362	99,034	100,819
Non-current liabilities	**38,339**	22,556	10,262	12,108	5,993
Total liabilities	**366,216**	251,042	189,624	111,142	106,812
Total equity	**1,116,010**	841,758	667,983	294,393	176,938

In 2019, with the further penetration of hierarchical diagnosis and treatment and the enhanced coverage of medical insurance, the market demand of orthopedic products has unleashed an exponential growth. AK Medical seized opportunities for the sustained growth of the market demand through the provision of leading technologies and diversified products, steadily promoting the Group's business development and further expanding its market share. For the year ended 31 December 2019, the Group achieved sales revenue of RMB926.7 million, representing a significant increase of 54.3% as compared to last year; profit amounted to RMB267.0 million, representing a significant growth of 84.2% as compared to last year.

AK Medical is the first orthopedic company which launched 3D-printed metal implants approved by NMPA in the PRC market. Through continuous market nurturing and promotion, as well as the publication of relevant academic articles, the Group's philosophy and advantages in 3D printing products have been widely recognized by orthopedic doctors, so the 3D printing product business continues to grow rapidly. For the year ended 31 December 2019, the Group's 3D-printed products achieved sales revenue of RMB123.4 million, representing an increase of 76.5% as compared to last year.

In 2019, the Group 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. Thanks to the Group's superior product quality and extensive sales channels, the sales of hip and knee products have witnessed a rapid growth. During the year, hip and knee products delivered RMB774.1 million in sales revenue, representing a year-on-year increase of 55.7%. With the continuous improvement of orthopedic doctors' standard and the further coverage of medical insurance, more hospitals can carry out joint replacement operations, which further increase the demand for artificial joint products. Based on this, the Group further consolidated its advantages in exploring the low to middle-end market, and gradually entered into the high-end market with leading technology and high-quality products, gaining more market share.

As an orthopaedic company with R&D as its main driving force, the Group continues to enhance its R&D investment and R&D capability. In 2019, the Group obtained 4 registration certificates for Class III medical devices approved by NMPA, including joint and spine products. As of 31 December 2019, the Group's "AK Medical" brand owned 32 registration certificates for Class III medical devices approved by NMPA. "ITI Medical" brand has owned 4 Class III registration certificates for hip and knee joint implant, and has solid foundation for products launch and sales. "JRI" brand has owned 10 CE certification approved by European regulatory agencies, 9 Anvisa certification approved by Brazilian regulatory agencies, and 2 registration certificates for Class III medical device approved by NMPA.

During the year, the Group further reinforced the establishment of marketing system, including: using JRI's International resources to establish international academic cooperation platform, setting up multicenter clinical research institution for relevant products in various places, building multi-tiered system of academic training and international academic exchange platform, inviting foreign experts to conduct training road shows for doctors in city level hospitals, and launching the online training system for doctors that are in urgent need of development in general Class II hospitals.

As a leader in orthopedic joint industry in the PRC, AK Medical will continue to strengthen the leading position in the industry and adopt proactive development strategies. As the Group continues to increase investment in research and development of 3D-printing technology, it will realize simultaneous growth of multiple business lines and take all of the effort to become the leading brand of orthopaedics in China, and build a global brand image.

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

BUSINESS OVERVIEW AND OUTLOOK

Overview

2019 is the first full year since the implementation of the state institutional reform. The National Health Commission, the National Healthcare Security Administration and the National Medical Products Administration (the "NMPA") focus on performing their respective duties in the medical care, medical insurance and pharmaceutical areas, which link and interact with one another, and issued a series of significant policies and regulations, among which, certain regulations are specific to the medical device industry, which promoted the development of the entire industry and brought new challenges to corporations within the industry. The Reform Plan on Managing High-Value Medical Consumables issued by the General Office of the State Council at the end of July 2019 put forward requirements from several aspects, including improving the price formation mechanism, regulating medical service behaviors, and improving supervision and management mechanism. As core payers, the national and local medical insurance departments have led a series of reforms in the payment system, including centralized procurement, abolishment of consumable price markups, and progressive implementation of DRGs. In 2019, Anhui Province and Jiangsu Province took the lead in conducting centralized procurement of orthopedic products, and the exploration of the price formation mechanism gradually affected the development of the entire industry.

The reform of the payment system may pose certain pressure on the market price of orthopedic products, however, with further in-depth hierarchical diagnosis and treatment and the strengthening of medical insurance coverage, orthopedic products also experienced explosive market demands. The Group seized the opportunity of the continuously growing market demand, and steadily promoted the Group's business growth through the provision of unique technologies and diversified products, and further expanded its market share.

For the year ended 31 December 2019, the Group achieved annual revenue of RMB926.7 million, representing an increase of 54.3% as compared to 2018; the Group achieved profit of RMB267.0 million, representing a significant increase of 84.2% as compared to 2018.

3D-printed Products Business

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

In 2019, the Group's 3D-printed products achieved sales revenue of RMB123.4 million, representing an increase of 76.5% as compared to 2018. The 3D-printing industry is able to maintain rapid growth mainly attributable to the concepts and advantages of 3D-printed products, which have been widely recognized by orthopedists after continuous market nurturing and promotion and the publication of related academic journals. In 2019, the Group launched 3D-printed Artificial Pelvis System and 3D ACT Dual Mobility Cup Revision System. 3D-printed Artificial Pelvis System is designed for the reconstruction of the pelvis area after cutting out the bone tumor tissue, which could provide more stable fixation and better recovery of motor function of the patients. 3D ACT Dual Mobility Revision System is suitable for patients with acetabular lateral bone defects, where surgeons are provided with a simpler and more effective way to conduct acetabular reconstruction, which greatly lowers the learning curve of orthopedists and helps surgeons to complete complex hip revision surgery with ease. Overall, it simplifies complex and difficult issues and makes surgical operations easier. In 2019, the 3D-printed spinal products also made a breakthrough with products adopted by more than 100 hospitals nationwide, more than half of which are well-known Class III hospitals. It has gained more recognition from experts in fields related to intractable diseases and bone tumor.

In 2019, the Group also continued to promote 3D Accurate Construction Technology ("**3D ACT**") to provide customers with personalized services. For the year ended 31 December 2019, such platform has covered 964 hospitals, an increase of 142 hospitals compared with 2018. The platform has assisted doctors in designing 4,741 surgical solutions, recording an increase of 1,063 cases compared with 2018. The accumulation of surgical solutions on this platform will help the Group better understand the features of various diseases in Chinese patients and help the Group better develop prosthesis suitable for Chinese patients. Meanwhile, as an aid to marketing, this platform played an important role in helping the Group to enter into high-end medical market and especially in Class III hospitals in the first-and second-tier cities in the PRC.

Hip and Knee Products Business

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

In 2019, the Group continued to provide its customers and patients with a full range of orthopedic joint products, including hip and knee implants and tools for primary, complex, revision and reconstruction surgeries.

In 2019, the Group's hip and knee products delivered RMB774.1 million in revenue, representing a year-on-year increase of 55.7%. Such rapid growth in the sales revenue from hip and knee products was attributable to its superior product quality and extensive sales channels. In 2019, more hospitals, especially Class II hospitals, can carry out joint replacement surgeries as the skills of orthopedists continue to improve and medical insurance has a broader coverage. As a result, the demand for artificial joint products has further increased. The Group takes advantage of this opportunity to further consolidate its advantages in the lower-end and middle-end market. Meanwhile, the Group have gained more market share as it gradually entered into the high-end market by leveraging on leading technologies and high-quality products.

In 2019, the Group's new knee joint product, the hinged knee ("**AHK**") implant, has been implanted in over 100 cases. AHK is the first hinged knee system in China for complex knee replacement surgeries, which has passed clinical trials and approved for launch. This product has advanced design concept, demonstrating the advanced research and technical capabilities of the Group.

Research and Development

As an orthopedic company mainly driven by research and development ("**R&D**"), the Group continues to strengthen its investment in R&D and enhance its R&D capabilities. In 2019, the Group established a R&D system that combines technology and markets from the perspective of strategy. On the one hand, the Group has researched and explored innovative technologies in the field of orthopedics to prepare for future clinical applications. On the other hand, the Group continues to upgrade and improve its products according to market demand and surgeons' feedback.

In 2019, the Group have newly obtained four product registration certificates for Class III medical devices approved by the NMPA (including joint and spinal products). For the year ended 31 December 2019, AK Medical brand owned 32 registration certificates for Class III medical devices approved by the NMPA. ITI brand owned 4 Class III registration certificates for hip and knee joint implant, and has built the foundation for products launch and sales. JRI brand owned 10 CE certifications approved by European regulators and 9 Anvisa certifications approved by Brazilian regulators and owned 2 registration certificates for Class III medical devices approved by the NMPA.

The number of patents the Group has obtained also continues to grow. As of 31 December 2019, the Group has obtained a total of 69 invention patents, 228 utility patents, two patents under Patent Cooperation Treaty ("**PCT**"), and two appearance patents, with 201 invention patents, 68 utility patents and 14 patents under PCT pending for approval. The continuous accumulation of patents, on the one hand, demonstrates its R&D capabilities, and better protects the intellectual property of the Company on the other hand.

ITI Medical (Changzhou Facilities)

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

The construction of ITI Medical was completed in the first half of 2019 and commenced operation in the second half of 2019.

Sales and Marketing

In 2019, the Group has further strengthened the management of the sales system. On the one hand, the Group took advantage of the international resources of JRI to establish an academic cooperative platform, where the Group has trained an aggregate of nearly 3,000 doctors. On the other hand, leveraging its advantage in revision products, the Group promoted the product launches by setting up multi-center clinical research centers of relevant products in various regions and selecting provincial academic leaders.

The Group has also built a multi-levelled academic training system. For experts within the industry with leading academic status, the Group has established an international academic exchange platform which provides them an opportunity to communicate with internationally renowned experts. As for doctors in local hospitals, the Group invited foreign experts to conduct training demonstrations, and give face to face guidance according to specific cases. For the large number of doctors in Class II hospitals in need of urgent improvement, the Group created an online training system and invited experts within the industry to give remote guidance and teaching. As of 31 December 2019, the Group's online platform has trained over 2,000 doctors.

PROSPECTS

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

1. **Making various business lines growth with 3D-printing technology and becoming the leading orthopedic brand in the PRC with a global image**

   As the leader of orthopedic 3D-printing technology in the PRC, the Group will continue to increase its investment in R&D of 3D-printing technology and apply it to more products and penetrate into other segments of orthopedics other than orthopedic joint based on the advantage of 3D-printing technology, enabling the Group to gradually become the leading brand in China's orthopedic industry.

2. **Sorting out the construction of internal system to adapt to the rapid development of the industry**

   The Group sorted out its internal system based on five aspects, including: 1) building a focus-oriented marketing system, enhancing the marketing team with result-oriented, service-providing concepts and competency, and strengthening the cooperative interaction between the domestic and foreign subsidiaries; 2) establishing a technology and market oriented R&D system; 3) setting up differentiated manufacturing system which equips with the capability of producing and manufacturing in scale, high quality, high efficiency and on-time delivery; 4) developing a risk management and control system of precise foresight to prevent all types of risks; 5) creating a talent organization system for incentive and empowerment.

3. **Paying attention to all types of industrial policies issued by the government and making proactive response based on our own characteristics**

   The development of the medical device industry and the industrial policies issued by government are closely related. Since 2019, the PRC government has commenced a new round of medical and pharmaceutical system reform and issued various policies and regulations concerning the development of the industry. The Group will continue to follow closely on these policies that may have a material impact on the industry and make proactive response based on its advantages and characteristics in order to seize opportunities for rapid growth.

FINANCIAL REVIEW

Overview

	Year ended 31 December		
	2019	2018	Variance
	RMB'000	RMB'000	%
Revenue	**926,705**	600,562	54.3%
Gross profit	**643,251**	408,881	57.3%
Profit for the year attributable to equity shareholders of the Company	**266,992**	144,936	84.2%
Profit for the year, net of non-operating gains or losses	**254,149**	144,936	75.4%
Earnings per share			
Basic	**RMB0.26**	RMB0.14	
Diluted	**RMB0.25**	RMB0.14	

Faced with a challenging market for medical devices and benefited from the opportunities brought by import substitution, the Group continued to maintain a rapid growth and achieved the revenue of RMB926.7 million for the year ended 31 December 2019, recording an increase of 54.3% as compared to 2018, as a result of (i) the established brand image of the Company by virtue of 3D-printing technology and 3D ACT platform whereby the Company, leveraging its brand image, acquired additional market share, (ii) the application of the international clinical education resources to actively expand the Group's market, and (iii) further penetration of the performing of joint surgeries into more hospitals in Mainland China due to its increasing demand, hence effectively promoted the sales of 3D-printed products and regular hip and knee products. The Group maintained its leading position in the Chinese joint implants market in terms of sales, and recorded a further increase in market share. The Group firmly believes that it will grow its business even further and continue to improve the quality of life for patients, with its subsequent R&D of more new products, implementation of the dual-brand global strategy and its advantages on international clinical education resources and 3D ACT platform.

The following discussions are based on the financial information and notes to the financial statements set out in this announcement above and should be read in conjunction with them.

Revenue

	Year ended 31 December		
	2019	2018	Variance
	RMB'000	RMB'000	%
Hip replacement implants[(1)]	**544,418**	351,958	54.7%
Knee replacement implants	**229,728**	145,098	58.3%
3D-printed products[(2)]	**123,433**	69,945	76.5%
Third party orthopedic products	**13,585**	11,866	14.5%
Others[(3)]	**15,541**	21,695	–28.4%
Total	**926,705**	600,562	54.3%

Notes:

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

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

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

The Group's revenue amounted to RMB926.7 million for the year ended 31 December 2019, representing an increase of 54.3% as compared with RMB600.6 million for the year ended 31 December 2018. The significant increase of revenue was mainly attributable to (i) the established brand image of the Company by virtue of 3D-printing technology and 3D ACT platform whereby the Company, leveraging its brand image, acquired additional market share, (ii) the application of the international clinical education resources to actively expand the Group's market and (iii) further penetration of the performing of joint surgeries into more hospitals in Mainland China due to its increasing demand, hence effectively promoted the sales of 3D-printed products and regular hip and knee products.

Hip and Knee Implants Products

The Group's hip and knee implants products include hip implants and knee implants. The Group's hip implants recorded revenue of RMB544.4 million for the year ended 31 December 2019, representing an increase of 54.7% as compared with RMB352.0 million for the year ended 31 December 2018. Such increase was partly attributable to the Group's 3D-printing technology and the use of international clinical education resources to expand the Group's market, which enabled the sales growth of hip implants. On the other hand, as a larger sales proportion in the product portfolio in 2019 came from the new products that the Group launched during the past three years, the average unit selling price of hip implants grew accordingly in 2019, which also boosted the revenue growth of hip implants.

The Group's knee implants recorded revenue of RMB229.7 million for the year ended 31 December 2019, representing an increase of 58.3% as compared with RMB145.1 million for the year ended 31 December 2018. Such increase was mainly attributable to the launch of knee surgery solutions (which could deal with certain difficult and complex issues such as AHK) by the Group to the market, which facilitated in consolidating the brand image of the Group as a comprehensive solution provider for knee implants products and thus has driven the increase in the sales of the Group's cost-effective knee implants products.

3D-printed Products

The Group's 3D-printed products mainly include 3D-printed hip implants, 3D-printed artificial vertebral bodies and spinal interbody cages and 3D-printed artificial pelvis implants. The Group's 3D-printed products recorded revenue of RMB123.4 million for the year ended 31 December 2019, representing an increase of 76.5% as compared with RMB69.9 million for the year ended 31 December 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 the Group's product portfolio, the Group also distributed the orthopedic products produced by third parties. In 2019 and 2018, the Group's revenue from distributing third party orthopedic products amounted to RMB13.6 million and RMB11.9 million, representing 1.5% and 2.0% of its revenue, respectively.

Domestic and Overseas Sales

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

	Year ended 31 December		
	2019	2018	Variance
	RMB'000	RMB'000	%
China	**799,611**	513,130	55.8%
Other countries	**127,094**	87,432	45.4%
Total	**926,705**	600,562	54.3%

Cost of Sales

For the year ended 31 December 2019, the Group's cost of sales was RMB283.5 million, representing an increase of 47.9% as compared with RMB191.7 million for the year ended 31 December 2018. The increase in cost of sales was primarily due to an increase in sales volume of the Group's products.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. The Group's gross profit grew by 57.3% to RMB643.3 million for the year ended 31 December 2019 from RMB408.9 million for the year ended 31 December 2018. The increase in gross profit was primarily driven by the increase in the Group's overall business scale and by taking effective cost control measures.

Gross margin is calculated as gross profit divided by revenue. The Group's gross margin was 69.4% for the year ended 31 December 2019, up from 68.1% for the year ended 31 December 2018, which was primarily due to the increase in sales of products such as A3 knee products and 3D-printed products with a relatively higher gross margin in the product portfolio.

Other Income, net

The Group's other income for the year ended 31 December 2019 was RMB20.3 million, representing an increase of RMB15.4 million as compared of RMB4.9 million for the year ended 31 December 2018. The increase in other income was primarily due to the insurance compensation received by JRI.

Selling and Distribution Expenses

Selling and distribution expenses were RMB175.3 million for the year ended 31 December 2019, representing an increase of 42.7% as compared with RMB122.9 million for the year ended 31 December 2018. The increase was primarily due to 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 external services, academic promotion, industry conferences and logistic expenses alongside with the expansion of business scale.

General and Administrative Expenses

General and administrative expenses amounted to RMB92.2 million for the year ended 31 December 2019, representing an increase of 24.4% as compared with RMB74.1 million for the year ended 31 December 2018. The increase was mainly due to the increase of labor cost caused by the increase of management personnel and the increase of share option expense, as well as amortisation of intangible assets recognised from merging JRI.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2019 was RMB80.5 million, representing an increase of 76.6% as compared with RMB45.6 million for the year ended 31 December 2018. The increase was mainly due to the increase in labor cost of R&D staff and the increase of service fee from external cooperative R&D institutions, conference fee, testing fee, registration fee as well as patent registration fee as a result of the continuous and proactive product R&D by the Company in 2019.

Net Finance Income

Net finance income was RMB5.9 million for the year ended 31 December 2019, representing an increase of RMB2.6 million from RMB3.3 million for the year ended 31 December 2018. Such increase was primarily attributable to higher cash balance kept in 2019.

Income Tax Expenses

Income tax expense was RMB54.4 million for the year ended 31 December 2019, representing an increase of 84.0% as compared with RMB29.6 million for the year ended 31 December 2018. Such increase was primarily due to an increase in our profit before tax resulting from our expansion of operations. At the same time, the withholding income tax that withholds 10% of the expected profit available for distribution from the operating entities in China for the year ended 31 December 2019 also led to the increase in income tax.

Liquidity and Financial Resources

As at 31 December 2019, the Group had cash and cash equivalents of RMB276.5 million, structured deposit of RMB217.4 million and guarantee deposit of RMB5.0 million, amounting to RMB498.9 million in aggregate, as compared with RMB456.7 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.

Net Current Assets

The Group had net current assets of RMB790.2 million as at 31 December 2019, representing an increase of RMB193.7 million as compared with RMB596.5 million as of 31 December 2018. Such increase primarily represents the proceeds from the operations of the Group.

Foreign Exchange Exposure

The Group's principal business is located in China, and 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 year ended 31 December 2019, the Group recorded an exchange loss of RMB3.6 million, as compared to an exchange loss of RMB1.9 million for the year ended 31 December 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 year ended 31 December 2019, the Group's total capital expenditure amounted to approximately RMB132.3 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 31 December 2019, the Group pledged a deposit of RMB5.0 million in the margin account to obtain the monthly settlement qualification of relevant tax for import and export operations incurred by the PRC Customs. Other than that, the Group did not have any charge of assets or pledge of assets.

Borrowings and Gearing Ratio

As of 31 December 2019, the Group had borrowed bank loans of RMB1.7 million owing to the purchase of 3D printing equipment overseas. Apart from that, the Group did not have any outstanding bank loans or other borrowings. Gearing ratio represents the percentage of bank borrowings to total equity. As of 31 December 2019, the gearing ratio of the Group was 0.2% (as of 31 December 2018: Nil).

Contingent Liabilities

As of 31 December 2019, the Group did not have any material contingent liabilities (as of 31 December 2018: Nil).

Significant Investments

As of 31 December 2019, the Group did not hold any significant investments in the equity interests of any other companies.

Material Acquisitions and Disposals

During the year ended 31 December 2019, the Group did not have any material acquisitions and disposals.

Future Plans for Material Investments and Capital Assets

As of 31 December 2019, the Group did not have other plans for material investments and capital assets, except for the continuous construction of Changzhou Facilities.

Employee and Remuneration Policy

As of 31 December 2019, the Group had 790 employees (31 December 2018: 575 employees). Total staff remuneration expenses including Directors' remuneration for the year ended 31 December 2019 amounted to RMB166.8 million (for the year ended 31 December 2018: RMB103.4 million). The increase in staff remuneration was primary due to the increase in headcounts and the cost of share option scheme.

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 HK$477.0 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 31 December 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** (in millions of Hong Kong dollars)	**Actual use of proceeds up to 31 December 2019** (in millions of Hong Kong dollars)	**Balance as at 31 December 2019** (in millions of Hong Kong dollars)
Construction of Changzhou Facilities and upgrade the Group's existing facilities	41%	195	191	4
Development and upgrade of the Group's 3D-printed products and PTIP, funding the R&D of 3D-printed products	21%	100	66	34
For other R&D activities	15%	73	68	5
Funding potential acquisitions and developing strategic alliances	15%	73	73	–
For general corporate purposes	8%	36	36	–
Total	100%	477	434	43

Subsequent Event

The Company completed the placement and the subscription on 25 February 2020 and 4 March 2020, respectively. A total of 53,500,000 placing shares have been placed at the placing price of HK$15.0 per share to no fewer than six independent placees who and whose respective ultimate beneficial owners are independent of and not connected with the Company and its connected persons. For further details, please refer to the announcements of the Company dated 21 February 2020 and 4 March 2020.

The outbreak of COVID-19 virus in 2020 in China and the measures taken by the government could have an adverse effect on our business taking into consideration (i) some patients who expect to undergo joint implant operations delayed their surgery appointments or plans; (ii) there may be disruption or delay to the supply chain of the Group including the procurement of raw materials and delivery of finished products; and (iii) certain other suppliers and service providers may not be able to fully resume their supply or service capacities.

Save for the above, no material events have occurred since 31 December 2019.

DIRECTORS

Executive Directors

Mr. Li Zhijiang (李志疆), aged 52, is the chairman of our Board, the chief executive officer of our Company and an executive Director, primarily responsible for the overall strategic planning and development of our Group. He was appointed as a Director on 17 July 2015 and was designated as the chairman of our Board, the chief executive officer of our Company and an executive Director on 6 April 2016. He is the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Li is the spouse of Ms. Zhang Bin, an executive Director and a senior vice president of our Company, and the brother-in-law of Mr. Zhang Chaoyang, an executive Director and a senior vice president of our Company.

Mr. Li is one of the founders of our Group and has over 20 years of experience in the clinical and orthopedic industry. He has been a director of AK Medical Investments Limited, AK Medical International Limited, Bright AK Limited (formerly known as OrbiMed Asia AK Limited), Beijing AK Medical Co., Ltd* (北京愛康宜誠醫療器材有限公司) ("**AK Medical Beijing**") (formerly known as 北京愛康宜誠醫療器材股份有限公司) and Beijing Ximai Kesi Medical Device Limited* (北京西麥克斯醫療器械有限公司) since 21 July 2015, 28 July 2015, 15 March 2016, 8 May 2003 and 11 November 2009, respectively. Mr. Li has resigned as a director of Beijing Ximai Kesi Medical Device Limited since 5 March 2018. He has been appointed as a non-executive director of JRI Orthopedics Limited on 10 April 2018. He has also been the general manager of AK Medical Beijing since May 2003. Prior to establishing our Group in May 2003, Mr. Li worked in the surgical department of Shougang Kuangshan Hospital (首鋼礦山醫院) in Tangshan, Hebei Province, China from 1988 to 1999.

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

Ms. Zhang Bin (張斌), aged 52, is an executive Director and a senior vice president of our Company, primarily responsible for the overall management and operations including management of the capital markets, human resources and administrative matters of our Group. She was appointed as a Director on 17 July 2015 and was designated as an executive Director and a senior vice president of our Company on 6 April 2016. Ms. Zhang is the spouse of Mr. Li, the chairman of our Board, an executive Director and the chief executive officer of our Company, and the sister of Mr. Zhang Chaoyang, an executive Director and a senior vice president of our Company.

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

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

Mr. Zhang Chaoyang (張朝陽), aged 50, is an executive Director and a senior vice president of our Company, primarily responsible for product development, planning, construction, operation and management of the new production facilities of our Group. He was appointed as a Director on 17 July 2015 and was designated as an executive Director and a senior vice president of our Company on 6 April 2016. Mr. Zhang is brother of Ms. Zhang Bin, an executive Director and a senior vice president of our Company, and brother-in-law of Mr. Li, the chairman of our Board, an executive Director and the chief executive officer of our Company.

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

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

Ms. Zhao Xiaohong (趙曉紅), aged 42, is an executive Director and the chief financial officer of our Company, primarily responsible for financial management and accounting affairs of our Group. She was appointed as a Director on 29 February 2016 and was designated as an executive Director and the chief financial officer of our Company on 6 April 2016. Ms. Zhao was appointed as a vice president of the Company on 21 December 2018.

Ms. Zhao has over 10 years of experience in the accounting industry. She has been the finance director of AK Medical Beijing from September 2010 to April 2019 and served as the operation director of AK Medical Beijing from December 2014 to December 2016, and was appointed as a non-executive director of JRI Orthopedics Limited on 10 April 2018. She has been appointed as a director of China Security Co., Ltd. (a company listed in Shanghai Stock Exchange, stock code: 600654) from May 2019 to September 2019. Prior to joining our Group, she worked as an auditor in Ernst & Young Hua Ming LLP from August 2004 to September 2009. Ms. Zhao has been a Certified Public Accountant recognized by the Chinese Institute of Certified Public Accountants since 27 November 2009 and an associate member of the Association of International Accountants since 27 February 2015.

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

Non-executive Directors

Dr. Wang David Guowei (王國瑋), aged 58, is a non-executive Director primarily responsible for providing advice on strategy of our Group. He was appointed as a Director on 29 February 2016 and was designated as a non-executive Director on 6 April 2016.

Dr. Wang has over 10 years of experience in the medical industry. Dr. Wang is the senior managing director of Asia at OrbiMed Advisors LLC, an investment fund with a focus on healthcare industry, where he has worked from August 2011. From April 2006 to July 2011, he served as managing director at WI Harper Group, responsible for investment activities in life sciences and healthcare areas. From March 2010 to July 2012, he served on the board of directors of Edan Instruments, Inc. (a company listed in the Shenzhen Stock Exchange, stock code: 300206), a provider of advanced electronic medical equipments, where he also served on both the audit committee and strategic committee. He ceased to be a director of Suzhou Medical System Technology Co., Ltd. (a company listed in the Shanghai Stock Exchange, stock code: 603990) on 6 May 2019. Dr. Wang is a director of Amoy Diagnostics Co., Ltd. (a company listed in the Shenzhen Stock Exchange, stock code: 300685) and a non-executive director of Union Medical Healthcare Limited (a company listed in the Hong Kong Stock Exchange, stock code: 2138).

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

Mr. Li Wenming (李文明), aged 46, is a non-executive Director primarily responsible for providing advice on strategy and operations of our Group. Mr. Li has been an independent director of AK Medical Beijing since May 2010, and was appointed and designated as a non-executive Director on 6 April 2016. He is a member of the Audit Committee of the Company.

Mr. Li has over 10 years of experience in the pharmaceutical and investment industry. Mr. Li has been a pharmacist registered with China Food and Drug Administration since February 2004. He has been a partner of Beijing Hejun Consulting Company Limited (北京和君諮詢有限公司), a company principally engaged in economy and trading consulting, investment consulting and enterprise management consulting since January 2007. He has been appointed as an independent non-executive director of Shandong Xinhua Pharmaceutical Company Limited (山東新華製藥股份有限公司) (a company listed in the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, A-share stock code: 756, H-share stock code: 719) since 20 March 2015 and an independent non-executive director of Nanjing Pharmaceutical Co., Ltd (a company listed in the Shanghai Stock Exchange, stock code: 600713) since 23 April 2018. He has also been appointed as an independent non-executive director of Maider Medical Industry Equipment Co., Ltd. (a company listed in the Shanghai Stock Exchange, stock code: 688310) since 30 April 2019.

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

Independent Non-executive Directors

Mr. Dang Gengting (黨耕町), aged 85, is an independent non-executive Director primarily responsible for overseeing the management of our Group independently. He joined our Group on 17 November 2017, when he was appointed as an independent non-executive Director. He is a member of the Nomination Committee of the Company.

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

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

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

Mr. Kong Chi Mo (江智武), aged 44, is an independent non-executive Director primarily responsible for overseeing the management of our Group independently. He joined our Company on 17 November 2017, when he was appointed as an independent non-executive Director. He is the chairman of the Audit Committee and a member of the Remuneration Committee of the Company.

Mr. Kong has over 21 years of experience in accounting, auditing, financial management, corporate finance, investor relations, company secretarial affairs and corporate governance. Presently, Mr. Kong holds the position of independent non-executive director in Aowei Holding Limited (stock code: 01370), Huazhang Technology Holding Limited (stock code: 01673) and ZACD Group Ltd. (stock code: 08313) whereas in China Vanadium Titano-Magnetite Mining Company Limited ("China Vanadium") (stock code: 00893), he holds the position of company secretary and authorised representative. All these public companies are listed on the Main Board or Growth Enterprise Market of the Hong Kong Stock Exchange.

Mr. Kong was the executive director and chief financial officer of China Vanadium from October 2013 to May 2015 and from May 2008 to May 2015, respectively. Mr. Kong worked at KPMG from October 1999 to December 2007 and was promoted to senior manager during his term of office. Prior to joining KPMG, Mr. Kong worked as a finance trainee in Hutchison Telecommunications (Hong Kong) Limited (an indirect wholly-owned subsidiary of Hutchison Telecommunications Hong Kong Holdings Limited (stock code: 00215), a company listed on the Main Board of the Hong Kong Stock Exchange) from June 1997 to March 1998, and as a tax associate in PricewaterhouseCoopers from March 1998 to October 1999.

Mr. Kong obtained his bachelor's degree in business administration from The Chinese University of Hong Kong in December 1997. Mr. Kong is a fellow of The Association of Chartered Certified Accountants (United Kingdom), a fellow of each of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (United Kingdom) (formerly known as The Institute of Chartered Secretaries and Administrators), a member of The Hong Kong Institute of Directors, an ordinary member of Hong Kong Securities and Investment Institute, and a full member of Hong Kong Investor Relations Association. Mr. Kong was also awarded the Chartered Governance Professional qualification from The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (United Kingdom) in September 2018.

Dr. Li Shu Wing David (李澍榮), aged 55, is an independent non-executive Director primarily responsible for overseeing the management of our Group independently. He joined our Group on 17 November 2017, when he was appointed as an independent non-executive Director. He is the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company.

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

Dr. Li obtained a Master of Business Research degree and a Doctor of Business Administration degree from SBS Swiss Business School in March 2018 and February 2020, a Master of Business Administration degree from Chaminade University of Honolulu in December 1986 and a Bachelor of Business Administration degree from University of Hawaii at Hilo in May 1986. He attended Stryker Advanced Leadership Academy Program in Harvard University in March 2005 and INSEAD Hewlett-Packard Management Academy in April 1999. He also obtained the Registered Corporate Coach Certification from Worldwide Association of Business Coaches.

Senior Management

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

Ms. Liu Aiguo (劉愛國), aged 46, is a vice general manager of AK Medical Beijing. Ms. Liu has over 12 years of experience in the orthopedic medical device industry. She worked in Beijing Bearing Factory (北京軸承廠) from January 1996 to October 2003. She joined our Group in October 2003 as the head of production of AK Medical Beijing and was appointed as a vice general manager of AK Medical Beijing in July 2012, primarily responsible for quality control management and legal and regulatory affairs of AK Medical Beijing. Since January 2017, her responsibility has been re-designated to the management of the legal and regulatory department of AK Medical Beijing.

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

Mr. Zhang Weiping (張衛平), aged 69, is the chief engineer of AK Medical Beijing, primarily responsible for technical and R&D matters of AK Medical Beijing. Mr. Zhang has over 7 years of experience in 3D-printing in orthopedic field. He joined our Group in December 2008 as the chief engineer of AK Medical Beijing.

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

Ms. Wang Caimei (王彩梅), aged 47, is the director of research center of AK Medical Beijing, primarily responsible for overseeing the management of the research center of AK Medical Beijing. Ms. Wang has over 10-year R&D experience in orthopedic implants. She joined our Group in October 2010 as the supervisor of research center of AK Medical Beijing and was promoted to the director of research center of AK Medical Beijing in December 2014.

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

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

Ms. Han Yu (韓鈺), aged 37, is one of our joint company secretaries, primarily responsible for capital markets matters and company secretarial matters of our Group. Ms. Han has over 7 years of experience in the finance industry. She joined our Group in September 2015 as the senior financial analysis manager of AK Medical Beijing until 31 December 2015. She has become the secretary to the board of directors of AK Medical Beijing since 1 January 2016. She was appointed as one of our joint company secretaries on April 6, 2016.

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

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

Ms. Qi Zijuan (齊子娟), aged 53, has been the general manager of the business development department of AK Medical Beijing since January 2017, primarily responsible for managing the business department of AK Medical Beijing. Ms. Qi is experienced in the healthcare industry and she joined our Group in February 2014. From February 2014 to June 2014 and July 2014 to December 2014, she was the project director of AK Medical Beijing and the sales director of AK Medical Beijing, respectively. She acted as the business development director of AK Medical Beijing from December 2014 to January 2017.

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

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

Mr. Sun Yanshi (孫彥實), aged 42, has been the director of the operation management department of AK Medical Beijing since August 2017, primarily responsible for overseeing the operation of AK Medical Beijing. Mr. Sun has approximately 5 years of experience in the medical device industry. He joined our Group in August 2013 and served as the assistant to general manager from August 2013 to December 2013. He then worked as the product strategy director of AK Medical Beijing from January 2014 to December 2014 and the marketing director of AK Medical Beijing from December 2014 to August 2017.

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

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

Mr. Wang Zhengmin (王政民), aged 51, has been the director and management representative of the quality control centre of AK Medical Beijing since January 2017, primarily responsible for managing the quality control centre of AK Medical Beijing. Mr. Wang has extensive experience in the production and manufacturing industry. He joined our Group in October 2013.

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

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

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

Ms. Wang Nannan (王楠楠), aged 41, has been the human resources and administration director of AK Medical Beijing since January 2015, primarily responsible for the human resources and administrative management of AK Medical Beijing. Ms. Wang has over 5 years of experience in human resources management. Ms. Wang joined our Group in May 2014 as a senior human resources manager of AK Medical Beijing.

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

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

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

Mr. Sun Hongbo (孫洪波), aged 38, has been the head of production centre of AK Medical Beijing since December 2016, primarily responsible for managing the production centre of AK Medical Beijing. Mr. Sun has extensive experience in the production and manufacturing industry. He joined our Group in May 2014.

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

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

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

The board (the "**Board**") of directors (the "**Directors**") of AK Medical Holdings Limited (the "**Company**") is pleased to present this report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Leveraging on the opportunities brought about by the policy development, the Group promoted its business growth on a steady pace. For the year ended 31 December 2019, the Group achieved an annual revenue of RMB926.7 million, representing an increase of 54.3% as compared to the same period in 2018; the Group achieved profit of RMB267.0 million, representing a growth of 84.2% as compared to the same period in 2018.

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and the material factors underlying its results and financial position are provided in the part of "Management Discussion and Analysis" from page 9 to page 17 of this annual report.

The likely future development of the Company are set out in the section headed "Management Discussion and Analysis-Prospects" of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Market risk

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

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

COVID-19 risk

The Group's major business is in China. Since the outbreak of COVID-19 virus, authorities in China have taken emergency public health measures including imposing travel and other work-related restrictions. The outbreak and the measures taken by the government could have the following adverse effects on our business: (i) some patients who expect to undergo joint implant operations delayed their surgery appointments or plans; (ii) there may be disruption or delay to the supply chain of the Group including the procurement of raw materials and delivery of finished products; and (iii) certain other suppliers and service providers may not be able to fully resume their supply or service capacities.

KEY RELATIONSHIP

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

Employees

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

Customers

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

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

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

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

Suppliers

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

ENVIRONMENTAL POLICY

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

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in Mainland China and UK while the Company is a holding company incorporated in the Cayman Islands with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Our establishments and operations accordingly shall comply with relevant laws and regulations in Mainland China, UK, the Cayman Islands and Hong Kong. In 2019, our businesses were in compliance with all the relevant laws and regulations in Mainland China, UK, the Cayman Islands and Hong Kong in all material aspects.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the state of affairs of the Group at that date are set out in the consolidated financial statements.

The Directors have resolved to recommend the payment of a final dividend of HK$7.5 cents per ordinary share for the year ended 31 December 2019 (2018: HK$3.5 cents) to the shareholders whose names appear on the register of members of the Company on Wednesday, 24 June 2020. The final dividend, if approved by the shareholders of the Company at the annual general meeting (the "**AGM**") to be held on Monday, 15 June 2020, will be payable on or around Wednesday, 15 July 2020.

As at the date of this annual report, the Board was not aware that any shareholders of the Company had waived or agreed to any arrangement to waive dividends.

CLOSURE OF REGISTER OF MEMBERS

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

(a) For the purpose of determining shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 10 June 2020 to Monday, 15 June 2020, both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 9 June 2020.

(b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Monday, 22 June 2020 to Wednesday, 24 June 2020, both days inclusive. In order to qualify for the final dividend, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 19 June 2020.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

BORROWINGS

As of 31 December 2019, the Group had borrowed bank loans of RMB1.7 million owing to the purchase of 3D printing equipment overseas. Apart from that, the Group did not have any outstanding bank loans or other borrowings.

PLEDGE OF ASSETS

As of 31 December 2019, the Group pledged a deposit of RMB5.0 million in the margin account to obtain the monthly settlement qualification of relevant tax for import and export operations incurred by the PRC Customs. Other than that, the Group did not have any charge of assets or pledge of assets.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, sales to the Group's five largest customers accounted for approximately 12.9% of the Group's total sales and sales to the largest customer included therein amounting to approximately RMB33.2 million, which amounts to approximately 3.6% of the Group's total sales.

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 40.2% of the Group's total purchases for the year and purchase from the largest supplier included therein amounting to approximately RMB68.2 million, which amounts to approximately 19.9% of the Group's total purchases.

None of the directors or any of their associates or any shareholders that to the knowledge of our Directors own more than 5% of the issued share capital of our company had any interest in any of our five largest customer and supplier during the year ended 31 December 2019.

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2019 are set out in note 28 to the consolidated financial statements in this annual report.

RESERVES

Details of the movements in the reserves of the Group for the year ended 31 December 2019 are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report.

At 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the Companies Law of the Cayman Islands, was RMB515.3 million.

DIRECTORS

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

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

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

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

In accordance with the Company's Articles of Association, Mr. Zhang Chaoyang, Ms. Zhao Xiaohong and Mr. Li Wenming shall retire by rotation at the AGM, and are eligible to offer themselves for re-election at the AGM. Mr. Li Wenming will not offer himself for re-election and will therefore retire at the AGM as he intends to spend more time on his personal business whereas the other two retiring Directors, i.e. Mr. Zhang Chaoyang and Ms. Zhao Xiaohong, shall offer themselves for re-election at the AGM. In addition, Mr. Dang Gengting, being advanced in age, will voluntarily retire from the Board at the AGM.

SERVICE CONTRACTS OF DIRECTORS

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

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

EMOLUMENT POLICY

During the year ended 31 December 2019, the Remuneration Committee reviewed the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Company, which is determined with reference to the Group's operating results, individual performance and comparable market practices.

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

REMUNERATION OF DIRECTORS, SENIOR MANAGEMENT AND FIVE HIGHEST PAID INDIVIDUALS

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

The annual remuneration of the Executive Directors and the senior management by band for the year ended 31 December 2019 is as follows:

Annual Income	Number of Persons
Below RMB500,000	3
RMB500,000 to RMB999,999	1
Over RMB1,000,000	9

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTOR'S INTEREST IN TRANSACTIONS, AGREEMENTS AND CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, agreements or contracts of significance to the business of the Group to which a controlling shareholder of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party at any time during the year ended 31 December 2019.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a controlling shareholder of the Company was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2019 or at any time during the year ended 31 December 2019.

NON-COMPETE UNDERTAKINGS

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

The Company has received confirmations from the Covenantors of their compliance with the terms of the Deed. The Covenantors declared that they had fully complied with the Deed for the year ended 31 December 2019. The independent non-executive directors have reviewed on the confirmations from the Covenantors and concluded that the Deed has been complied with and has been effectively enforced.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as disclosed herein, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2019 or subsisted at the end of the year.

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

As at 31 December 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

(i) Interest in Shares of the Company

Name of Directors	Capacity/Nature of Interest	Number of Shares(Note 1)	Approximate Percentage of Interest In the Company(Note 2)
Mr. Li Zhijiang(Note 3)	Founder of a discretionary trust	535,157,500 (L)	50.84%
	Interest of spouse	10,125,000 (L)	0.96%
Ms. Zhang Bin(Note 4)	Interest of controlled corporation	10,125,000 (L)	0.96%
	Interest of spouse	535,157,500 (L)	50.84%
Mr. Zhang Chaoyang(Note 5)	Interest of controlled corporation	65,818,500 (L)	6.25%
Ms. Zhao Xiaohong(Note 6)	Interest of controlled corporation	12,285,000 (L)	1.17%
	Beneficial owner	3,130,000 (L)	0.30%

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 1,052,700,000 shares in issue as at 31 December 2019.

(3) Mr. Li Zhijiang, being the founder of LZY Trust who can influence how the trustee exercises his discretion, is deem to be interested in 535,157,500 long position in the Company's shares. In addition, Mr. Li Zhijiang is the husband of Ms. Zhang Bin. Therefore, Mr.Li Zhijiang is deemed to be interested in Ms Zhang Bin's interest in the Company's shares pursuant to the SFO.

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

(5) Mr. Zhang Chaoyang, being the sole director of Suntop Limited, is the sole shareholder of Suntop Limited which holds 65,818,500 shares. Therefore, Mr. Zhang Chaoyang is deemed to be interested in Suntop Limited's interest in the Company's shares pursuant to the SFO. Mr. Zhang Chaoyang is the brother of Ms. Zhang Bin and the brother-in-law of Mr. Li Zhijiang.

(6) Ms. Zhao Xiaohong, being the sole director of Sanbao Limited, holds 30.22% of the issued share capital of Sanbao Limited, which holds 12,285,000 shares. Therefore, Ms. Zhao Xiaohong is deemed to be interested in Sanbao Limited's interest in the Company's shares pursuant to the SFO. In addition, Ms. Zhao directly holds options to subscribe for 2,000,000 shares of the Company pursuant to the Pre-IPO Share Option Scheme and 1,130,000 shares of the Company.

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

As at 31 December 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 Directors	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	535,157,500 (L) 10,125,000 (L)	50.84% 0.96%
Ms. Zhang Bin	Interest of controlled corporation Interest of spouse	10,125,000 (L) 535,157,500 (L)	0.96% 50.84%
Mr. Zhang Chaoyang	Interest of controlled corporation	65,818,500 (L)	6.25%
Ximalaya Limited	Beneficial owner	535,157,500 (L)	50.84%
Suntop Limited	Beneficial owner	65,818,500 (L)	6.25%
Trident Trust Company (HK) Limited(Note 3)	Trustee of a discretionary trust	535,157,500 (L)	50.84%
Rainbow Holdings Limited(Note 3)	Interest in a controlled corporation	535,157,500 (L)	50.84%
Hillhouse Capital Advisors, Ltd.(Note 4)	Investment manager	75,738,000 (L)	7.19%
Gaoling Fund, L.P.(Note 4)	Beneficial owner	71,025,000 (L)	6.75%

Notes:

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

(2) The percentage is calculated based on the total number of 1,052,700,000 shares in issue as at 31 December 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) Hillhouse Capital Advisors, Ltd. is the sole investment manager and the general partner of Gaoling Fund, L.P. and YHG Investment, L.P. respectively. Each of Gaoling Fund, L.P. and YHG Investment, L.P. held 71,025,000 shares and 4,713,000 shares, respectively. Hillhouse Capital Advisors, Ltd. is deemed to be interested in the aggregate number of 75,738,000 Shares held by Gaoling Fund, L.P. and YHG Investment, L.P.

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

During the period from 1 January 2019 to 31 December 2019 (the "**Reporting Period**"), neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTOR'S RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed herein, at no time during the year ended 31 December 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year ended 31 December 2019.

SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

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

As at 31 December 2019, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 18,775,000, representing approximately 1.78% 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 HK$1.34 per share.

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

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

(aa) For the purpose of this paragraph:

"**Vesting Conditions**" means (i) the revenue of 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 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 1 May of the relevant year until the end of the Option Period (both days inclusive):

(I) 25% of the total number of options granted when the Vesting Conditions are met for the first time during the Option Period;

(II) 25% of the total number of options granted when the Vesting Conditions are met for the second time during the Option Period;

(III) 25% of the total number of options granted when the Vesting Conditions are met for the third time during the Option Period; and

(IV) 25% of the total number of options granted when the Vesting Conditions are met for the fourth time during the Option Period.

(cc) Any options granted will lapse if the conditions for exercise under paragraph (bb) above have not been met within the Option Period.

(dd) The grantees shall enter into service contracts with our Group for a term of no less than four years from the date of grant of the options (as the case may be).

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

(ff) During the Option Period, if the grantee terminates its service contract with 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. In 2019, the Directors have resolved not to demand any grantee of the pre-IPO share options to return any entitlement or interest obtained from the exercise of the options granted even though the grantee terminated its service contract with the Group during the Option Period, to the extent already exercised.

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

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

Category and Name of grantee	Date of grant of share option	Outstanding as at 1 January 2019	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/ lapsed during the Reporting Period	Outstanding as at 31 December 2019	Exercise period of share options	Exercise price of the share options
Director								
Zhao Xiaohong	17/11/2017	4,000,000	0	2,000,000	0	2,000,000	10 YEARS	HK$1.34
Senior Management and Other Employees of the Group								
Senior Management and Other Employees	17/11/2017	28,225,000	0	10,225,000	1,225,000	16,775,000	10 YEARS	HK$1.34
Total		**32,225,000**	**0**	**12,225,000**	**1,225,000**	**18,775,000**		

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

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

(b) Share Option Scheme

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

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

1.	Purpose	To recognize and acknowledge the contributions the Eligible Participants (as defined below) have had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives: (i) motivating the Eligible Participants to optimize their performance efficiency for the benefit of our Group; and (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.
2.	Participants	Our Board may, at its discretion, offer to grant an option to subscribe for such number of new shares as our Board may determine at an exercise price determined in accordance with the terms set out in the Share Option Scheme to the following persons (the "**Eligible Participants**"): (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries; (ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries; (iii) any advisors, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and (iv) such other persons who, in the sole opinion of our Board, will contribute or have contributed to our Group, the assessment criteria of which are: (aa) contribution to the development and performance of our Group; (bb) quality of work performed for our Group; (cc) initiative and commitment in performing his/her duties; and (dd) length of service or contribution to our Group.
3.	Total number of securities available for issue under the Share Option Scheme together with the percentage of the issued shares that it represents as at the date of the annual report	100,000,000 ordinary shares and 9.04% of the existing issued share capital.

4. Maximum entitlement of each participant

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised, outstanding options and shares which were the subject of options which have been granted and accepted under the Share Option Scheme and any other share option schemes of our Company but subsequently canceled to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as of the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

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

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

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

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

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

(dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);

(ee) the number of shares in respect of which the option is offered;

(ff) the exercise price and the manner of payment of such price for the shares on and in consequence of the exercise of the option;

(gg) the date of the expiry of the option;

(hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in item 7 below; and

(ii) such other terms and conditions (including, without limitation, any minimum period for which an option shall be held before it can be exercised and/or any performance targets which must be achieved before the option can be exercised) relating to the offer of the option which in the opinion of the Board are fair and reasonable but not being inconsistent with the Share Option Scheme and the Listing Rules.

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

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

There is no outstanding share option as at 1 January 2019 and during the Reporting Period, no share options were granted, exercised, cancelled or lapsed by the Company.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Except as disclosed in note 31 to the consolidated financial statements, the text of which is set out in consolidated financial statement, during and at the end of 2019, our Company has not engaged in any other material connected transactions or related party transactions. All such related party transactions as disclosed in note 31 to the consolidated financial statements are either (i) not regarded as connected transaction within the meaning of the Listing Rules or (ii) regarded as connected transaction within the meaning of the Listing Rules but are fully exempted. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors as defined under the "Listing Rules" of the Company or their respective associates has any interest in a business which competes or may compete with the business of the Group or has any other during the year ended 31 December 2019.

DIVERSITY OF DIRECTORS

The Company has adopted its diversity policy with respect to the composition of the Board. In assessing candidates running for directorships, the Nomination Committee will consider a number of factors, including but not limited to gender, age, educational background, professional experience, technical expertise and the ability to fulfill the requirements of the Board. Details on the biographies and experience of the Directors are set out on pages 18 to 21 of this annual report.

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

The Board is not aware of any tax relief available to shareholders of the Company by reason of their holding of the Company's securities.

DONATION

In 2019, the Group made a total donation of RMB280,000 to support public health and welfare.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on Monday, 15 June 2020. The notice of AGM will be sent to shareholders at least 20 clear business days before AGM.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 39 to 51 of this annual report.

PERMITTED INDEMNITY PROVISION

Pursuant to the articles of association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto subject to the Hong Kong Companies Ordinance. Such provision was in force during the year ended 31 December 2019 and remained in force as at the date of this annual report. The Company has also arranged appropriate directors' and officers' liability insurance for the directors and officers of the Group.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year 31 December 2019.

SUBSEQUENT EVENTS

The Company completed the placement and the subscription on 25 February 2020 and 4 March 2020, respectively. A total of 53,500,000 placing shares have been placed at the placing price of HK$15.0 per share to no fewer than six independent placees who and whose respective ultimate beneficial owners are independent of and not connected with the Company and its connected persons. For further details, please refer to the announcements of the Company dated 21 February 2020 and 4 March 2020.

The outbreak of COVID-19 virus in 2020 in China and the measures taken by the government could have an adverse effect on our business taking into consideration (i) some patients who expect to undergo joint implant operations delayed their surgery appointments or plans; (ii) there may be disruption or delay to the supply chain of the Group including the procurement of raw materials and delivery of finished products; and (iii) certain other suppliers and service providers may not be able to fully resume their supply or service capacities.

Save for the above, no material events have occurred since 31 December 2019.

AUDITOR

The Company has appointed KPMG as the auditor of the Company for the year ended 31 December 2019. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint KPMG as the auditor of the Company.

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

Hong Kong, 23 March 2020

The board of directors (the "**Directors**") of the Company (the "**Board**") is pleased to present this Corporate Governance Report for the year ended 31 December 2019 in the Company's annual report for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

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

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

The Board is of the view that throughout the year ended 31 December 2019, the Company has complied with the code provisions as set out in the CG Code, except for code provision A.2.1 (the details of which are set forth below).

DIRECTORS' SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 2019.

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

BOARD OF DIRECTORS

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

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

Board Composition

The Board of the Company currently comprises the following Directors:

Executive Directors

Mr. Li Zhijiang *(Chairman of the Board, Chief Executive Officer, Chairman of Nomination Committee and Member of Remuneration Committee)*

Ms. Zhang Bin
Mr. Zhang Chaoyang
Ms. Zhao Xiaohong

Non-executive Directors

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

Independent Non-executive Directors

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

The biographical information of the Directors are set out in the section headed "Board of Directors and Senior Management" on pages 18 to 21 of this Annual Report.

The relationships between the Directors are disclosed in the respective Director's biography under the section "Board of Directors and Senior Management" on pages 18 to 21.

Board Meetings and Directors' Attendance Records

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

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

Name of Directors	**Attendance/Number of Meetings**	
	Board Meetings	**Annual General Meeting**
Executive Directors		
Mr. Li Zhijiang *(Chairman)*	4/4	1/1
Ms. Zhang Bin	4/4	1/1
Mr. Zhang Chaoyang	3/4	1/1
Ms. Zhao Xiaohong	4/4	1/1
Non-executive Directors		
Mr. Li Wenming	4/4	1/1
Dr. Wang David Guowei	4/4	1/1
Independent Non-executive Directors		
Mr. Dang Gengting	4/4	1/1
Mr. Kong Chi Mo	4/4	1/1
Dr. Li Shu Wing David	4/4	1/1

Chairman and Chief Executive Officer

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

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

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

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

Independent Non-executive Directors

During the year ended 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Non-executive Directors

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

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

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

Responsibilities of the Board and Management

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

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

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

The record of CPD relating to director's duties and regulatory and business development that have been received by the Directors for the year ended 31 December 2019 are summarized as follows:

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

BOARD COMMITTEE

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

The list of the chairman and members of each Board committee is set out under "Corporate Information" on pages 2 to 3.

Audit Committee

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

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

1. Relationship with the Company's external auditors;

2. Review of the Company's financial information;

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

4. Performing the Company's corporate governance functions.

The Audit Committee held two meetings to review, in respect of the year ended 2019, the interim and annual financial results and reports, major internal audit issues, significant issues on the financial reporting, the effectiveness of the risk management and internal control systems, and appointment of external auditors.

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

The attendance record of each Director at the said Audit Committee meeting of the Company held in 2019 is set out in the table below:

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

Remuneration Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the Directors and senior management and other related matters.

The attendance record of each Director at the said Remuneration Committee meeting of the Company held in 2019 is set out in the table below:

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

The remuneration of the Directors and the senior management by band for the year ended 31 December 2019 is set out below:

Annual Income	**Number of Persons**
Below RMB500,000	8
RMB500,000 to RMB999,999	1
Over RMB1,000,000	9

Nomination Committee

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

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

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

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

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

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

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

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

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

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

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

The attendance record of each Director at the said Nomination Committee meeting of the Company held in 2019 is set out in the table below:

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

Board Diversity Policy

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

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

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

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

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

Director Nomination Policy

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

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

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

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

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 2019, there was no change in the composition of the Board.

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

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code. During the year ended 31 December 2019, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2019.

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

The Board, as supported by the Audit Committee, reviewed the risk management and internal control systems for the year ended 31 December 2019, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

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

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

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2019.

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

The statement of the independent auditors of the Company, KPMG, about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditors' Report on pages 68 to 73 of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, KPMG, in respect of audit services for the year ended 31 December 2019 is set out below:

Service Category	**Fees Paid/Payable** RMB
Audit Services	3,418,000
Non-audit Service	–
	3,418,000

JOINT COMPANY SECRETARIES

Ms. Han Yu and Ms. Li Yan Wing Rita have been appointed as the Company's joint company secretaries. Ms. Li Yan Wing Rita is an executive director of corporate service of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters. Ms. Han Yu, one of the joint company secretaries, has been designated as the primary contact person at the Company which would work and communicate with the external parties on the Company's corporate governance and secretarial and administrative matters.

For the year ended 31 December 2019, Ms. Han Yu and Ms. Li Yan Wing Rita have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels.

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law. Shareholders may call the Company at (86) 10 8010-9581 for any assistance.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

Policies relating to Shareholders

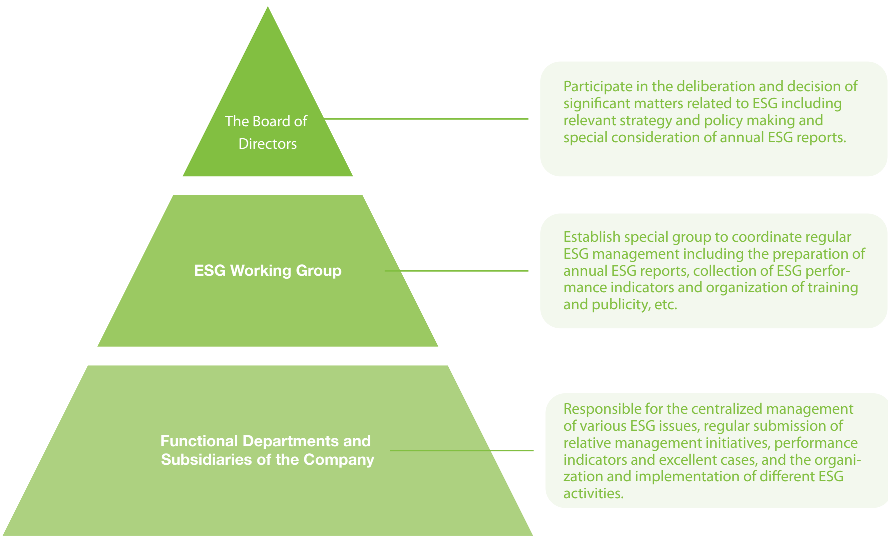
The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

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

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

ESG GOVERNANCE

According to the characteristics of the industry in which the business is placed, AK Medical sorts out the statistics and processes towards identified ESG issues in accordance with the *"Environmental, Social and Governance Reporting Guide"* (hereinafter collectively referred to as "ESG Reporting Guide") set out in Appendix 27 to the *Rules Governing the Listing of Securities* on the Stock Exchange of Hong Kong Limited and gradually improves the relevant management mechanism.



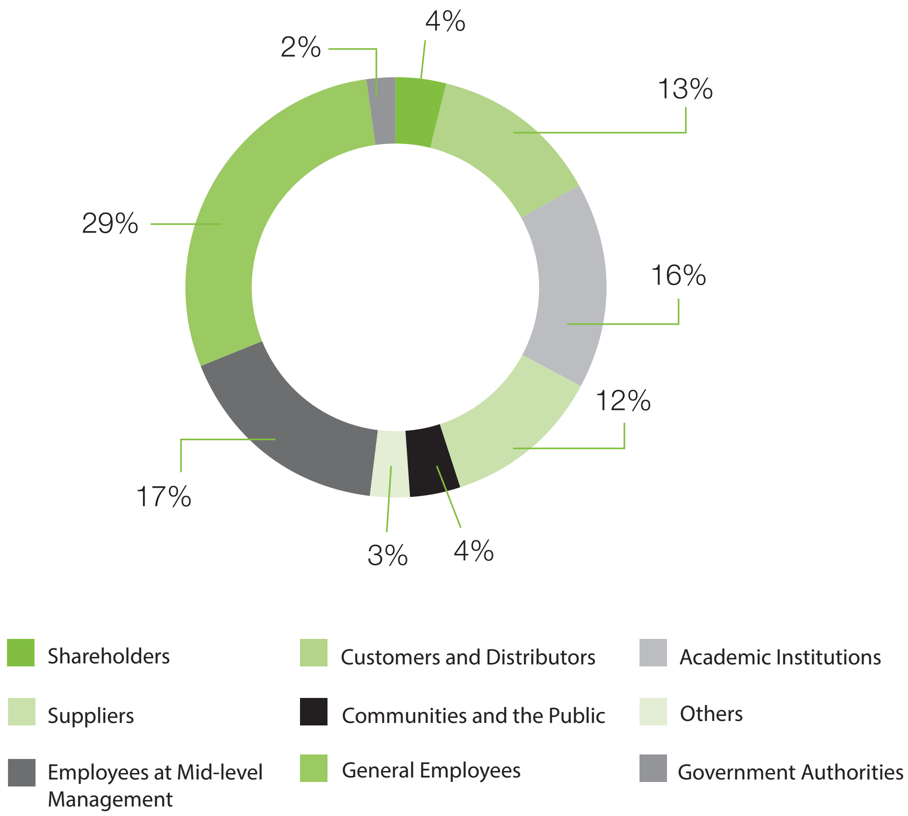
In accordance with *ESG Working Group Management Measures (《ESG工作小組管理辦法》)* established internally by the Company, AK Medical formed a three-level management structure comprising of the Board of Directors, ESG working group and functional departments and subsidiaries. The Board of Directors is responsible for reviewing the significant matters and reports related to ESG. The working group is responsible for organizing information collection, training and publicity and report preparation for ESG issues. Each functional department and subsidiary has, also appointed ESG specialists to collect and collate the relevant data, measurements and cases so as to support the development and implementation of ESG activities.

STAKEHOLDERS ENGAGEMENT

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

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

In 2019, the ESG working group of the Company began questionnaire survey on stakeholders to have a systematical and comprehensive understanding of the stakeholders' comments on our ESG relative activities and obtained related recommendations on ESG matters for an important reference of future continuous improvement. In 2019, AK Medical collected a total of 137 valid questionnaires and composition of stakeholders is as follow:



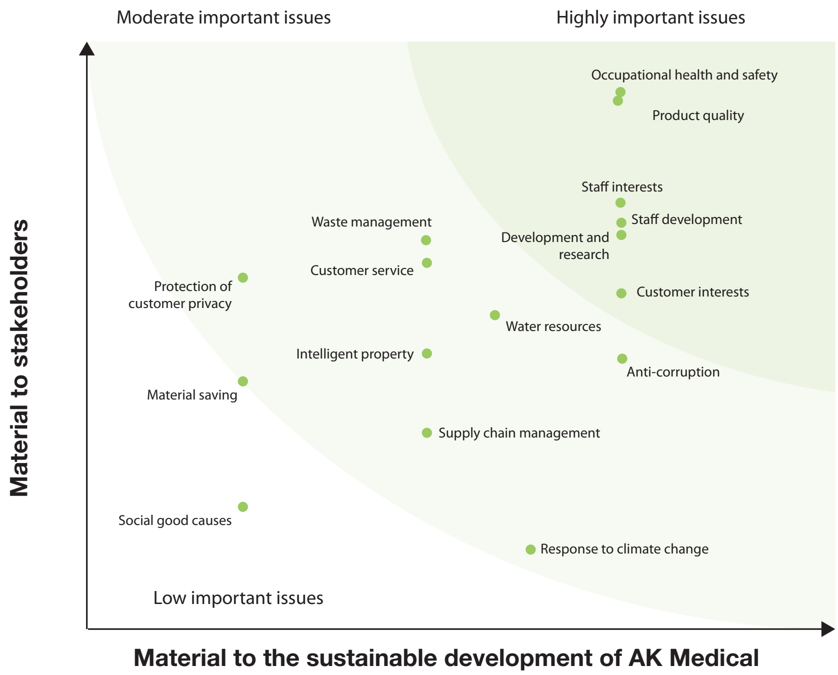
RESPONSE TO THE ESG REPORTING PRINCIPLES OF THE STOCK EXCHANGE

Materiality: In order to further clarify the key areas of corporate ESG practices and information disclosure, enhancing the pertinence and responsiveness of the report, AK Medical identified the subjects of sustainable development and determined the materiality in accordance with ESG Reporting Guide to ensure that the information disclosed in the report covers the key issues which are related with the Company's development and the stakeholders' concerns. The deciding factors mainly refer to:

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

Through the identification process, AK Medical has identified the most relative ESG issues to the corporate sustainable development. Based on the extensive stakeholders' questionnaire and the judgment of the management of the Company, we have decided the corresponding materiality as shown below:

Sustainability Materiality Matrix of AK Medical in 2019



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

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

Consistency: The Company set up a unified ESG information collection system after listing to clarify the statistical method of ESG information. In 2018, AK Medical completed the acquisition of 100% share capital of a British medical device company JRI Orthopaedics Limited (hereinafter referred to as "**JRI**"). In 2019, ITI Medical Co., Ltd. (hereinafter referred to as "**ITI Medical**") officially started operation. Unless otherwise stated, the related ESG performance is included in the disclosure of this report. The period in this report is from 1 January 2019 to 31 December 2019 which is consistent with the previous years.

ENVIRONMENT

As an enterprise with a sense of social responsibility, AK Medical is well versed in green development and striving to be a practitioner of green and low-carbon concept by establishing a comprehensive environmental management system to minimize the environmental risk of operation and adhering to energy saving, emission reduction and scientific management.

Waste Management

AK Medical imposes strict waste management and complies with the relevant national laws and regulations, local standards and specific industry standards, including *the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》)*, *the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》)*, *the Prevention and Control of Atmospheric Pollution Law of the PRC (《中華人民共和國大氣污染防治法》)*, *the Integrated Wastewater Discharge Standard (《污水綜合排放標準》)*, *the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》)*, *Wastewater Discharge Standard of Beijing (《北京市水污染物排放標準》)* and *Emission Standard for Industrial Enterprises Noise at Boundary (《工業企業廠界環境噪聲排放標準》)*, prevents and controls pollution and strictly observes red line of environmental protection. At the same time, the Company established *the Safety Management System for Hazardous Chemicals (《危險化學品安全管理制度》)* in accordance with *the National Safety Management Ordinance for Hazardous Chemicals (《危險化學品安全管理條例》)* and implemented *the Regulations on the Administration of Hazardous Waste Transfer (《危險廢棄物轉移聯單管理辦法》)* to ensure the safe transfer of hazardous chemical waste.

JRI also strictly complies with *British Environmental Permitting (England and Wales) Regulations 2010*, *Environment Protection Act* and other industry-related environmental laws and regulations such as *EC Regulation 1907/2006 on Registration, Evaluation, Authorisation and Restriction of Chemicals*. In accordance with the Environmental Control Procedure of the Company, JRI regularly sorts out the regulation requirements in internal control, waste management, noise control, chemicals management and packaging materials and update the procedures and regulation to standardise the environmental work.

In order to improve the environmental management capability, JRI has set up the environmental management committee chaired by the head of quality assurance department with manager of operation, QHSE manager, senior environmental compliance engineer and customer services director as members for the purpose of discussing external compliance requirements and current operational status of the Company, establishing environment protection objective and giving guidance to various departments for conducting environmental management. The committee encourages all staff to participate in governance, propose suggestions for environmental improvement and enhance the awareness of all staff to environmental management. In 2019, JRI invited a third-party assessment agency to evaluate the environmental compliance of the Company, conducted a comprehensive review of environmental risk and identified and prevented potential risks. The acquisition of JRI was completed in 2018. With gradual deepening of exchanges between the two parties, the Company's environmental management system will be further integrated to promote the learning and sharing of management techniques and experience.

The main pollutants of the Company are noise pollution, air pollution, waste water and solid waste during the course of production. The Company conducted long-term control toward surrounding noise and meet the specific standard by assuring that the surrounding noise in Beijing factory has achieved level II in *the Emission Standard for Industrial Enterprises Noise at Boundary (《工業企業廠界環境噪聲排放標準》)*; for the dust and particulate matter, the Company established dust treatment and recycling system which is handled by professional company after collection and ensure that the air emissions will not exceed the limit in *the Comprehensive Emission Standard of Atmospheric Pollution (《大氣污染物綜合排放標準》)* of Beijing; the waste water generated during the product cleaning and grinding process has been handled by the Company and discharged into sewage treatment plants after meeting standard in accordance with the discharge standard, fulfilling the criteria of *Wastewater Discharge Standard of Beijing (《北京市水污染排放標準》)* and *the British Law of Water Industry in 1991 (《英國1991年水工業法》)*; the particulate dust and the dust and small amount of solid waste (aluminum trioxide, scrap) produced during the production process are collected by the Company and placed into the closed solid waste storage area, which is regularly handled by solid waste treatment plants; the waste liquid (water-based cutting fluid and stainless steel cleaning agents), harmful wastes, hazardous chemical wastes are collected classifiably and handed over to a qualified third party for decontamination; as for other general wastes, the Company will first arrange the storage by separation, identify the recycled ones and hand over to recycling companies.

In 2019, the volume of water discharge per RMB10,000 of output value was 0.1 ton; the volume of dust production per RMB10,000 of output value was 0.2 kg. The total volume of hazardous waste (waste liquid) produced is 85.4 tons, with 0.9kg per RMB10,000 of output value. The total volume of non-hazardous waste produced is 16.5 tons, with 0.2 kg per RMB10,000 of output value. Among them, the intensity of water discharge, waste liquid production and dust production decreased as compared to those in 2018.

Waste emission and disposal in recent two years:

Waste type		2018	2019
Waste Water	Total water discharge volume	14,406.6 tons	**10,312.4 tons**
	Biochemical oxygen demand (BOD)	277.5 kg	**339.3 kg**
	Chemical oxygen demand (COD)	684.6 kg	**1,169.3 kg**
	Suspended solids (SS)	197.0 kg	**108.5 kg**
	Ammoniacal nitrogen (NH_3)	1.0 kg	**0.2 kg**
Waste Liquid	Total waste liquid production	60.8 tons	**85.4 tons**
	Waste liquid handling volume	60.8 tons	**85.4 tons**
Dust	Total dust production	16,163.0 kg	**17,736.0 kg**
	Dust handling volume	16,163.0 kg	**17,736.0 kg**
Solid Waste	Titanium waste handling volume	6,232.1 kg	**8,813.9 kg**
	Cobalt-chromium-molybdenum waste handling volume	4,272.3 kg	**4,357.5 kg**
	Other waste handling volume	4,185.0 kg	**3,368.0 kg**

Use of Resources

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

At the end of 2019, ITI Medical officially started operation, and its products and production techniques are similar to those of the existing plants. In the course of production and daily operation, the energy and resource consumption are mainly electricity, water, gasoline and diesel. Raw materials used in production are mainly polyethylene, stainless steel, titanium alloy and cobalt-chromium-molybdenum, as well as cardboard boxes, packaging boxes and plastic film used in packaging process. As compared to the traditional manufacturing industry, the Company uses 3D-printing technology in business, which consumes less energy and resources and there is no material impact on environment and natural resources. All the water consumption resource of the Company comes from the municipal network, which does not encounter any issue in sourcing water that is fit for purpose. We will take more action in the future to reduce energy and resource consumption.

AK Medical proactively takes up the responsibility of energy-saving and emissions reduction. In accordance with *the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》)*, in order to reduce resource consumption, the Company formulated energy consumption and emission reduction polices to manage the energy resources consumption such as energy, water resources and production materials in the course of production. JRI also complies with the policy requirements, such as *Energy Performance of Buildings (England and Wales) Regulations 2007*, and precisely plans and monitors production energy consumption, building energy consumption and office energy consumption. JRI has also formulated the energy policy. In particular, the manager of operation will conduct energy monitoring, energy-saving technology transformation as well as the promotion and use of new energy. In addition, as part of the Company's commitment to reduce its carbon footprint, the QHSE department calculates the Company's carbon footprint on monthly basis and continuously monitors various energy sources.

In 2019, the Company's 3D ACT (Accurate Constructive Technology) products reduced 8% of total weight through process transformation, effectively reducing the consumption of raw materials and improving the utilization rate of resources. At the same time, each workshop had more refined management in terms of energy consumption and carried out comprehensive follow-up management of water consumption through the installation of independent water meters and jointly checking the reading of water meters with the property company to confirm the monthly water consumption. In addition, the Company's instruments business has changed from self-production to outsourcing in 2019, resulting in reduction of water consumption in instruments workshop.

In 2019, the Company's volume of water usage per RMB10,000 of output value is 0.3 tons, the volume of packaging materials consumption per RMB10,000 of output value is 0.6 kg, and the volume of energy use per RMB10,000 of output value is 7.6 kg of standard coals, the energy consumption density was 20% lower than 9.5 kg of standard coals in 2018.

Volume of energy and resource consumption in recent two years:

Energy consumption type		**2018**	**2019**
Energy use	Electricity consumption	294.9 ten thousand KWh	**359.9 ten thousand KWh***
	Gasoline consumption	19.7 ten thousand liters	**24.4 ten thousand liters**
Water use	Water usage (municipal water supply)	18,690.8 tons	**23,434.4 tons***
Raw materials	Polyethylene	11.9 tons	**16.6 tons**
	Stainless steel	113.6 tons	**128.2 tons**
	Titanium alloy	35.0 tons	**49.4 tons**
	Cobalt-chromium-molybdenum	28.7 tons	**41.3 tons**
	POM stick	1.0 tons	**0.0 tons**
Packaging materials	Cardboard boxes	21.4 tons	**22.7 tons**
	Product packaging boxes	13.3 tons	**19.2 tons**
	Product plastic film	6.5 tons	**6.5 tons**
	Bubble bag	0.1 tons	**0.0 tons**
	Other materials	2.1 tons	**2.6 tons**

Note: In 2019, ITI Medical incurred another 425,000 KWh of electricity for construction and used another 18,902.6 tons of water for fire safety, landscape and closed water tests in houses during construction period. The above data is not included in the statistics.

The Company's greenhouse gases all derive from various types of energy consumption, and the Company does not involve other types of greenhouse emissions in the course of daily life. In 2019, the Company emitted 0.03 tons of CO_2 equivalent per RMB10,000 of output value.

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

Type	**2018**	**2019**
Scope 1 (direct emissions)	363.1tons	**529.5 tons**
Scope 2 (indirect emissions)	1,974.9 tons	**2,451.5 tons**
Total	2,338.0 tons	**2,981.0 tons**

Note: Electricity emission factors in China are based on the *2017 Baseline Emission Factors for Emissions Reduction Project in China's Regional Grid (《2017年度減排項目中國區域電網基線排放因子》)*; Electricity emission factors in the UK are based on the CRC Energy Efficiency Scheme; Emission factors for fossil fuel are based on the *2006 IPCC Guidelines for National Greenhouse Gas Inventories*.

Green Office

In the course of daily operation, AK Medical actively promotes and develops green culture concept by facilitating energy conservation and emission reduction. The Company formulates and regularly updates the *"Green Office Management regulations" (《綠色辦公管理規定》)* to enhance energy conservation and emission reduction, strengthen employees' awareness of energy conservation and environmental protection through following measurements: promoting electronic office work, reducing unnecessary paper consumption, encouraging employees to turn off lights and save water, promoting green procurement of office supplies and giving priority to the purchase of green paper, environmentally friendly batteries and so on.

In response to the national waste classification policy, AK Medical classified the wastes generated in the office process into general waste, recyclable waste, hazardous waste and so on for achieving the recycling and reduction of waste. In 2019, JRI produced 2.1 tons of office waste and 0.25 tons of electronic waste. The Beijing district produced 1.8 tons of waste paper, recycled 50 units of No.5 battery and 92 units of No.7 battery.

EMPLOYEE

Adhering to the "people-oriented" operation philosophy, AK Medical regards employees as valuable wealth and recognizes that maintaining a good relationship with employees is the key to success for an enterprise. We fully respect each employee, and create harmonious working atmosphere in a bid to build a win-win labor relationship.

Employment

In strict compliance with the relevant laws and regulations, including *the Labor Law of the PRC (《中華人民共和國勞動法》)*, *the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》)*, *Provisions on the Prohibition of Using Child Labor (Order of the State Council of the PRC No. 364) (「中華人民共和國國務院令第364號」《禁止使用童工規定》)*, AK Medical formulated internal systems, including *the Administrative Regulation Concerning the Prohibition of the Use of Child Labor and Forced Labor (《關於禁止僱傭童工強制勞工的管理規定》), Compensation Management System (《薪酬管理制度》)* and *Employee Training System (《員工培訓制度》)*, to safeguard the legal rights and interests of the staff. The Company entered into formal labor contracts or labor agreements with employees so as to provide fair employment opportunities and equal treatments for employees, regardless of their identities, religion beliefs and other factors. The Company will not engage in child labor or forced labor. Moreover, labor union was set up to protect the legal rights of employees and was responsible for labor-related matters.

In 2019, the distribution of employment types of AK Medical is as follows:

Employee type	2019 (number of employees)
Full-time employee	786
Part-time employee	4
Total	790

In 2019, the employment of employees of AK Medical by gender is as follows:

Gender	Number of employees	Number of turnover staff	Turnover rate (%)
Male	502	111	18.1
Female	288	84	22.6
Total	790	195	19.8

The employment of employees by age structure is as follows:

Age	Number of employees	Number of turnover staff	Turnover rate (%)
Under 30	220	47	17.6
30-39	362	100	21.6
40-49	145	36	19.9
50 and above	63	12	16.0
Total	790	195	19.8

The employment of employees by regions is as follows:

Region	Number of employees	Number of turnover staff	Turnover rate (%)
PRC	669	164	19.7
Hong Kong, Macau and Taiwan	1	0	0
Overseas	120	31	20.5
Total	790	195	19.8

Health and Safety Management

The health and safety of employees is the top priority of AK Medical. The Company strictly complies with *the Labor Law of the PRC (《中華人民共和國勞動法》)*, *the Safety Production Law of the PRC (《中華人民共和國安全生產法》)* and *the Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》)*, and continues to improve the safety production management system. The system includes documents on *Safety Production Responsibility Management System (《安全生產責任制管理制度》)*, *Safety Production Inspection Management System (《安全生產檢查管理制度》)*, *Safety Management System for Dangerous Operation (《危險作業安全管理制度》)* and *Safety Incidents Reporting and Handling Management System (《安全事故報告和處理管理制度》)*. The annual safety production targets were issued. Through the implementation of safety production accountability to achieve the safety production targets, the safety of employees and the properties of the Company were safeguarded.

As COVID-19 epidemic poses a threat to the life safety of employees, AK Medical has developed *the Contingency Plan for COVID-19 Epidemic (《新冠疫情防控應急預案》)* to effectively prevent the spread of the epidemic and protect employees' life safety by adopting the principle of prevention first, control measurements in conformity with law as well as timely response. The Company also established an Emergency Response Team for the purpose of combating the epidemic effectively and safeguard the health of employees. In addition, AK Medical formulated and issued the *Code of Conduct for the Epidemic Prevention and Control (《疫情防控行為規範》)*, providing the guidance for fighting against the epidemic to employees regarding to awareness, work places and specific prevention measurements. In particular, the Company carried out 4 trainings concerning epidemic prevention by making videos and boards for publicity so as to ensure employees' safety and health in work and life.

AK Medical attaches great importance to the prevention and control of the risks of occupational diseases and regulates the safety of production in the workplace. We liaise with the disease prevention and control center every year to conduct inspections at workplaces with occupational hazards such as all the production departments and dust, gas and noise of workshops, and rectify substandard items in a timely manner. We also conduct on-site inspections on the protective measures of occupational health hazards every month and inform relevant departments and workshops in a timely manner to perform rectifications. The Company organizes and conducts annual occupational health examinations for staff with risks of occupational health hazard, and established a *Personal Occupational Health Monitoring Record for Workers (《勞動者個人職業健康監護檔案》)* to continuously record and track such information. The Company has formulated a protection management system for female employees. In accordance with the work characteristics and physiological characteristics of female employees in all departments and production workshops, the Company will adjust their work positions in a timely manner, and at the same time implement the release of special labor protection supplies and protection facilities. In June 2019, the Company launched a "production safety month" publicity campaign to raise employees' awareness of safe production, and implemented fire drills during the "production safety month" to enhance employees' safety and fire-fighting quality, safety precautions and self-help ability, so as to eliminate hidden fire safety hazards without delay.

JRI also established a sound health and safety management system and received the OHSAS18000 certification. JRI specifies the responsibility and division of the health and safety management, where the chief executive officer is responsible for the health and safety management, and the management and control are undertaken by the quality assurance supervisor, QHSE manager, senior engineer and the branch managers of each department. This system formulates safety management guidelines and steps involving workplace safety, employees' health, emergency risk response, security, fire alarm, health monitoring and hazardous substances at all levels. By setting up annual safety management targets, and disassembling the targets and fulfilling responsibilities, coupled with completion and results reporting within the prescribed period by the corresponding employees, JRI is able to ensure that the health and safety management is standardized and effective.

AK Medical regularly holds various safety production educations and trainings to ensure that all employees fully understand the safety and health risks of their positions and raise their awareness of safety and health protection. In 2019, first-line operating staff's per capita security training was 14 hours (JRI), 2 hours (ITI Medical) and 16 hours (AK Medical Beijing), and the safety management personnel's average per capita security training hours was 12 hours (JRI), 2 hours (ITI Medical) and 24 hours (AK Medical Beijing). The Company invested a total of RMB7,594,000 in safety management. As of 2019, the number of work-related deaths of the Company for three consecutive years was nil and total days of lost work due to occupational injury was 37 days in 2019.

Employee Remuneration and Benefits

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

AK Medical attaches great importance to the improvement of the working environment. On the basis of ensuring the safety of employees, we provide a comfortable lighting and ventilation system in all workplace such as factories and offices, providing employees with a diversified office choice. We have formulated *the Women Workers Protection Management System (《女工保護管理制度》)*. Female workers will receive gifts on Women's Day, and various lectures will be organized to fulfill a better care for female employees. During every important festival and holiday, celebrative activities will be held for employees to elevate the atmosphere in the office.

The Company pays close attention to the physical and mental health of employees, provides diversified benefits and care for employees, and encourages employees to strike a balance between work and life. In October 2019, AK Medical held the "Celebrating National Day" Golden Autumn Staff Fun Games, in which the employees and their family members have participated. The event conveyed the positive energy of the Company, fully demonstrated the Company's value of "responsibility, quality, sharing and passion", and enhanced team cohesion.

Employee Development

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

In 2019, AK Medical continued to strengthen its talent pool and improved the comprehensive quality of employees. We updated the *AK Medical Training System (《愛康醫療培訓制度》)* to improve the employee training system as well as formulated and implemented the annual and quarterly training plan on schedule.

AK Medical Training System (《愛康醫療培訓制度》) developed an internal training and external training in the employee training system. The current internal training includes four main training areas, namely training by level of position such as new employee, management trainee and technical staff as well as new manager training. In 2019, the Company specially conducted 6 technical level training courses for technical and R&D personnel, covering industry regulations on medical devices, standardized application of graphics, quality control and management, basic knowledge of orthopedic implants and other aspects. The Company establishes individual training accounts for each participant, and combining with the accumulation of points according to their number of sign-in and examination results, the accumulation of points will be used as reference in the consideration for promotion and salary adjustment.

On the basis that the internal training has been completed with consistent quality, AK Medical provides external training support for employees. AK Medical external training includes management skills training, professional skills training, academic education, other educational training and further education. Senior and middle managers are called on to participate in management skills training such as corporate management, marketing, and human resource management. Employees are encouraged to participate in professional knowledge and skills training that are not included in the Company's internal training, and we encourage employees to continue to receive other training and further education such as academic education. AK Medical employees can fill out the Training Requirement Survey (《培訓需求調查表》) issued by the Company to receive external training opportunities according to their own needs.

In 2019, employees trained by gender:

Gender	Percentage of employees trained (%)	Average training hours (hours)
Male employees	78.7	37
Female employees	79.2	36.2

In 2019, employees trained by employee type:

Employment type	Percentage of employees trained (%)	Average training hours (hours)
Senior management	93.5	19.9
Middle management	85.3	82.3
General employees	77.6	33.6

PRODUCT RESPONSIBILITY

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

Quality Control

The Company strictly complies with the relevant laws and regulations, including *the Product Quality Law of the PRC (《中華人民共和國產品質量法》)*, *Industrial Product Quality Responsibility Case (《工業產品質量責任案例》)*, *Medical Device Production Quality Management Regulations (《醫療器械生產質量管理規範》)*, *Regulations on the Supervision and Management of Medical Devices (《醫療器械監督管理條例》)*, *Medical Device Recall Management Measures (《醫療器械召回管理辦法》)* and *the Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》)*. The Company has established a robust system of internal quality management, published the *Quality Manual (《質量手冊》)* and the corresponding process documents and management systems, and the Company has obtained the ISO13485:2016 Certification. Orthopedic implants and instruments, the Company's primary products, are classified as Class III medical devices and Class II medical devices respectively. To ensure that all products are guaranteed safe and effective through strict control and management, the Company's conventional products and 3D-printed products are regulated by NMPA.

The Company establishes the organizational structure and workflow of the quality management system, which is applicable to various departments such as R&D centers, production centers, quality control centers and marketing centers covered by the quality management system. The Company has quality targets within the scope of customer satisfaction, customer feedback processing rate and system operation without significant risks, and regularly monitors and measures internal quality processes to ensure that all products available on the market meet the requirements of standards of use and national laws and regulations.

The corresponding process documents of the *Quality Manual (《質量手冊》)* provide detailed guidance for quality control procedures, while the corresponding management system provides for the strict implementation of established quality assurance procedures, covering the entire production process. Among which, *the Product Quality Accident Management System (《產品質量事故管理制度》)* regulates the occurrence of substandard products and provides for the handling of quality accidents that have occurred; *the Inspection Management System (《檢驗管理制度》)* ensures that various inspections of the Company meet the requirements of relevant standards and relevant regulations of the Company, safeguarding the effective monitoring and quality inspection work to prevent the unexpected use of substandard products.

In 2019, AK Medical imposed strict control over the inspection process of raw materials purchased, increased the frequency of third-party inspections of raw materials, and purchased inspection equipment that is composed of high precision raw material and chemical element in order to better protect the qualified products. In 2019, no product recall incidents occurred due to quality or health reasons.

Product Innovation

AK Medical regards product innovation as its core, and believes that strong R&D capability is one of the core competitiveness of the Company that has been maintained for a long time, and is also the guarantee for the steady growth and development of its core business.

In the field of artificial joints, the Company has formed initial replacement of knee and hip joints, severe deformity, and complicated lesions, and then undergoes replacement surgery and other serialization. The product line continues to provide comprehensive clinical solutions. Relying on 3D printing orthopedic application engineering research center based on big data and Internet medical interaction platform, the Company is committed to 3D ACT in orthopedic implant development, surgical technology research, medical interaction platform development and application, and innovates to foster the ultimate transformation of results, through the 3D printing technology to benefit patients. The ITI (Image To Implant) technology platform launched by AK Medical is another innovation in the field of 3D printing and digitalization. The platform can customize a comprehensive preoperative planning, which allows doctors to know in advance the possible risks during surgeries, shortening the operation time and improve the accuracy of operations to provide effective protection for the safety of patients.

In 2019, AK Medical cooperated with external experts and developed a lotus-shaped cushion for the joint revision system, which can be used to treat most bone defects on the acetabular side, filling the international gap, and is also NMPA certified. In 2019, AK Medical officially launched *the Laser Additive Manufacturing of Biodegradable Metallic Bone Implants and Its Clinical Application (《可降解金屬骨科植入物激光增材製造及其臨床應用》)*, a national key R&D plan, which will provide new options for clinical treatment and provide patients with new personalized treatment solutions. It is conductive to the promotion of the development and progress of the concept of bone defect treatment. In addition, AK Medical won several scientific and technological innovation awards in 2019. The innovative project "Research and Application of Hip Function Reconstruction and 3D Printing Key Technologies of Its Artificial Prosthesis" (髖關節功能重建及其人工假體3D打印關鍵技術研究及應用) won the "First Prize of 2018 Capital Employees' Self Innovation" (2018年度首都職工自主創新成果) jointly selected by the Beijing Federation of Trade Unions and the Beijing Municipal Science and Technology Commission.

AK Medical places great emphasis on the cultivation of scientific and innovative talents. As such, we established the AK Medical postdoctoral workstation and cooperated with Peking University and other scientific research institutes to cultivate professional talents for the industry and build up a professional backup team for breaking through product innovation. The postdoctoral research workstation was established in 2014. Based on the existing work foundation and scientific research conditions of AK Medical, we actively applied for national projects. As of the end of 2019, 2 national 13th Five-Year key R&D projects and 1 provincial and ministerial R&D special funds under study, and 5 theoretical studies and 4 standard establishment projects have been completed. AK Medical actively supports new doctoral researchers to participate in related academic activities to broaden postdoctoral researchers' academic horizon. As of the end of 2019, existing postdoctoral researchers have participated in 5 reviews meetings of standardization of surgical implants and standardization of orthopedic devices, 8 national orthopedics conference, and 3 training sessions organized by the China Pharmaceutical Industry Association.

The Company has formulated *the Patents and Articles Award Management Measures (2013 Revision) (《專利及文章的獎勵管理辦法(2013修訂版)》)* based on *the Patent Law of the PRC (《中華人民共和國專利法》)* in order to encourage all employees to create inventions in artificial joints and related fields, to further strengthen internal innovation capability and to enhance the core competitiveness. The number of patents the Group has obtained also continues to grow. As of 31 December 2019, the Group has obtained a total of 69 invention patents, 228 utility patents, two patents under Patent Cooperation Treaty ("**PCT**"), and two appearance patents, with 201 invention patents, 68 utility patents and 14 patents under PCT pending for approval. The continuous accumulation of patents, on the one hand, demonstrates its R&D capabilities, and better protects the intellectual property of the Company on the other hand.

Customer Service and Complaint Handling

AK Medical sells products to hospitals through distribution, and customers are mainly distributors. The Company ensures product quality while actively enhancing service quality. We regularly communicate and analyze with clients in relation to the use of our products, and also provide product training and on-site Q&A service for customers. We conduct client satisfactory investigation on products and services each year and actively explore effective ways to provide better services for customers.

In 2019, AK Medical formulated *the Service and Feedback Control Procedures (《服務和反饋控制程序》)*, which collects and analyzes customer feedback from internal and external sources and measures the quality management system to effectively respond to feedbacks and complaints, so as to improve our product and service quality. The control procedures are applicable to complaints and products return during pre-sale, sale and after-sale of the Company's products. The Company sets out the responsibilities of relevant departments, including the customer service department, the research and development center, the technical service department and the quality control department, and clarifies the scope of service and feedback requirement to conduct standardization in accordance with *Corrective and Preventive Measures Disposal Form (《糾正與預防措施處置單》)*, *Product Quality Accident Management System (《產品質量事故管理制度》)*, *Product Recall Control Procedures (《產品召回控制程序》)* and *Risk Management Control Procedures (《風險管理控制程序》)*. Through the technological improvement of faulty products, complaint resolution, corrective measures and other aspects, we effectively enhanced our service levels.

JRI has formulated procedures for handling customer complaints, in which complaints will be recorded into the online complaint system within 24 hours of receiving the complaint, analysis and reporting of the complaint will be conducted within 48 hours, and ensures that the processing of the complaint is completed within 60 days. The Company analyzes and summarizes customer complaint results to generate monthly and annual customer complaint analysis reports, and incorporates into year-end management assessments to effectively manage and control the level of complaints.

In 2019, AK Medical received a total of 112 complaints from customers. The completion rates of customer complaints handled by AK Medical Beijing, JRI and ITI Medical were 100%, 87% and 100%, respectively, and customer satisfaction were 100%, 89.4% and 97.8%, respectively.

SUPPLY CHAIN MANAGEMENT

With the expansion of business, AK Medical's supply chain network continues to expand. The Company adheres to the principle of mutual benefits, establishing stable and close partnerships with suppliers through highly transparent, responsible procurement process and supplier management measures, which efficiently promote the comprehensive sustainable development of the entire supply chain.

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

The Company formulated a specified selection, review and exiting system for suppliers. In the selection of suppliers, the Company will identify suppliers as three categories, A, B, and C, where Class A is an important supplier of major raw materials, Class B is a supplier of important auxiliary materials, and Class C is a supplier of general auxiliary materials, corresponding to different review and monitoring levels. Suppliers who passed the monitoring system will be recorded in the quality control system. The Company will conduct a review on qualification of suppliers. Any products/materials of detective suppliers will be separated, and requested to take remedy measures. In 2019, AK Medical conducted reviews on 9 suppliers and conducted on-site inspections on 25 suppliers.

In 2019, AK Medical had a total of 136 suppliers. The specific distribution is as follows:

Suppliers by geographical region	2019 (in number)
Asia	62
Europe	70
South America	1
North America	3

ANTI-CORRUPTION

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

In order to further standardize the professional conduct of employees with integrity, we heighten the supervision and management of integrity and self-discipline awareness to eliminate the source of laws and disciplines violations. In 2019, AK Medical updated *the Administrative Regulations on Employees' Integrity and Self-discipline (《員工廉潔自律管理規定》)*, which focuses on all employees of the Company who negotiate and cooperate with third parties and proposes integrity obligations of employees, as well as clarifies the regulations regarding the treatment after violations to guide employees to perform their duties and exercise their power properly. In November 2019, the Company carried out a research on the "Connected Relationships Rights and Interests" for anti-corruption and anti-bribery commitments, and required employees of each center and department to truthfully fill in the "Connected Relationship Rights and Interests Declaration Form" for integrity and self-discipline commitments. After signing of the form, it will be collected and delivered to the person in charge of each department in order to prevent corruption.

The Company trains employees on the subject of anti-corruption every year to raise their legal awareness. In 2019, management and employees of AK Medical received anti-corruption training for 25 hours in total, of which, middle and senior management received 10 hours of training. In 2019, no corruption or embezzlement cases were reported in AK Medical.

COMMUNITY RESPONSIBILITY

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

In 2012, the Company established the education and training platform, "AK Institute", for the orthopedic medical workers, orthopedic industry practitioners and patients, aiming to provide professional education and training services for all orthopedic professionals, provide professional health care knowledge for patients and facilitate orthopedics, medical information exchange, and promote the latest medical technologies and concepts. AK Institute regularly conducts training courses, seminars relating to revisions and other topics, academic salons, forums, academic summits and orthopedic specialist touring talks for artificial joint doctors. We also regularly release "AK Institute 3-minutes classroom" online learning courses, continuously carry out patients' health education programs, including free orthopedic expert consultations and patient interaction and other activities, as well as holding charity events regularly every year. AK Institute has a long-term cooperation with Orthopaedic Research UK (ORUK) to implement the IPS international physician mentor training program, promoting medical information exchange and concepts in the field of orthopedics at home and abroad. In 2019, the training program has accelerated, holding 10 events in total and entering into more than 10 provinces and cities in the PRC, contributing to the improvement of orthopedic education in the country.

In August 2019, AK Medical organized the Xing'an league Walking Charitable Free Medical Consultations (興安盟健步行走慈善會義診活動) in Inner Mongolia, providing free medical checkup for local patients with several specialists of Peking University Third Hospital as well as donating joint implants.

In January 2020, the outbreak of COVID-19 in Hubei Province, China resulted in a crucial need for medical supplies in the affected areas. In order to combat the epidemic, AK Medical made a prompt response by donating medical supplies including N95 masks, surgical masks, general masks, protective clothing and protective glasses of an amount equivalent to RMB0.92 million to the affected areas. In addition, AK Medical donated RMB0.5 million and RMB5,150 to Wuhan Charity Federation and the branch of Communist Party of China respectively. Meanwhile, AK Medical issued reminders of combating the epidemic to the public for promoting the knowledge of safety and protection as well as promoting awareness of public health.

In 2019, AK Medical made social charity contribution of RMB0.28 million with cumulative time for community involvement of about 280 hours.

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

OPINION

We have audited the consolidated financial statements of AK Medical Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 74 to 140, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for year ended 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2019 in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

Revenue recognition	
Refer to notes 4 and 2(r) to the consolidated financial statements and the accounting policies on page 101 and 97.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group recognises revenue from the sales of artificial organ implants when the customer takes possession of and accepts the products. The actual point in time when revenue is recognised varies depending on the specific terms and conditions of the sales contracts entered into with customers. The Group's customers are mainly distributors and hospitals and sales contracts with customers have a variety of different terms relating to the recognition of revenue, the entitlement to rebates and the right of return of the goods sold by the Group. Sales rebates granted to customers entitle the customer to discounts on future purchases. They are primarily volume based and are earned by customers after achievement of specified milestones under the Group's loyalty programme. The calculation of the amount recognised in respect of expected sales rebates and sales returns is based on historical experience and expectations of future customer behaviour, and requires certain management judgments and estimations.	Our audit procedures to assess the recognition of revenue included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to revenue recognition and the calculation of the amount of the transaction price allocated to expected sales rebates and the amount of expected sales returns; • inspecting, on a sample basis, customer contracts to identify terms and conditions relating to goods acceptance, sales rebates and the rights of return of goods sold and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;

KEY AUDIT MATTERS (continued)

Revenue recognition	
Refer to notes 4 and 2(r) to the consolidated financial statements and the accounting policies on page 101 and 97.	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified the recognition of revenue as a key audit matter because revenue is a key performance indicator of the Group and is, therefore, subject to possible manipulation through the timing of revenue recognition to meet targets or expectations. In addition, the variety of terms of sale may affect the timing of the recognition of revenue and significant management judgment can be required to estimate sales rebates and sales returns.	• selecting a sample of sales rebate transactions recorded during the year and comparing the parameters used in the calculation of the rebate (including sales volumes and rebate rates) with the relevant source documents (including sales invoices, sales contracts and cumulative sales data recorded) to assess whether the methodology adopted in the calculation of the sales rebate was in accordance with the terms and conditions defined in the corresponding customer contract; • comparing the actual sales rebates recorded after the financial year end with the contract liabilities recognised for sale rebates by management at the financial year end date in order to assess the reliability of management's process for determining the amount of the sales rebate and to assess if the related revenue had been accounted for in the appropriate financial period; • comparing the actual sales returns rates used by the Group and actual sales returns recorded by the Group and also with the sales returns provision made in the previous year to assess the reliability of management's process for the estimation of the sales return rate for the sales of the year and the refund liabilities recognised at the financial year end; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with relevant underlying documentation, which included goods dispatch notes, shipping documents and goods receipt notes, as applicable under the different sales contracts, to assess whether the related revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the respective sales contracts; and • inspecting underlying documentation for journal entries relating to revenue which were considered to meet specific risk-based criteria.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
23 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019
(Expressed in Renminbi)

		Year ended 31 December	
		2019	2018 (Note)
	Note	**RMB'000**	RMB'000
Revenue	4	**926,705**	600,562
Cost of sales		**(283,454)**	(191,681)
Gross profit		**643,251**	408,881
Other income, net	5	**20,334**	4,943
Selling and distribution expenses		**(175,334)**	(122,877)
General and administrative expenses		**(92,203)**	(74,125)
Research and development expenses		**(80,527)**	(45,595)
Operating profit		**315,521**	171,227
Net finance income	7	**5,881**	3,273
Profit before taxation	6	**321,402**	174,500
Income tax	8	**(54,410)**	(29,564)
Profit for the year		**266,992**	144,936
Profit attributable to equity shareholders of the Company		**266,992**	144,936
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		**11,611**	3,347
Other comprehensive income, net of tax		**11,611**	3,347
Total comprehensive income		**278,603**	148,283
Total comprehensive income attributable to equity shareholders of the Company		**278,603**	148,283
Earnings per share			
Basic	11(a)	**RMB0.26**	RMB0.14
Diluted	11(b)	**RMB0.25**	RMB0.14

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

The notes on pages 80 to 140 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 12.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Renminbi)

	Note	At 31 December 2019 RMB'000	At 31 December 2018 (Note) RMB'000
Non-current assets			
Property, plant and equipment	13	284,384	165,547
Intangible assets	14	35,576	38,148
Goodwill	15	29,346	27,826
Deferred tax assets	26(b)	14,861	12,908
Prepayments for property, plant and equipment		–	23,382
		364,167	267,811
Current assets			
Inventories	17	229,330	166,401
Trade receivables	18	271,742	140,202
Bills receivable	18	84,167	44,002
Deposits, prepayments and other receivables	19	33,913	17,668
Other financial assets	29(d)	217,386	35,662
Pledged deposits		5,000	–
Cash and cash equivalents	20	276,521	421,054
		1,118,059	824,989
Current liabilities			
Trade payables	21	79,004	55,869
Contract liabilities	22	40,950	52,895
Accruals and other payables	23	170,573	103,851
Bank loans		1,700	–
Lease liabilities	24	3,940	599
Current tax	26(a)	31,710	15,272
		327,877	228,486
Net current assets		790,182	596,503
Total assets less current liabilities		1,154,349	864,314

	Note	At 31 December 2019 RMB'000	At 31 December 2018 (Note) RMB'000
Non-current liabilities			
Deferred income	27	13,193	10,522
Lease liabilities	24	6,295	347
Deferred tax liabilities	26(b)	18,851	11,687
		38,339	22,556
NET ASSETS		1,116,010	841,758
Capital and reserves			
Share capital	28(b)	8,888	8,779
Reserves	28(c)	1,107,122	832,979
Total equity attributable to equity shareholders of the Company		1,116,010	841,758
Total equity		1,116,010	841,758

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

Approved and authorised for issue by the board of directors on 23 March 2020 and signed on behalf of the board by:

Li Zhijiang
Director

Zhao Xiaohong
Director

The notes on pages 80 to 140 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019
(Expressed in Renminbi)

	Note	Share capital RMB'000 28(b)	Share premium RMB'000 28(c)(i)	Treasury shares RMB'000 28(c)(iv)	Capital reserve RMB'000 28(c)(ii)	Share option reserve RMB'000 28(c)(v)	Exchange reserve RMB'000 28(c)(vi)	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2018		8,450	411,196	–	55,174	742	1,036	190,762	667,360
Total comprehensive income for the year		–	–	–	–	–	3,347	144,936	148,283
Shares issued under over-allotment option	28(b)(i)	304	52,844	–	–	–	–	–	53,148
Equity settled share-based transactions	25	–	–	–	–	4,981	–	–	4,981
Shares issued under share option scheme	28(b)(ii)/ 28(c)(iv)	25	3,414	(3,439)	–	–	–	–	–
Dividends declared	12	–	(32,014)	–	–	–	–	–	(32,014)
Balance at 31 December 2018		8,779	435,440	(3,439)	55,174	5,723	4,383	335,698	841,758
Impact on initial application of IFRS 16 (note)		–	–	–	–	–	–	(971)	(971)
Adjusted Balance at 1 January 2019		**8,779**	**435,440**	**(3,439)**	**55,174**	**5,723**	**4,383**	**334,727**	**840,787**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**11,611**	**266,992**	**278,603**
Equity settled share-based transactions	25	**–**	**–**	**–**	**–**	**10,692**	**–**	**–**	**10,692**
Shares issued under share option scheme	28(b)(ii)/ 28(c)(iv)&(v)	**109**	**23,093**	**3,439**	**–**	**(8,560)**	**–**	**–**	**18,081**
Dividends declared	12	**–**	**(32,153)**	**–**	**–**	**–**	**–**	**–**	**(32,153)**
Balance at 31 December 2019		**8,888**	**426,380**	**–**	**55,174**	**7,855**	**15,994**	**601,719**	**1,116,010**

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

The notes on pages 80 to 140 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2019
(Expressed in Renminbi)

	Year ended 31 December	
	2019	2018
		(Note)
	RMB'000	RMB'000
Operating activities		
Profit before taxation	**321,402**	174,500
Adjustments for:		
Depreciation of property, plant and equipment	**24,604**	15,510
Amortisation of intangible assets	**7,553**	5,230
Recognisation of deferred income	**(3,922)**	(1,405)
Finance costs	**664**	18
Interest income	**(10,136)**	(5,810)
Credit losses for trade receivables	**4,450**	443
Loss on sales of property, plant and equipment	**197**	52
Equity-settled share-based payment expenses	**10,692**	4,981
	355,504	193,519
Changes in operating activities		
Inventories	**(62,929)**	(37,322)
Trade receivables	**(172,566)**	(38,804)
Deposits, prepayments and other receivables	**(16,883)**	(3,661)
Contract liabilities	**(11,945)**	52,895
Trade payables	**23,135**	5,208
Accruals and other payables	**68,169**	(20,334)
Pledged deposits	**(5,000)**	–
Cash generated from operations	**177,485**	151,501
Income tax paid	**(32,823)**	(23,509)
Net cash generated from operating activities	**144,662**	127,992

	Year ended 31 December	
	2019	2018
		(Note)
	RMB'000	RMB'000
Investing activities		
Interest received	**8,412**	4,553
Proceeds from sale of property, plant and equipment	**109**	205
Acquisition of subsidiaries	**–**	(123,799)
Acquisition of other financial assets	**(180,000)**	(35,000)
Acquisition of intangible assets	**(3,659)**	(2,846)
Acquisition of property, plant and equipment	**(103,259)**	(70,683)
Government grants received relating to assets	**6,593**	4,024
Net cash used in investing activities	**(271,804)**	(223,546)
Financing activities		
Capital element of lease rentals paid	**(5,186)**	(471)
Issuance of new shares	**–**	53,148
Proceeds from new bank loans	**1,700**	–
Interest element of lease rentals paid	**(664)**	(18)
Dividends paid	**(32,153)**	(32,014)
Proceeds from equity settled share-based payment	**14,642**	3,439
Cash paid relating to other financing activities	**–**	(28,259)
Net cash used in financing activities	**(21,661)**	(4,175)
Net decrease in cash and cash equivalents	**(148,803)**	(99,729)
Cash and cash equivalents at beginning of year	**421,054**	517,482
Effect of movements in exchange rates on cash hold	**4,270**	3,301
Cash and cash equivalents at end of year	**276,521**	421,054

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

The notes on pages 80 to 140 form part of these financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

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

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

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) 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. 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.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

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.

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

a. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

b. Lessee accounting and transitional impact

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 which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 13. For an explanation of how the Group applies lessee accounting, see note 2(i)(i).

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

b. Lessee accounting and transitional impact (continued)

The following table reconciles the operating lease commitments as disclosed in note 30(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

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 assets is identified as a right-of-use assets. There is no impact on the opening balance of equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

b. Lessee accounting and transitional impact (continued)

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 RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Property, plant and equipment	165,547	13,952	179,499
Deferred tax assets	12,908	190	13,098
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)	599	5,705	6,304
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)	347	8,602	8,949
Total non-current liabilities	22,556	8,602	31,158
Net assets	841,758	(971)	840,787

c. 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

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

The following tables may give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated 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 in 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 (A) RMB'000	Add back: IFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating lease as if under IAS 17 (note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B+C) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Financial result for year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	315,521	5,400	(6,268)	314,653	171,227
Finance costs	5,881	591	–	6,472	3,273
Profit before taxation	321,402	5,991	(6,268)	321,125	174,500
Income tax	(54,410)	(1,038)	1,064	(54,384)	(29,564)
Profit for the year	266,992	4,953	(5,204)	266,741	144,936
Reportable segment profit for year ended 31 December 2019 (note 4(b)) impacted by the adoption of IFRS 16:					
– Orthopedic implants – China	310,177	2,862	(3,161)	309,878	177,836
– Orthopedic implants – United Kingdom	13,679	3,129	(3,107)	13,701	230
– Total	323,856	5,991	(6,268)	323,579	178,066

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

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

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 (notes 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) RMB'000	Compared to amounts reported under IAS 17 RMB'000
Line items in the condensed consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	177,485	(5,177)	172,308	151,501
Net cash generated from operating activities	144,662	(5,177)	139,485	127,992
Capital element of lease rentals paid	(5,186)	4,586	(600)	(471)
Interest element of lease rentals paid	(664)	591	(73)	(18)
Net cash generated from financing activities	(21,661)	5,177	(16,484)	(4,175)

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 differences 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries

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

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

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

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

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

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

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Other investments in debt and equity securities

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

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

Investments other than equity investments

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

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

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

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

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)), including:

– land use rights, which are leasehold land located in Mainland China with lease term of normally 50 years;

– properties or buildings situated on the leasehold land where the Group is the registered owner of the property interest;

– right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and

– items of plant, machinery and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 2(i)).

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

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

– Properties and buildings	Situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion
– Leasehold properties and improvements	Over the remaining unexpired term of the lease
– Plant and machinery	3–15 years
– Motor vehicles	4–10 years
– Office equipment and furniture	3–5 years
– Land use rights	50 years

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

No depreciation is provided in respect of construction in progress.

(h) Intangible assets

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

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

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

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

Both the period and method of amortisation are reviewed annually.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

(i) Policy applicable from 1 January 2019

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.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. 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. 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.

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 (see notes 2(g) and 2(j)(ii)).

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.

The Group presents right-of-use assets in "property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets (continued)

(ii) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

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

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

(j) Credit losses and impairment of assets

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

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

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

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

Measurement of ECLs

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Measurement of ECLs (continued)
ECLs are measured on either of the following bases:

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

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

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

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

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

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

(ii) Impairment of other assets

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

– property, plant and equipment, including right-of-use assets;

– intangible assets;

– goodwill; and

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Impairment of other assets (continued)

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(k) Inventories

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Trade and other receivables

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

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

(m) Cash and cash equivalents

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

(n) Trade and other payables

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

(o) Employee benefits

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

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

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

(ii) Share-based payments

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

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

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

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

  - the same taxable entity; or

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

(q) Provisions and contingent liabilities

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

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

(r) Revenue and other income

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

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

(i) Sale of goods

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue and other income (continued)

(i) Sale of goods (continued)

Loyalty programme

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

(ii) Interest income

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

(iii) Government grants

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

(s) Translation of foreign currencies

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Related parties

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

a. has control or joint control over the Group;

b. has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

(u) Segment reporting

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

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Depreciation

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

(b) Allowance for expected credit losses

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

(c) Impairment of goodwill

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

(d) Net realisable value of inventories

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

(e) Income tax

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

(f) Sales return or exchanges

The Group's distribution agreements do not allow product returns or exchanges without the management's consent. However, in practice, the Group has historically accepted certain returns and exchanges by distributors of orthopedic joint implants. The Group believes that sales exchanges would not result in any significant outflow of the Group's resources embodying economic benefits. Based on past experience, the percentage of subsequent returns will be approximately 2% of annual sales for certain products. Therefore, the Group has not recognised revenue for certain products expected to be returned at the estimated return rate of 2% of annual sales for 2019.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

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

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Hip replacement implants	544,418	351,958
– Knee replacement implants	229,728	145,098
– 3D-printed products	123,433	69,945
– Third party orthopedic products	13,585	11,866
– Others	15,541	21,695
	926,705	600,562

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue in 2019 (2018: nil). Details of concentrations of credit risk arising from major customers are set out in note 29(a).

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

(b) Segment reporting

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

(i) Segment results, assets and liabilities

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

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

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

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting (continued)

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

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

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

Disaggregation of revenue from contracts with customers, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2019 RMB'000	2018 (Note) RMB'000	2019 RMB'000	2018 (Note) RMB'000	2019 RMB'000	2018 (Note) RMB'000
Revenue from external customers	834,970	531,738	91,735	68,824	926,705	600,562
Inter-segment revenue	–	–	51,150	33,760	51,150	33,760
Reportable segment revenue	834,970	531,738	142,885	102,584	977,855	634,322
Reportable segment profit	310,177	177,836	13,679	230	323,856	178,066
Interest income	10,136	5,148	–	–	10,136	5,148
Depreciation and amortisation for the year	18,671	12,505	13,486	8,235	32,157	20,740
Reportable segment assets	1,082,300	889,830	191,817	161,956	1,274,117	1,051,786
Additions to non-current assets during the year	115,813	77,972	16,481	8,268	132,294	86,240
Reportable segment liabilities	315,554	216,033	24,239	15,606	339,793	231,639

Note:

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting (continued)

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

	2019 RMB'000	2018 RMB'000
Revenue		
Reportable segment revenue	977,855	634,322
Elimination of inter-segment revenue	(51,150)	(33,760)
Consolidated revenue	926,705	600,562
Profit		
Reportable segment profit	323,856	178,066
Elimination of inter-segment profits	(2,454)	(3,566)
Consolidated profit before taxation	321,402	174,500
Assets		
Reportable segment assets	1,274,117	1,051,786
Elimination of inter-segment receivables	(24,138)	(7,556)
	1,249,979	1,044,230
Other financial assets	217,386	35,662
Deferred tax assets	14,861	12,908
Consolidated total assets	1,482,226	1,092,800
Liabilities		
Reportable segment liabilities	339,793	231,639
Elimination of inter-segment payables	(24,138)	(7,556)
	315,655	224,083
Current tax liabilities	31,710	15,272
Deferred tax liabilities	18,851	11,687
Consolidated total liabilities	366,216	251,042

(iii) Geographic information

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

	Revenues from external customers		Specified non-current assets	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
– China	799,611	513,130	261,717	181,491
– Other countries	127,094	87,432	87,589	73,412
	926,705	600,562	349,306	254,903

5 OTHER INCOME, NET

	2019 RMB'000	2018 RMB'000
Government grants	6,655	5,500
Insurance compensation	12,843	–
Others	836	(557)
	20,334	4,943

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs:

	Note	2019 RMB'000	2018 RMB'000
Salaries, wages and other benefits		147,499	94,272
Contribution to defined contribution retirement scheme		8,653	4,189
Equity settled share-based transactions	25	10,692	4,981
		166,844	103,442

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

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

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

6 PROFIT BEFORE TAXATION (continued)

(b) Other items

	2019 RMB'000	2018 RMB'000
Cost of Inventories*	**293,007**	199,000
Amortisation of intangible assets (note 14)	**7,553**	5,230
Depreciation charge (note 13)		
– self-owned property, plant and equipment	**19,014**	15,051
– right-of-use assets#	**5,590**	459
	24,604	15,510
Credit losses from trade and other receivables	**4,450**	443
Operating lease charges under IAS 17#	**–**	6,460
Auditors' remuneration		
– Audit services	**3,418**	3,176
– Audit related services	**–**	1,600

* Cost of inventories includes RMB60,516,000 in 2019 (2018: RMB43,210,000) relating to staff costs, depreciation and amortisation expenses, which are also included in the respective total amounts disclosed separately above.

\# The Group has initially applied IFRS 16 using the modified retrospective approach 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. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

7 NET FINANCE INCOME

	2019 RMB'000	2018 RMB'000
Interest income from bank deposits	**10,136**	5,148
Foreign exchange loss	**(3,591)**	(1,857)
Interest on lease liabilities	**(664)**	(18)
	5,881	3,273

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Amounts recognised in profit or loss

	2019 RMB'000	2018 RMB'000
Current tax		
Provision for the year	50,456	26,974
Over-provision in respect of prior years	(1,195)	(1,474)
Deferred tax		
Origination and reversal of temporary differences	5,149	4,064
	54,410	29,564

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

The Group has no assessable profit in Hong Kong for 2019 (2018: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2019 is 16.5% (2018: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for 2019 at the rates of taxation prevailing in the countries in which the Group operates.

Applicable statutory enterprise income tax rate of PRC subsidiaries of the Company for 2019 are 25% (2018: 25%). According to the relevant PRC income tax law, the Company's subsidiary, Beijing AKEC Medical Co., Ltd. ("**AK Medical Beijing**") was certified as a New and High Technology Enterprise in Beijing since 2008, and is entitled to a preferential income tax rate of 15%. The current certification of New and High Technology Enterprise held by AK Medical Beijing will be expired on 9 August 2020.

Taxation for subsidiaries operating mainly in the England and Wales were calculated at statutory enterprise income tax rate of 19% for 2019 (2018: 19%).

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

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

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	321,402	174,500
Notional tax of PRC statutory tax rate of 25%	80,351	43,625
Effect of PRC preferential tax rate	(31,459)	(18,887)
Effect of lower tax rates in other countries	(821)	(92)
Effect of non-deductible expenses	1,258	558
Effect of unused tax losses not recognised	2,873	3,163
Effect of additional deduction on research and development expenses*	(4,979)	(2,374)
PRC dividend withholding tax	8,382	5,045
Over-provision in respect of prior years	(1,195)	(1,474)
Actual tax expenses	54,410	29,564

* According to the relevant PRC income tax law, certain research and development costs of PRC subsidiaries are qualified for 75% (2018:75%) additional deduction for tax purpose.

9 DIRECTORS' EMOLUMENTS

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

2019	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based payment RMB'000 (Note 25)	Total RMB'000
Executive directors						
Li Zhijiang (chairman)	–	779	684	27	–	1,490
Zhang Bin	–	306	–	–	–	306
Zhang Chaoyang	–	506	584	27	–	1,117
Zhao Xiaohong	–	754	547	27	1,188	2,516
Non-executive directors						
Li Wenming	150	–	–	–	–	150
Wang David Guowei	–	–	–	–	–	–
Independent Non-executive directors						
Dang Gengting	150	–	–	–	–	150
Kong Chi Mo	158	–	–	–	–	158
Li Shu Wing David	158	–	–	–	–	158
	616	2,345	1,815	81	1,188	6,045

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

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 1 (2018: 3) is a director whose emoluments is disclosed in note 9. The aggregate of the emoluments in respect of the other 4 (2018: 2) individuals respectively, are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	**3,304**	921
Discretionary bonuses	**1,655**	1,150
Equity settled share-based transactions	**1,218**	457
Retirement scheme contributions	**352**	11
Compensation payment	**876**	–
	7,405	2,539

The emoluments of the 4 (2018: 2) individuals with the highest emoluments are within the following bands:

	2019	2018
HK$		
Nil – 1,000,000	**Nil**	Nil
1,000,001–1,500,000	**Nil**	1
1,500,001–2,000,000	**1**	1
2,000,001–2,500,000	**3**	Nil

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB266,992,000 (2018: RMB144,936,000) and the weighted average number of issued ordinary shares of 1,041,589,644 (2018: 1,037,191,781 shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2019	2018
Issued ordinary shares at 1 January	**1,040,475,000**	1,000,000,000
Effect of issue of shares under the over-allotment option (note 28(b)(i))	**–**	37,191,781
Effect of issue of shares under the Company's share option scheme (note 25)	**1,114,644**	–
Weighted average number of ordinary shares at 31 December	**1,041,589,644**	1,037,191,781

11 EARNINGS PER SHARE (continued)

(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 RMB266,992,000 (2018: RMB144,936,000) and the weighted average number of issued ordinary shares of 1,058,326,263 (2018: 1,047,691,162 shares) after adjusting the effects of dilutive potential ordinary shares during the year, as follows:

Weighted average number of ordinary shares (diluted)

	2019	2018
Weighted average number of ordinary shares at 31 December	1,041,589,644	1,037,191,781
Effect of deemed issue of shares under the Company's share option scheme (note 25)	16,736,619	10,499,381
Weighted average number of ordinary shares (diluted) at 31 December	1,058,326,263	1,047,691,162

12 DIVIDENDS

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

	2019 RMB'000	2018 RMB'000
Final dividend proposed after the end of the reporting period of HK$7.5 cents per ordinary share (2018: HK$3.5 cents per ordinary share)	74,318	31,908

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

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

	2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$3.5 cents per ordinary share (2018: HK$3.5 cents per ordinary share)	32,153	32,014

13 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Properties and buildings RMB'000	Leasehold properties and improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Land use rights RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
At 1 January 2018	9,140	10,658	78,911	2,426	3,637	–	42,269	147,041
Acquisition of subsidiaries	–	472	14,539	–	874	–	–	15,885
Additions	–	747	9,139	1,028	1,264	–	48,934	61,112
Disposals	–	(193)	(748)	(457)	–	–	–	(1,398)
Exchange adjustments	–	(13)	(388)	–	(23)	–	–	(424)
At 31 December 2018	9,140	11,671	101,453	2,997	5,752	–	91,203	222,216
IFRS 16 impact	–	12,607	–	1,345	–	–	–	13,952
1 January 2019	9,140	24,278	101,453	4,342	5,752	–	91,203	236,168
Additions	–	517	22,758	521	2,996	–	101,843	128,635
Transfer from construction in progress	113,651	–	44,428	–	–	21,406	(179,485)	–
Disposals	–	–	(3,392)	(345)	(367)	–	–	(4,104)
Exchange adjustments	–	165	1,516	73	108	–	–	1,862
At 31 December 2019	122,791	24,960	166,763	4,591	8,489	21,406	13,561	362,561
Accumulated depreciation								
At 1 January 2018	(4,010)	(6,724)	(27,966)	(1,135)	(2,536)	–	–	(42,371)
Charged for the year	(398)	(2,712)	(11,144)	(298)	(958)	–	–	(15,510)
Written back on disposals	–	48	659	434	–	–	–	1,141
Exchange adjustments	–	2	62	–	7	–	–	71
At 31 December 2018 and 1 January 2019	(4,408)	(9,386)	(38,389)	(999)	(3,487)	–	–	(56,669)
Charged for the year	(510)	(6,433)	(15,007)	(1,027)	(1,413)	(214)	–	(24,604)
Written back on disposals	–	–	3,064	221	346	–	–	3,631
Exchange adjustments	–	(68)	(394)	(21)	(52)	–	–	(535)
At 31 December 2019	(4,918)	(15,887)	(50,726)	(1,826)	(4,606)	(214)	–	(78,177)
Net book value								
At 31 December 2019	117,873	9,073	116,037	2,765	3,883	21,192	13,561	284,384
At 31 December 2018	4,732	2,285	63,064	1,998	2,265	–	91,203	165,547

Included in the properties and buildings are properties held for own use situated on long-term leasehold land and located in the PRC.

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

13 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Notes	31 December 2019 RMB'000	1 January 2019 RMB'000
Land use rights	(i)	**21,192**	–
Leasehold properties	(ii)	**8,524**	12,607
Plant and machinery		**403**	1,024
Motor vehicles		**1,010**	1,345
		31,129	14,976

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB'000	2018 (Note) RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Leasehold properties	**4,169**	–
Plant and machinery	**652**	459
Motor vehicles	**555**	–
Land use rights	**214**	–
	5,590	459
Interest on lease liabilities	**664**	18
Expense relating to short-term leases	**4,148**	–
Operating leases charges under IAS 17	**–**	6,460

13 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Right-of-use assets (continued)

Note: The Group has initially applied IFRS 16 using the modified retrospective approach 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. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

During the year, additions to right-of-use assets were RMB21,574,000. This amount included land use rights of RMB21,406,000, and the remainder primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in notes 20(c), 24 and 30(a), respectively.

(i) Land use rights

The Group holds the land use rights with a lease term of 50 years. Lump sum payments were made upfront to lease the land use rights from the government and there are no ongoing payments to be made under the terms of the land lease.

(ii) Leasehold properties

The Group has obtained the right to use leasehold properties as its factories and offices through tenancy agreements. The leases typically run for an initial period of 2 to 5 years. Lease payments are usually increased every year to reflect market rentals.

All the leases of the Group don't include the option to renew the lease for an additional period after the end of the contract term, and don't contain variable lease payment terms.

14 INTANGIBLE ASSETS

	Software RMB'000	Patent and products licenses RMB'000	Technical know-how RMB'000	Brand name RMB'000	Capitalised development costs RMB'000	Total RMB'000
Cost:						
At 1 January 2018	4,173	7,880	–	–	2,114	14,167
Acquisition of subsidiaries	2,563	3,177	16,794	8,250	–	30,784
Transfer from capitalised development costs	–	2,594	–	–	(2,594)	–
Additions	952	–	–	–	1,951	2,903
Exchange adjustments	(69)	(85)	(448)	(220)	–	(822)
At 31 December 2018 and 1 January 2019	7,619	13,566	16,346	8,030	1,471	47,032
Transfer from capitalised development costs	–	1,471	–	–	(1,471)	–
Additions	2,833	826	–	–	–	3,659
Exchange adjustments	200	178	893	439	–	1,710
At 31 December 2019	10,652	16,041	17,239	8,469	–	52,401
Accumulated amortisation						
At 1 January 2018	(1,674)	(2,035)	–	–	–	(3,709)
Charged for the year	(1,721)	(1,652)	(1,245)	(612)	–	(5,230)
Exchange adjustments	15	12	19	9	–	55
At 31 December 2018 and 1 January 2019	(3,380)	(3,675)	(1,226)	(603)	–	(8,884)
Charged for the year	(1,957)	(3,121)	(1,660)	(815)	–	(7,553)
Exchange adjustments	(107)	(86)	(131)	(64)	–	(388)
At 31 December 2019	(5,444)	(6,882)	(3,017)	(1,482)	–	(16,825)
Net book value						
At 31 December 2019	5,208	9,159	14,222	6,987	–	35,576
At 31 December 2018	4,239	9,891	15,120	7,427	1,471	38,148

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

15 GOODWILL

	2019 RMB'000	2018 RMB'000
Cost:		
At 1 January	27,826	–
Addition	–	28,589
Exchange adjustments	1,520	(763)
At 31 December	29,346	27,826
Carrying amount:		
At 31 December	29,346	27,826

(Expressed in RMB'000 unless otherwise indicated)

15 GOODWILL (continued)

Impairment tests for cash-generating units containing goodwill

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2.2% (2018: 2.4%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 16.2% (2018: 15.6%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

16 INVESTMENTS IN SUBSIDIARIES

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

			Percentage of equity attributable to Company			
Name of company	Place and date of incorporation/ establishment	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
AK Medical Investment Limited ("**AK Medical BVI**")	British Virgin Islands 21/07/2015	United States Dollars ("US$") 50,000	100%	100%	–	Investing holding company
Bright AK Limited ("**Bright AK HK**")	Hong Kong 07/07/2015	HK$10,000	100%	–	100%	Investing holding company
AK Medical International Limited ("**AK Medical HK**")	Hong Kong 28/07/2015	HK$1	100%	–	100%	Investing holding company
AK Medical Beijing 北京爱康宜誠醫療器材有限公司	The PRC 08/05/2003	RMB100,000,000	100%	–	100%	Design, develop, produce and market orthopedic joint implants and related products
Beijing XMKS Medical Co., Ltd. ("**AK Medical XMKS**") 北京西麥克斯醫療器械有限公司	The PRC 24/07/2007	RMB500,000	100%	–	100%	Sales of orthopedic joint implants products
ITI Medical Co., Ltd. (AK Medical Changzhou) 天衍醫療器材有限公司	The PRC 28/03/2016	US$13,200,000	100%	–	100%	Produce and market orthopedic joint implants and related products
JRI Orthopaedics Limited	The United Kingdom 06/04/1970	GBP 100,000	100%	–	100%	Design, develop, produce and market orthopedic joint implants and related products

17 INVENTORIES

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Raw materials	**78,834**	28,891
Work in progress	**52,899**	32,251
Finished goods	**97,597**	105,259
	229,330	166,401

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

	2019	2018
	RMB'000	RMB'000
Cost of inventories sold	**283,454**	191,681
Cost of inventories directly recognised as research and development expenses	**9,553**	7,319
	293,007	199,000

18 BILLS RECEIVABLE/TRADE RECEIVABLES

	31 December	31 December
	2019	2018
	RMB'000	RMB'000
Bills receivable	**84,167**	44,002
Trade receivables	**281,622**	146,303
Less: allowance for credit loss	**(9,880)**	(6,101)
	271,742	140,202

18 BILLS RECEIVABLE/TRADE RECEIVABLES (continued)

Ageing analysis

Bills receivable are bank acceptance bill received from customers, with expiration dates within 12 months.

As at 31 December 2019, the ageing analysis of trade receivables based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for credit loss, is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current to 3 months	**212,972**	105,243
3 to 6 months	**18,332**	14,274
6 to 12 months	**26,382**	14,906
Over 12 months	**14,056**	5,779
	271,742	140,202

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

19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	31 December	1 January	31 December
	2019	2019	2018
	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	**7,853**	9,397	9,397
Deposits	**2,623**	2,005	2,005
Refund assets (note 23(i))	**4,908**	3,256	3,256
VAT recoverable	**14,927**	–	–
Others*	**3,602**	2,204	3,010
	33,913	16,862	17,668

* On the date of transition to IFRS 16, accrued lease payments of RMB806,000 previously included in "Others" were adjusted to right-of-use assets recognised at 1 January 2019. See note 2(c).

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

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash at bank	**276,467**	420,964
Cash on hand	**54**	90
Cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow statement	**276,521**	421,054

As at 31 December 2019, cash and cash equivalents of the Group held in bank in the PRC amounted to RMB148,032,000(2018: RMB228,628,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of liabilities arising from financing activities

	Bank loans and other borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
At 31 December 2018	–	–	–
Impact on initial application of IFRS 16 (note)	–	15,253	15,253
At 1 January 2019	–	15,253	15,253
Proceeds from new bank loans	1,700	–	1,700
Capital element of lease rentals paid	–	(5,186)	(5,186)
Interest element of lease rentals paid	–	(664)	(664)
Total changes from financing cash flows	1,700	(5,850)	(4,150)
Other changes:			
Increase in lease liabilities from entering into new leases during the period	–	168	168
Interest expenses	–	664	664
At 31 December 2019	1,700	10,235	11,935

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. See notes 2(c).

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

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 **RMB'000**	2018 RMB'000
Within operating cash flows	**4,148**	6,460
Within investing cash flows	**657**	20,749
Within financing cash flows	**5,850**	489
	10,655	27,698

Note: As explained in the note to cash flow statement, the adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 **RMB'000**	2018 RMB'000
Lease rentals paid	**9,998**	6,949
Prepayment for land use rights	**657**	20,749
	10,655	27,698

21 TRADE PAYABLES

As at 31 December 2019, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Within 3 months	**63,493**	48,301
3 to 6 months	**12,058**	4,238
6 to 12 months	**1,648**	1,434
1 year to 2 years	**526**	922
Over 2 years	**1,279**	974
	79,004	55,869

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

22 CONTRACT LIABILITIES

	31 December 2019 RMB'000	31 December 2018 RMB'000
Contract liabilities		
Advance and deposit from customers	**20,387**	31,907
Sales rebates	**20,563**	20,988
	40,950	52,895

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

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

RMB41,873,000 has been recognised as revenue in 2019 that was included in the contract liabilities at the beginning of the year (2018: RMB34,776,000). All the balances of the contract liabilities at 31 December 2019 are expected to be recognised as revenue within one year.

23 ACCRUALS AND OTHER PAYABLES

	Note	31 December 2019 RMB'000	31 December 2018 RMB'000
Other taxes payable		**34,645**	20,182
Salary and welfare payable		**34,389**	15,095
Accrued charges		**51,614**	30,483
Refund liabilities	(i)	**15,813**	10,491
Payables to contractors and equipment suppliers		**17,208**	15,216
Others		**16,904**	12,384
		170,573	103,851

(i) Refund liabilities and refund assets

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

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

24 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS 16:

	At 31 December 2019		At 1 January 2019 (note)		31 December 2018	
	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	**Present value of the minimum lease payments RMB'000**	Total minimum lease payments RMB'000
Within 1 year	**3,940**	4,520	**6,304**	6,931	**599**	677
After 1 year but within 2 years	**2,663**	2,772	**3,940**	4,520	**347**	390
After 2 years but within 5 years	**3,632**	3,793	**5,009**	5,316	**–**	–
	6,295	6,565	**8,949**	9,836	**347**	390
	10,235	11,085	**15,253**	16,767	**946**	1,067
Less: total future interest expenses		(850)		(1,514)		(121)
Present value of lease liabilities		10,235		15,253		946

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to IFRS 16 are set out in note 2(c).

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

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

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

Options granted will become exercisable in four equal batches upon the satisfaction of certain performance targets in a financial year. The exercisable period will begin from the first business day after 1 May of the immediately following year, until 16 November 2027. Initially, the management required any shares obtained from the exercise would be subject to claw-back if service conditions were not met. In 2019, the Directors 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.

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

	2019		2018	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
Outstanding at the beginning of the year	**1.34**	**32,225**	1.34	36,000
Exercised during the year	**1.34**	**12,225**	1.34	2,975
Forfeited during the year	**1.34**	**1,225**	1.34	800
Granted during the year	**–**	**–**	–	–
Outstanding at the end of the year	**1.34**	**18,775**	1.34	32,225
Exercisable at the end of the year	**1.34**	**10,281**	1.34	17,600

The options outstanding at 31 December 2019 had a weighted average remaining contractual life of 8 years (2018: 9 years).

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Fair value of share options and assumptions

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

Fair value of share options and assumptions

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

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

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

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2019 RMB'000	2018 RMB'000
At 1 January	15,272	13,281
Provision for the year	50,456	26,974
Over-provision in respect of prior years	(1,195)	(1,474)
Provisional tax paid	(32,823)	(23,509)
At 31 December	31,710	15,272

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

(b) Deferred tax assets and liabilities:

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

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

Deferred tax arising from:	Sales rebate	Unrealised profits of intra-group transaction	Sales return	Tax losses	PRC Dividend withholding tax (iii)	Fair value adjustment in respect of net assets acquired in business combinations	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	3,400	2,136	604	1,104	(2,359)	–	3,232	8,117
Acquisition of subsidiaries	–	–	–	3,022	–	(4,757)	(1,168)	(2,903)
(Charged)/credited to profit or loss (note 8)	(252)	995	481	(315)	(5,044)	347	(276)	(4,064)
Exchange adjustments	–	–	–	(72)	–	126	17	71
At 31 December 2018	3,148	3,131	1,085	3,739	(7,403)	(4,284)	1,805	1,221
IFRS 16 impact (note 2(c)(b))	–	–	–	–	–	–	190	190
At 1 January 2019	3,148	3,131	1,085	3,739	(7,403)	(4,284)	1,995	1,411
(Charged)/credited to profit or loss (note 8)	(64)	1,030	552	(1,406)	(7,381)	469	1,651	(5,149)
Exchange adjustments	–	–	–	–	–	(252)	–	(252)
At 31 December 2019	3,084	4,161	1,637	2,333	(14,784)	(4,067)	3,646	(3,990)

(ii) Reconciliation to the consolidated statement of financial position

	2019 RMB'000	2018 RMB'000
Net deferred tax asset recognised	**14,861**	12,908
Net deferred tax liability recognised	**(18,851)**	(11,687)
	(3,990)	1,221

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

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

(iii) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB24,040,000 (2018: RMB12,650,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(iv) Deferred tax liabilities not recognised

Pursuant to Enterprise Income Tax Law in the PRC and its related regulations, the Group is subject to withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends receivable from its PRC subsidiaries in respect of their profits generated and on distribution of statutory surplus reserve upon liquidation. As at 31 December 2019, temporary differences relating to the reserves of the Company's PRC subsidiaries amounted to RMB443,873,000 (2018: RMB261,663,000), comprised retained earnings of RMB383,941,000 (2018: RMB202,571,000) and statutory surplus reserve of RMB59,932,000 (2018: RMB59,092,000). The Company controls the dividend policy of these subsidiaries and it has been determined that the 70% of profit for 2019 will not be distributable in the foreseeable future (2018: the retained earnings before 31 December 2018 and 70% of profit for 2018 will not be distributable). The Company has no plan to liquidate these subsidiaries in the foreseeable future. As a result, no deferred tax liability was recognised for the above mentioned temporary differences.

27 DEFERRED INCOME

	Government subsidies for research and development projects RMB'000
At 1 January 2018	7,903
Additions	4,024
Government grant recognised as other revenue	(1,405)
At 31 December 2018 and 1 January 2019	10,522
Additions	6,593
Government grant recognised as other revenue	(3,922)
At 31 December 2019	13,193

28 CAPITAL AND RESERVES

(a) Movements in components of equity

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

Company

	Note	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2018		8,450	411,196	–	60,700	742	1,231	7,012	489,331
Total comprehensive income for the year		–	–	–	–	–	12,385	(12,056)	329
Dividends declared	12	–	(32,014)	–	–	–	–	–	(32,014)
Shares issued under over-allotment option	28(b)(i)	304	52,844	–	–	–	–	–	53,148
Equity settled share-based transactions	25	–	–	–	–	4,981	–	–	4,981
Shares issued under share option scheme	28(b)(ii)/ 28(c)(iv)	25	3,414	(3,439)	–	–	–	–	–
Balance at 31 December 2018 and 1 January 2019		8,779	435,440	(3,439)	60,700	5,723	13,616	(5,044)	515,775
Total comprehensive income for the year		–	–	–	–	–	22,503	(10,701)	11,802
Dividends declared	12	–	(32,153)	–	–	–	–	–	(32,153)
Equity settled share-based transactions	25	–	–	–	–	10,692	–	–	10,692
Shares issued under share option scheme	28(b)(ii)/ 28(c)(iv)&(v)	109	23,093	3,439	–	(8,560)	–	–	18,081
Balance at 31 December 2019		8,888	426,380	–	60,700	7,855	36,119	(15,745)	524,197

(b) Share capital

	2019 No. of shares	2019 Amount RMB'000	2018 No. of shares	2018 Amount RMB'000
Authorised-ordinary shares of HK$0.01 each:				
At 1 January and 31 December	**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
Shares issued under over-allotment option (i)	**–**	**–**	37,500,000	304
Shares issued under share option scheme (ii)	**12,225,000**	**109**	2,975,000	25
At 31 December	**1,052,700,000**	**8,888**	1,040,475,000	8,779

28 CAPITAL AND RESERVES (continued)

(b) Share capital (continued)

The holders of ordinary shares as at 31 December 2019 are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

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

(ii) In 2019, options were exercised to subscribe for 12,225,000 ordinary share in the Company pursuant to the share option scheme (see note 25) at the consideration of RMB14,642,000, of which RMB109,000 was credited to share capital and RMB 14,533,000 was credited to share premium. RMB8,560,000 was transferred to share premium from the share option reserve in accordance with the policy set out in note 2(o)(ii).

In 2018, 2,975,000 ordinary shares were issued for the exercise of options under the share option scheme.

(c) Reserves

(i) Share premium

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

(ii) Capital reserve

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

(iii) Statutory reserve

Retained profit of the Group contains statutory reserve of the PRC subsidiaries of RMB59,932,000 (2018: RMB59,092,000).

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

28 CAPITAL AND RESERVES (continued)

(c) Reserves (continued)

(iv) Treasury shares

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

In 2019, the Directors 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 will be no longer presented as treasury shares. The originally recorded treasury shares were debited with the corresponding amount in "Accrual and other payables".

(v) Share option reserve

The Company adopted a share option scheme to employees as described in note 25. The Group recognises the grant-date fair value of the share options ratably over the vesting period. Accordingly, an amount of RMB10,692,000 (2018: RMB4,981,000) was charged as an equity-settled share-based payment to profit or loss with a corresponding increase in share option reserve for the year. Such share option reserve will be transferred to share premium as and when such option are exercised or when they expire.

(vi) Exchange reserve

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

(d) Distributability of reserves

At 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the Companies Law of the Cayman Islands, was RMB515,309,000 (2018: RMB609,582,000).

(e) Capital management

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

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

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings and lease liabilities) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019.

28 CAPITAL AND RESERVES (continued)

(e) Capital management (continued)

The Group's adjusted net debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to IFRS 16 was as follows:

	Note	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Current liabilities:				
Bank loans		1,700	–	–
Lease liabilities	24	3,940	6,304	599
		5,640	6,304	599
Non-current liabilities:				
Lease liabilities	24	6,295	8,949	347
Total debt		11,935	15,253	946
Add: Proposed dividends	12(i)	74,318	31,908	31,908
Less: Cash and cash equivalents	20(a)	276,521	421,054	421,054
Adjusted net debt		(190,268)	(373,893)	(388,200)
Total equity		1,116,010	840,787	841,758
Less: Proposed dividends	12(i)	74,318	31,908	31,908
Adjusted capital		1,041,692	808,879	809,850
Adjusted net debt-to-capital ratio		N/A	N/A	N/A

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

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

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

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

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

All bills receivable as at the end of each year are bank acceptance bills with the aging of less than 12 months.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2019, 1.2% (2018: 3.7%) of the total trade receivables was due from the Group's largest customer in 2019, and 8.4% (2018: 16.8%) was due from the five largest customers in 2019.

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

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

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix according to different segments.

(Expressed in RMB'000 unless otherwise indicated)

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

(a) Credit risk (continued)

The following table provides information about the Group's PRC subsidiaries exposure to credit risk and ECLs for trade receivables as at 31 December 2019:

	2019		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
Current	**1%**	**173,232**	**(1,831)**
1-3 months past due	**5%**	**82,351**	**(4,112)**
4-6 months past due	**5%**	**1,694**	**(85)**
7-12 months past due	**5%**	**740**	**(37)**
More than 1 years past due	**63%**	**5,891**	**(3,705)**
		263,908	**(9,770)**

	2018		
	Expected loss rate	Gross carrying amount	Loss allowance
Current	1%	97,298	(949)
1-3 months past due	5%	19,690	(1,037)
4-6 months past due	5%	2,916	(147)
7-12 months past due	5%	808	(40)
More than 1 years past due	49%	6,382	(3,148)
		127,094	(5,321)

The following table provides information about the Group's UK subsidiaries exposure to credit risk and ECLs for trade receivables as at 31 December 2019:

	2019		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
1-3 months past due	**1%**	**17,641**	**(110)**
More than 3 months past due	**–**	**73**	**–**
		17,714	**(110)**

	2018		
	Expected loss rate	Gross carrying amount	Loss allowance
1-3 months past due	1%	18,689	(260)
More than 3 months past due	100%	520	(520)
		19,209	(780)

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

(a) Credit risk (continued)

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

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

	2019 RMB'000	2018 RMB'000
Balance at 1 January	**6,101**	6,546
Reversals of impairment losses	**(671)**	(1,461)
Acquisition of subsidiaries	**–**	573
Credit losses recognised during the year	**4,450**	443
Balance at 31 December	**9,880**	6,101

(b) Liquidity risk

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

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

(b) Liquidity risk (continued)

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

	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
As at 31 December 2019					
Bank loans	**1,774**	**–**	**–**	**1,774**	**1,700**
Lease liabilities relating to leases previously classified under IAS 17 as finance leases	**390**	**–**	**–**	**390**	**347**
Other lease liabilities (note)	**4,130**	**2,772**	**3,793**	**10,695**	**9,888**
Trade payables	**79,004**	**–**	**–**	**79,004**	**79,004**
Accruals and other payables	**170,573**	**–**	**–**	**170,573**	**170,573**
Total	**255,871**	**2,772**	**3,793**	**262,436**	**261,512**

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Other lease liabilities include amounts recognised at the date of transition to IFRS 16 in respect of leases previously classified as operating leases under IAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 2(c).

	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	After 1 year but within 2 years RMB'000	Total RMB'000	Carrying amount RMB'000
As at 31 December 2018				
Lease liabilities relating to leases previously classified under IAS 17 as finance leases	677	390	1,067	946
Trade payables	55,869	–	55,869	55,869
Accruals and other payables	103,851	–	103,851	103,851
Total	160,397	390	160,787	160,666

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

(c) Currency risk

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

The following table details the Group's major exposure as at 31 December 2018 and 2019 to currency risk arising from assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Exposure to foreign currencies (expressed in RMB) As at 31 December 2019		
	HK$ RMB'000	**US$ RMB'000**	**EUR RMB'000**
Cash and cash equivalents	**138**	**96,285**	**1,418**
Trade receivables	**–**	**12,223**	**–**
	138	**108,508**	**1,418**

	Exposure to foreign currencies (expressed in RMB) As at 31 December 2018		
	HK$ RMB'000	US$ RMB'000	EUR RMB'000
Cash and cash equivalents	29,669	178,510	50
Trade receivables	–	4,641	–
	29,669	183,151	50

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

As at 31 December 2019, it is estimated that a general increase/decrease of 5% in foreign exchange rates of HK$ to RMB and US$ to RMB, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB6,000 and RMB4,612,000, respectively (2018: RMB1,261,000 and RMB7,784,000).

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

(d) Fair value measurement

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

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

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

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

	Fair value measurements as at 31 December 2019 categorised into			
	Fair value at 31/12/2019 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 FVPL	**217,386**	**–**	**217,386**	**–**

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

Other financial assets are measured at their fair values in the consolidated statement of financial position. The Group benchmarks the costs against fair values of comparable investments as of the end of each reporting period, and categorised all fair value measures of bank financial products as Level 2 of the fair value hierarchy because they are valued using directly or indirectly observable inputs in the market place.

30 COMMITMENTS

(a) Capital commitments of the Group mainly in respect of construction in progress outstanding as at 31 December 2019 not provided for in this financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Contracted for	**10,636**	14,851
Authorised but not contracted for	**84,121**	92,574
	94,757	107,425

In addition, the Group was committed at 31 December 2019 to enter into a lease of 3 years that is not yet commenced, the lease payments under which amounted to RMB3,021,000 per annum.

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

	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(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 2(i), and the details regarding the Group's future lease payments are disclosed in note 24.

31 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

In 2019, transactions with the following parties are considered as related party transaction:

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

(b) Key management personnel remuneration

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

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Salaries and other emoluments	**6,443**	6,569
Discretionary bonuses	**2,414**	3,254
Retirement scheme contributions	**267**	116
Equity settled share-based transactions	**5,524**	2,782
	14,648	12,721

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

32 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) The Company completed the placement and the subscription on 25 February 2020 and 4 March 2020, respectively. A total of 53,500,000 placing shares have been placed at the placing price of HK$15.0 per share to no fewer than six independent placees who and whose respective ultimate beneficial owners are independent of and not connected with the Company and its connected persons. The net proceeds of approximately HK$783,775,000 was intended to be used as general working capital and strategic investment of the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(b) On 23 March 2020, the directors proposed a final dividend. Further details are disclosed in note 12.

(c) The outbreak of COVID-19 virus in 2020 in China and the measures taken by the government could have an adverse effect on the Group's business:

  (i) some patients who expect to undergo joint implant operations delayed their surgery appointments or plans;

  (ii) there may be disruption or delay to the supply chain of the Group including the procurement of raw materials and delivery of finished products; and

  (iii) certain other suppliers and service providers may not be able to fully resume their supply or service capacities.

  Such impact has not been reflected in the financial statements as at 31 December 2019. The actual impact may differ from the estimate as more information may become available to the Group while the situation continue to evolve.

33 COMPARATIVE FIGURES

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

34 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

As at 31 December 2019, the directors consider the immediate parent to be Ximalaya Limited and the ultimate controlling parties of the Group to be Mr. Li Zhijiang. Ximalaya Limited is incorporated in British Virgin Islands and does not produce financial statements available for public use.

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

Statement of financial position

	Note	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Non-current asset			
Interests in subsidiaries		**433,236**	370,634
		433,236	370,634
Current asset			
Cash and cash equivalents		**110,604**	168,586
		110,604	168,586
Current liability			
Accruals and other payables		**19,643**	23,445
		19,643	23,445
Net current assets		**90,961**	145,141
Total assets less current liability		**524,197**	515,775
NET ASSETS		**524,197**	515,775
Capital and reserves			
Share capital	28(b)	**8,888**	8,779
Reserves	28(c)	**515,309**	506,996
Total equity		**524,197**	515,775

Approved and authorised for issue by the board of directors on 23 March 2020 and signed on behalf of the board by:

Li Zhijiang
Director

Zhao Xiaohong
Director

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for years beginning on or after
Amendments to IFRS 3, Definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8, Definition of material	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.