AK MEDICAL HOLDINGS LIMITED
愛康醫療控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1789)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

The board (the "**Board**") of directors (the "**Directors**") of AK Medical Holdings Limited (the "**Company**") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") for the six months ended 30 June 2018 (the "**Reporting Period**"), which have been reviewed by the Company's audit committee (the "**Audit Committee**"). The financial highlights of the Group during the Reporting Period together with the comparative figures for the corresponding previous period are set out as follows:

	Six months ended 30 June		
	2018	2017	Variance
	RMB'000	*RMB'000*	*%*
	(Unaudited)		
Revenue	**275,007**	162,517	69.2%
Gross Profit	**190,809**	111,703	70.8%
Profit for the period	**71,392**	50,050	42.6%
Profit attributable to equity shareholders of the Company	**71,392**	50,050	42.6%
Earnings per share			
Basic	**RMB0.07**	RMB0.07	–
Diluted	**RMB0.07**	RMB0.07	–

For the six months ended 30 June 2018, the Group kept its rapid growth trend and successfully achieved a revenue of RMB275.0 million, which represented a significant increase of 69.2% as compared to the same period of year 2017. After eliminating the impact of consolidation of JRI Orthopaedics Limited ("**JRI**"), the newly-acquired subsidiary, the Group still obtained a rapid growth rate of 53.9%. The significant increase of revenue was mainly driven by the increase of the sales of 3D-printed products which helped the Group to further develop its brand name and hence improved the sales of off-the shelf products as well.

The net profit of the Group for the six months ended 30 June 2018 also achieved a significant increase of 42.6% as compared to the same period of year 2017 as a result of the increase of revenue.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 – unaudited

		Six months ended 30 June	
		2018	2017
			(Note)
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**275,007**	162,517
Cost of sales		**(84,198)**	(50,814)
Gross profit		**190,809**	111,703
Other income		**449**	1,854
Selling and distribution expenses		**(50,192)**	(19,660)
General and administrative expenses		**(35,634)**	(18,276)
Research and development expenses		**(19,565)**	(17,929)
Operating profit		**85,867**	57,692
Net finance income		**2,086**	478
Profit before taxation		**87,953**	58,170
Income tax	*4*	**(16,561)**	(8,120)
Profit for the period		**71,392**	50,050
Profit attributable to equity shareholders of the Company		**71,392**	50,050
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 China		**(6,875)**	(740)
Other comprehensive income, net of tax		**(6,875)**	(740)
Total comprehensive income		**64,517**	49,310
Total comprehensive income attributable to equity shareholders of the Company		**64,517**	49,310
Earnings per share			
Basic	*5*	**RMB0.07**	RMB0.07
Diluted		**RMB0.07**	RMB0.07

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

at 30 June 2018 – unaudited

	Note	**30 June 2018** *RMB'000*	31 December 2017 *(Note)* *RMB'000*
Non-current assets			
Property, plant and equipment	*6*	**144,495**	104,670
Intangible assets		**41,019**	10,458
Goodwill		**28,589**	–
Deferred tax assets		**13,033**	10,366
Other non-current assets		**4,631**	545
		231,767	126,039
Current assets			
Inventories		**132,928**	86,817
Trade receivables	*7*	**160,338**	121,198
Deposits, prepayments and other receivables		**19,318**	6,071
Financial assets at fair value through profit and loss		**35,000**	–
Cash and cash equivalents		**430,427**	517,482
		778,011	731,568
Current liabilities			
Trade payables	*8*	**51,977**	43,048
Contract liabilities		**44,119**	–
Accruals and other payables		**114,889**	95,389
Obligations under finance leases		**597**	–
Current taxation		**19,361**	13,281
Deferred revenue		**–**	22,668
Provisions		**–**	4,976
		230,943	179,362
Net current assets		**547,068**	552,206

	Note	**30 June 2018** *RMB'000*	31 December 2017 *(Note)* *RMB'000*
Total assets less current liabilities		**778,835**	678,245
Non-current liabilities			
Deferred income		**10,824**	7,903
Obligations under finance leases		**647**	–
Deferred tax liabilities		**9,644**	2,359
		21,115	10,262
NET ASSETS		**757,720**	667,983
Capital and reserves	*9*		
Share capital		**8,756**	8,450
Reserves		**748,964**	659,533
Total equity attributable to equity shareholders of the Company		**757,720**	667,983
Total Equity		**757,720**	667,983

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

for the six months ended 30 June 2018 – unaudited

	Six months ended 30 June	
	2018	2017
		(Note)
	RMB'000	*RMB'000*
Operating activities		
Cash generated from operations	**83,159**	63,836
Tax paid	**(8,538)**	(7,357)
Net cash generated from operating activities	**74,621**	56,479
Investing activities		
Acquisition of property, plant and equipment	**(19,733)**	(24,363)
Acquisition of a subsidiary	**(123,799)**	–
Acquisition of financial assets	**(35,000)**	–
Other cash flows arising from/(used in) investing activities	**1,978**	(2,538)
Net cash used in investing activities	**(176,554)**	(26,901)
Financing activities		
Capital injection	**53,148**	–
Cash payment relating to expenses of issuing new shares	**(34,447)**	(267)
Dividends paid	**–**	(23,136)
Other cash flows arising from financing activities	**1,780**	–
Net cash generated from/(used in) financing activities	**20,481**	(23,403)
Net (decrease)/increase in cash and cash equivalents	**(81,452)**	6,175
Cash and cash equivalents at 1 January	**517,482**	160,597
Effect of movements in exchange rates on cash hold	**(5,603)**	(1,144)
Cash and cash equivalents at end of period	**430,427**	165,628

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORTS

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, Interim financial reporting, issued by the International Accounting Standards Board ("**IASB**"). It was authorised for issue on 27 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs.

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

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2017 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 19 March 2018.

2 CHANGES IN ACCOUNTING POLICIES

(a) Overview

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

- IFRS 9, Financial instruments

- IFRS 15, Revenue from contracts with customers

- IFRIC 22, Foreign currency transactions and advance consideration

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

The Group has been impacted by IFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by IFRS 15 in relation to measurement of credit losses and presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in note 2(b) for IFRS 9 and note 2(c) for IFRS 15.

Under the transition methods chosen, the group recognises cumulative effect of the initial application of IFRS 15 and IFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 15 and IFRS 9.

	At 31 December 2017 *RMB'000*	**Impact on initial application of IFRS 9** *RMB'000*	**Impact on initial application of IFRS 15** *RMB'000*	**At 1 January 2018** ***RMB'000***
Deferred tax assets	10,366	110	–	**10,476**
Total non-current assets	126,039	110	–	**126,149**
Trade receivables	121,198	(733)	–	**120,465**
Deposits, prepayments and other receivables	6,071	–	2,240	**8,311**
Total current assets	731,568	(733)	2,240	**733,075**
Accruals and other payables	(95,389)	–	11,499	**(83,890)**
Provisions	(4,976)	–	4,976	**–**
Contract liabilities	–	–	(41,383)	**(41,383)**
Deferred revenue	(22,668)	–	22,668	**–**
Total current liabilities	(179,362)	–	(2,240)	**(181,602)**
Net current assets	552,206	(733)	–	**551,473**
Total assets less current liabilities	678,245	(623)	–	**677,622**
NET ASSETS	667,983	(623)	–	**667,360**
Reserves	(659,533)	623	–	**(658,910)**
Total equity attributable to equity shareholders of the Company	(667,983)	623	–	**(667,360)**
Total equity	(667,983)	623	–	**(667,360)**

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

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

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

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

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

(c) ***IFRS 15, Revenue from contracts with customers***

Under IFRS 15, an entity is required to identify the performance obligations in the contract, determine the transaction price of the contract, allocate the transaction price to the performance obligations in the contract based on each performance obligation's standalone price, and recognise revenue when the performance obligations are satisfied.

The Group has assessed whether and how the new requirements would impact its accounting in different areas, including identification of the number and the nature of performance obligations for bundled sales transactions and sales incentive offers, determination of standalone price, price allocation method, contract modifications and cost capitalisation. Based on the assessment completed, with the exception of the accounting for contract costs which is further explained below, the Group has concluded that the new requirements did not result in material adjustments on the opening balances at 1 January 2018 as the Group's previous accounting policy was generally consistent with the new requirements in material respects.

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

Presentation of contract assets and liabilities

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

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

To reflect these changes, the Group has made the adjustments at 1 January 2018 as detailed in the above Note 2(a).

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

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

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

3 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Knee replacement implants	**72,890**	47,417
– Hip replacement implants	**162,425**	94,594
– 3D-printed product	**27,240**	9,777
– Third party orthopedic products	**6,043**	6,893
– Others	**6,409**	3,836
	275,007	162,517
Disaggregated by geographical location of customers		
– China	**244,263**	159,230
– United Kingdom	**14,994**	–
– Other countries	**15,750**	3,287
	275,007	162,517

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

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue during the six months ended 30 June 2017 and 2018.

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

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

	Orthopedic implants – China		Orthopedic implants – UK		Total	
For the six months ended 30 June	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**250,180**	162,517	**24,827**	–	**275,007**	162,517
Inter-segment revenue	**–**	–	**10,377**	–	**10,377**	–
Reportable segment revenue	**250,180**	162,517	**35,204**	–	**285,384**	162,517
Reportable segment profit	**86,849**	58,170	**2,452**	–	**89,301**	58,170
As at 30 June/31 December						
Reportable segment assets	**844,638**	857,607	**136,551**	–	**981,189**	857,607
Reportable segment liabilities	**235,143**	189,624	**16,915**	–	**252,058**	189,624

The measure used for reporting segment profit is "reportable segment profit before taxation", which represents the profit before taxation for the period attributable to each of the reportable segments.

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Reportable segment profit	**89,301**	58,170
Elimination of inter-segment profit	**(1,348)**	–
Consolidated profit before taxation	**87,953**	58,170

4 INCOME TAX

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current tax – the PRC Enterprise Income Tax	**16,126**	9,822
Current tax – Overseas	**466**	–
Deferred tax	**(31)**	(1,702)
	16,561	8,120

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

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

Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2018 at the rates of taxation prevailing in the countries in which the Group operates. The Company's subsidiaries operate mainly in the PRC and the applicable statutory enterprise income tax rate is 25% (for the six months ended 30 June 2017: 25%). Taxation for a subsidiary in the PRC was calculated at a preferential tax rate of 15% (for the six months ended 30 June 2017: 15%). Taxation for a subsidiary operating mainly in the England and Wales was calculated at statutory enterprise income tax rate of 19% (not applicable for the six months ended 30 June 2017).

5 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 RMB71,392,000 (six months ended 30 June 2017: RMB50,050,000) and the weighted average of 1,036,878,000 ordinary shares (2017: 750,000,000 shares, after adjusting for the share split in December 2017) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB71,392,000 (six months ended 30 June 2017: RMB50,050,000) and the weighted average number of ordinary shares of 1,041,570,000 (2017: 750,000,000 shares, after adjusting for the share split in December 2017).

6 PROPERTY, PLANT AND EQUIPMENT

In April 2018, the Group had additions in property, plant and equipment with fair value of RMB 18,443,000 through the acquisition of JRI from Orthopaedic Research UK. In addition, the Group also acquired items of property, plant and equipment with a cost of RMB31,398,000 (six months ended 30 June 2017: RMB24,490,000). Items of plant and machinery with a net book value RMB197,000 (2017: nil) were disposed of during the six months ended 30 June 2018 resulting in a loss on disposal of RMB52,000 (2017: nil).

7 TRADE RECEIVABLES

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

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Current to 3 months	**95,001**	67,504
3 to 6 months	**16,046**	14,638
6 to 12 months	**9,122**	12,010
Over 12 months	**5,748**	3,841
Trade receivables, net of loss allowance	**125,917**	97,993
Bills receivables	**34,421**	23,205
Bills and trade receivables, net of allowance	**160,338**	121,198

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

8 TRADE PAYABLES

As at 31 December 2017, and 30 June 2018, the ageing analysis of trade creditors, based on the invoice date, is as follows:

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Within 3 months	**40,412**	34,791
3 to 6 months	**5,084**	6,757
6 to 12 months	**5,379**	597
More than 1 year	**1,102**	903
	51,977	43,048

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

9 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2018 No. of shares	**2018** Amount RMB'000	2017 No. of shares	2017 Amount RMB'000
Authorised-ordinary shares of HK$0.01 each:				
At 1 January	**20,000,000,000**	**168,981**	38,000,000	300
Increase	**–**	**–**	–	–
At 30 June	**20,000,000,000**	**168,981**	38,000,000	300
Ordinary shares, issued and fully paid:				
At 1 January	**1,000,000,000**	**8,450**	100,000	1
Issuance of new shares	**37,500,000**	**304**	–	–
Shares issued under share option scheme *(Note 9(c))*	**250,000**	**2**	–	–
At 30 June	**1,037,750,000**	**8,756**	100,000	1

During the six months ended 30 June 2018, 37,500,000 new shares were issued by way of over-allotment option exercising. 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.

(b) Dividends

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

	2018 *RMB'000*	2017 *RMB'000*
Final dividend in respect of the previous financial year, approved during the following interim period, of 3.5 HK cents per ordinary share	**30,622**	–

(c) Equity settled share-based transactions

On 17 November 2017, 36,000,000 share options were granted for nil consideration to employees of the Company under the Company's employee share option scheme (no share options were granted during the six months ended 30 June 2017). Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest in four equal batches and the grantees shall be entitled to exercise, on the first business day immediately following 1 May 2018 until 16 November 2026, if certain performance conditions are met. The exercise price is HK$1.34.

250,000 options were exercised during the six months ended 30 June 2018 (2017: nil).

500,000 options were lapsed during the six months ended 30 June 2018 (2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

During the first half of 2018, the government of the People's Republic of China ("**PRC**" or "**China**") (for the purpose of this announcement, excluding the Hong Kong Special Administrative Region of the PRC, The Macao Special Administrative Region of the PRC and Taiwan) continued to push forward its medical system reform. The medical system reform plan comprises major changes to the fields of medical care, pharmaceuticals and medical insurance. Specifically, the National Health Commission has been established to replace the National Health and Family Planning Commission; the China Food and Drug Administration ("**CFDA**") has been combined into the State Administration for Market Regulation; and the State Medical Insurance Administration has been established to reinforce the government's function of ensuring medical care. The Group considers such reform initiatives will transform the entire medical industry in China in the future. At the same time, some significant regulations were promulgated with a view to regulating and guiding the market through law. Work has been done to control unreasonable hikes of medical expenses with the pilot program to reduce the pharmaceuticals/consumables proportion for public hospitals in an orderly manner. Such work has optimized the market environment and benefitted the promotion of domestic brands.

The Group has been leveraging on the opportunities brought by the policy to develop its business at a steady pace. As of 30 June 2018, we obtained a total of 3 CFDA-approved product registration certificates for Class II medical devices and 29 such certificates for Class III medical devices. Thus, we remain the orthopedic joint company with the largest number of registration certificates for Class III medical devices in China and our products can meet the needs of all types of orthopedic joint surgeries.

As of 30 June 2018, the Group recorded sales revenue of RMB275.0 million and a net profit of RMB71.4 million, representing an increase of 69.2% and 42.6% as compared to the same period of last year respectively.

3D-printed Products Business

We offer a total of three 3D-printed products approved by CFDA, namely, 3D-printed acetabular cup, 3D-printed spinal interbody cages and 3D-printed artificial vertebral bodies. We remain the only orthopedic company in China with 3D-printed metal implants approved by CFDA.

As of 30 June 2018, our 3D-printed products achieved sales revenue of RMB27.2 million. Meanwhile, we saw a 178.6% increase in the sales revenue from 3D-printed products as compared to that for the same period of last year. Such rapid growth has been maintained ever since the launch of our 3D-printed products, mainly owing to the fact that we are the only provider of such 3D-printed products in the market and the structural advantage of 3D-printed products is gradually gaining the recognition from orthopedists.

Other than our products, we also provide our customers with personalized 3D Accurate Construction Technology Solutions ("**3D ACT Solutions**"), with the aim to facilitate the penetration of our products into more hospitals. Such solutions assisted surgeons in simulating and planning for surgeries, simplifying the process of surgery by the provision of personalized surgical instruments and selecting implants before surgery, which may significantly accelerating the recovery of patients. As of 30 June 2018, the sales platform covered 647 hospitals and assisted doctors in designing 3,036 surgical solutions, representing an increase of 420 solutions in the Reporting Period as compared to the same period of 2017. Out of the 647 hospitals (101 more than the number at the end of 2017) covered by this platform, 426 are Class III hospitals. Hence, the platform played an important role in helping us to enter into the high-end medical market, especially Class III Grade A hospitals in first and second-tier cities.

Hip and Knee Products Business

For the first half of 2018, we continued to provide our customers and patients with a full range of orthopedic joint products, including hip and knee implants and tools for primary, complex, revision and reconstruction surgeries. As we obtained the AMRS (as defined below) product registration certificates as approved by CFDA, we have also entered into other segments of tumor reconstruction.

As of 30 June 2018, our hip and knee products delivered RMB235.3 million in revenue, representing a year-on-year increase of 65.7%, which was far higher than the industry growth rate. Such rapid growth in the sales revenue from hip and knee products was attributable to our superior product quality and extensive sales channels and revenue contributions from JRI's hip products. The rapid growth was attributable to the fact that we tapped into more hospitals by virtue of 3D printed products and its product performance recognised by more hospitals.

Research and Development

During the first half of 2018, the Group yielded strong results in the research and development ("**R&D**") of new products. During the Reporting Period, we obtained three new registration certificates for Class III medical devices approved by CFDA. In particular, our modular reconstruction system ("**AMRS**") is the first of its kind approved by CFDA through clinical trials in China. The subsequent femoral internal fixation system ("**FIFS**") is an internal fixation product for the treatment of femoral lateral revision or periprosthetic fracture of the femur after hip replacement. The Lamina fixation plate system ("**LFPS**") is a method for treating spinal lesions including spinal stenosis. The approval of the three products have enriched the product lines of the Group and helped it to gradually enter into the fields of reconstruction relating to trauma, spine and bone tumors, which also represents the Group's ability to offer complete clinical solutions from primary to complex surgeries, from revision to tumor reconstruction surgeries.

In addition to constantly developing new products, we also take the lead in establishing standards for the whole industry. On 17 May 2018, the CFDA released the "2018 Standard Revision Project for the Medical Device Industry "(《2018醫療器械行業標準制修訂計劃項目》). The Group was involved in drafting three industry standards on medical additive manufacturing, which represents a breakthrough for our Group to gain an authoritative footprint in the field of 3D-printing orthopedic application and a robust manifestation of the Group's research capability. This demonstrates that through years of unremitting research experience, innovation and development, we have completed the transformation from a "practitioner" to a "developer" for the healthy development of 3D-printing orthopedic application.

Acquisition of JRI

On 10 April 2018, the Group completed the acquisition of the entire shares in JRI at a consideration of £16,732,000. JRI, a private company incorporated with limited liabilities in England and Wales, is principally engaged in designing, developing and manufacturing orthopedic implants and operational instruments. It is one of the first orthopedic companies in the world to develop and produce hip implants with hydroxyapatite coating, which renders biological fixation for the patients' bone and improve the longevity of such hip implants. Apart from hip implants, it also develops and distributes total shoulder replacement implants and offers a series of orthobiologics.

The acquisition of JRI will help the Group expand its product portfolio and materialize its dual-brand strategy, enhance the Group's R&D and academic promotion capabilities, and helps the Group get a better understanding of oversea markets so as to gradually enter into the international market.

After the completion of its acquisition of JRI, the Company has established a new board of directors in JRI, which reappointed the general manager of JRI. The general manager carries out daily management of JRI within his scope of authority. JRI's board of directors has approved the annual operation plan and annual budget for 2018 and identified the key targets and focuses for 2018. The monthly reporting system and exception reporting system were also established for identifying and solving problems on a timely manner, which ensure the realisation of annual targets.

Outlook

R&D will continue to be the core driving force of the Group's future development. We will focus on the development of premium products and enrich the product lines, as well as utilising our unique edge on 3D printing technology in combination with academic promotion activities for marketing purpose, thereby boosting overall sales revenue of the Group.

FINANCIAL REVIEW

Overview

Faced with a challenging market for medical devices, the Group have benefited from its leading 3D-printed products and continuous diversification of product lines, and have leveraged on opportunities brought by import substitution. Hence, for the six months ended 30 June 2018, the Group kept its rapid growth and maintained its leading position in the Chinese joint implants market in terms of sales volume, with a further increase in market share. We consider that we will grow our business even further and continue to improve the quality of life for hundreds of millions of patients, with our subsequent R&D of more new products, implementation of the dual-brand strategy and our advantageous 3D ACT platform.

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

Revenue

	For the six months ended 30 June		
	2018	2017	Change
	RMB'000	*RMB'000*	*%*
Knee replacement implants	**72,890**	47,417	53.7%
Hip replacement implants[1]	**162,425**	94,594	71.7%
3D-printed products[2]	**27,240**	9,777	178.6%
Third party orthopedic products	**6,043**	6,893	(12.3%)
Others[3]	**6,409**	3,836	67.1%
Total	**275,007**	162,517	69.2%

Notes:

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

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

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

Our revenue amounted to RMB275.0 million for the six months ended 30 June 2018, representing an increase of 69.2% compared to RMB162.5 million for the six months ended 30 June 2017. After eliminating the impact of revenue consolidation of RMB24.8 million from JRI, the Group still obtained a growth rate of 53.9%. Such increase was mainly driven by the strong sales performance of replacement implants, including 3D-printed products.

Hip and Knee Replacement Implants Products

Our hip and knee replacement implants products include knee replacement implants and hip replacement implants. The former recorded revenue of RMB72.9 million for the six months ended 30 June 2018, representing an increase of 53.7% as compared with that of RMB47.4 million for the six months ended 30 June 2017. Such increase was mainly attributable to the increase of sales driven by the Group's provision of knee products with a relatively high price-performance ratio to the market.

Our hip replacement implants recorded revenue of RMB162.4 million for the six months ended 30 June 2018, representing an increase of 71.7% as compared with that of RMB94.6 million for the six months ended 30 June 2017. In addition to the impact of hip revenue consolidation of RMB24.8 million from JRI (a newly acquired wholly-owned subsidiary), such increase was partly attributable to the fact that the Group tapped into more hospitals by virtue of 3D printed products and its product performance was recognized by more hospitals and distributors, which enabled the sales growth of hip replacement implants. Meanwhile, as a higher sales proportion of product portfolio came from the new products we launched during the previous period, the average selling unit price of hip replacement implants grew accordingly in 2018, which also boosted the revenue growth of hip replacement implants.

3D-printed products

Our 3D-Printed Products mainly include 3D-printed hip replacement implants, 3D-printed artificial vertebral bodies and spinal interbody cages. Our 3D-Printed Products recorded revenue of RMB27.2 million for the six months ended 30 June 2018, representing an increase of 178.6% as compared with that of RMB9.8 million for the six months ended 30 June 2017. Such increase was mainly due to the fact that our 3D-printed products were the only 3D-printed orthopedic products in China with the relevant registration certificates. Upon their launch, such products have been highly recognized by the market and hence delivered such sales growth.

Third party orthopedic products

To enrich our product portfolio, we also distribute the orthopedic products produced by third parties. For the six months ended 30 June 2018 and the six months ended 30 June 2017, our revenue from distributing third party orthopedic products amounted to RMB6.0 million and RMB6.9 million, representing 2.2% and 4.2% of our revenue respectively.

Domestic and overseas sales

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

	Six months ended June 30		
	2018	2017	Change
	RMB'000	*RMB'000*	*%*
– China	244,263	159,230	53.4%
– United Kingdom	14,994	–	–
– Other countries	15,750	3,287	379.2%
Total	275,007	162,517	69.2%

Cost of sales

For the six months ended 30 June 2018, our cost of sales was RMB84.2 million, representing an increase of 65.7% as compared with RMB50.8 million for the six months ended 30 June 2017. The increase in cost of sales was primarily due to the growth of our sales of off-the-shell products and 3D-printed products.

Gross profit and gross margin

Gross profit represents revenue less cost of sales. Our gross profit grew by 70.8% to RMB190.8 million for the six months ended 30 June 2018 from RMB111.7 million for the six months ended 30 June 2017. The increase in gross profit was primarily driven by the increase in our overall business scale.

Gross margin is calculated as gross profit divided by revenue. Our gross margin was 69.4% for the six months ended 30 June 2018, up from 68.7% for the six months ended 30 June 2017, which was primarily owing to the higher proportion of products with a relatively high gross margin in our product portfolio, such as A3 knee and 3D-printed products.

Other income

For the six months ended 30 June 2018, the other income of the Group amounted to RMB0.4 million, as compared with that of RMB1.9 million for the six months ended 30 June 2017. The decrease in other income mainly resulted from the decrease in government grants.

Selling and distribution expenses

Selling and distribution expenses was RMB50.2 million for the six months ended 30 June 2018, representing an increase of RMB30.5 million as compared with RMB19.7 million for the six months ended 30 June 2017. Except for the RMB6.2 million arising from the expenses of sales for the addition of JRI, such increase was primarily a result of increased expenses incurred by more external services, academic promotion and industry conferences, more compensation, benefits and travel expenses due to an increase in the number of sales personnel; and the increase of various expenses such as the corresponding logistic expenses due to the expanding business scale.

General and administrative expenses

General and administrative expenses amounted to RMB35.6 million for the six months ended 30 June 2018, representing an increase of RMB17.3 million as compared with RMB18.3 million for the six months ended 30 June 2017. In addition to the RMB6.0 million in general and administrative expenses resulting from the addition of JRI and the one-off M&A expenses of RMB5.5 million resulting from the acquisition of JRI, such increase primarily came from the increase in option expenses and management consulting fees for the Group.

Research and development expenses

Research and development expenses amounted to RMB19.6 million for the six months ended 30 June 2018, which increased by 9.5% when compared with the RMB17.9 million for the six months ended 30 June 2017 as the Group invested more in 3D related R&D activities.

Net finance income

Net finance income was RMB2.1 million for the six months ended 30 June 2018, representing an increase of RMB1.6 million from RMB0.5 million for the six months ended 30 June 2017. Such increase was primarily attributable to the increase in capital held by the Company in 2018 as compared with the first half year of 2017, which generated extra interest income.

Income tax

Income tax was RMB16.6 million for the six months ended 30 June 2018, representing an increase of 104.0% as compared with RMB8.1 million for the six months ended 30 June 2017. Such increase was primarily due to an increase in profit before taxation 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 operation entities in China for the six months ended 30 June 2018 also led to the increase in income tax.

Liquidity and financial resources

As of 30 June 2018, we had cash and cash equivalents of RMB430.4 million, as compared to RMB517.5 million as of 31 December 2017. The Board's approach to manage the liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities so as to avoid any unacceptable losses or damage to the Group's reputation.

Net current assets

We had net current assets of RMB778.0 million as at 30 June 2018, representing an increase of RMB46.4 million as compared with RMB731.6 million as of 31 December 2017. Such increase primarily represents the proceeds from the operations of the Group.

Foreign exchange exposure

We are exposed to foreign currency risks, primarily through overseas sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transaction relate. The currencies giving rise to this risk are primarily US$ and Euro. For the six months ended 30 June 2018, the Group recorded a net exchange gain of RMB0.4 million, as compared to an exchange loss of RMB0.1 million for the six months ended 30 June 2017. So far, the Group has not had any significant hedging arrangements to manage foreign exchange risks but has been actively monitoring and overseeing its foreign exchange risks.

Capital expenditure

For the six months ended 30 June 2018, the Group's total capital expenditure amounted to approximately RMB31.4 million, which was primarily used in (i) construction of buildings; (ii) acquiring equipment and machinery; and (iii) the expenditure for R&D projects under the development stage.

Charge of assets/pledge of assets

As of 30 June 2018, we did not have any charge of assets or pledge of assets.

Borrowings

As of 30 June 2018, we did not have any outstanding bank loans and other borrowings. Accordingly, no gearing ratio is presented.

Contingent liabilities

As of 30 June 2018, we did not have any material contingent liabilities (as of December 31, 2017: nil).

Significant investments

As of 30 June 2018, we did not hold any other significant investments in the equity interests of any other companies, except for the acquisition of JRI.

Future plans for material investments and capital assets

As of 30 June 2018, we did not have other plans for material investments and capital assets, except for the construction of Changzhou Facilities as disclosed in the Prospectus.

Employee and remuneration policy

As of 30 June 2018, the Group had 539 employees (30 June 2017: 345 employees). Total staff remuneration expenses including Directors' remuneration for the six months ended 30 June 2018 amounted to RMB41.3 million (for the six months ended 30 June 2017: RMB23.9 million).

Remuneration is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice.

In addition to salary payments, other staff benefits include social insurance and housing provident contribution made by the Group, performance-based compensation and bonus and share option scheme.

Use of proceeds from initial public offering

The net proceeds from the initial public offering of the Company were approximately HKD477.0 million. The net proceeds have been utilized in the manner consistent with that disclosed in the prospectus of the Company dated December 7, 2017 under the section headed "Future Plans and Use of Proceeds".

The net proceeds from the initial public offering of the Company will be utilized in accordance with the purposes set out in the Prospectus. As of 30 June 2018, the Group applied the net proceeds for the following purposes.

	Percentage of total amount	Use of proceeds in the same manner and proportion as stated in the Prospectus	Actual use of proceeds up to 30 June 2018	Balance as at 30 June 2018
		(in millions of Hong Kong dollars) (approximate)		
Construction of Changzhou Facilities and upgrade our existing facilities	41%	195	53	142
Development and upgrade of our 3D-printed products and PTIP, funding the R&D of 3D-printed products	21%	100	15	85
For other R&D activities	15%	73	10	63
Funding potential acquisitions and developing strategic alliances	15%	73	73	–
For general corporate purposes	8%	36	36	–
Total	**100%**	**477**	**187**	**290**

Subsequent event

As of the date of this announcement, the Group had no material events since 30 June 2018.

SUPPLEMENTAL INFORMATION

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 June 2018, other than the acquisition of JRI, we did not have any material acquisition and disposal of subsidiaries and affiliated companies.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as the code of conduct regarding securities transactions by Directors. Having made specific enquiry by the Company, all the Directors confirmed that they have complied with the requirements as set out in the Model Code throughout the period of six months ended 30 June 2018.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

As at six months ended 30 June 2018, save as provisions addressed below, the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules.

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

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

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

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

REVIEW BY THE AUDIT COMMITTEE

The audit committee consists of 2 independent non-executive directors, Mr. Kong Chi Mo (Chairman), Mr. Li Shu Wing David and 1 non-executive director, Mr. Li Wenming.

The Group's interim results for the six months ended 30 June 2018 have been reviewed by all members of the Audit Committee. Based on such review, the Audit Committee was satisfied that the Group's unaudited interim results were prepared in accordance with applicable accounting standards.

INDEPENDENT REVIEW OF AUDITORS

The interim financial report for the six months ended 30 June 2018 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to the shareholders.

INTERIM DIVIDEND

The Board did not recommend to declare any interim dividend for the six months ended 30 June 2018.

DISCLOSURE OF INFORMATION

This announcement has been published on the websites of the Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://ak-medical.net). The interim report of the Company for the six months ended 30 June 2018 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

By Order of the Board
AK Medical Holdings Limited
Li Zhijiang
Chairman

Hong Kong, 27 August 2018

As at the date of this announcement, the Board comprises Mr. Li Zhijiang, Ms. Zhang Bin, Mr. Zhang Chaoyang and Ms. Zhao Xiaohong as executive directors, Mr. Li Wenming and Dr. Wang David Guowei as non-executive directors, and Mr. Dang Gengting, Mr. Kong Chi Mo and Mr. Li Shu Wing David as independent non-executive directors.