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 2019

FINANCIAL HIGHLIGHTS

The board (the "**Board**") of directors (the "**Directors**") of AK Medical Holdings Limited 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 2019 (the "**Reporting Period**"), which have been reviewed by the Company's audit committee (the "**Audit Committee**"). The financial highlights of the Group for the Reporting Period together with the comparative figures for the corresponding previous period are set out as follows:

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

For the six months ended 30 June 2019, the Group continued to maintain a rapid growth and successfully achieved the revenue of RMB437.8 million, which was a significant increase of 59.2% as compared to the same period of 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 Company's 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 six months ended 30 June 2019 also significantly increased by 81.5% as compared to the same period of 2018 as a result of the increase of revenue.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi)

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

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

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2019 – unaudited
(Expressed in Renminbi)

	Note	30 June 2019 RMB'000	31 December 2018 (Note) RMB'000
Non-current assets			
Property, plant and equipment	6	**215,358**	165,547
Right-of-use assets		**34,224**	–
Intangible assets		**35,820**	38,148
Goodwill		**27,938**	27,826
Deferred tax assets		**13,981**	12,908
Prepayments for property, plant and equipment		**4,577**	23,382
		331,898	267,811
Current assets			
Inventories		**192,755**	166,401
Trade receivables	7	**244,072**	184,204
Deposits, prepayments and other receivables		**17,068**	17,668
Other financial assets		**36,208**	35,662
Cash and cash equivalents		**462,342**	421,054
		952,445	824,989
Current liabilities			
Trade payables	8	**68,103**	55,869
Contract liabilities		**40,597**	52,895
Accruals and other payables		**156,009**	103,851
Lease liabilities		**6,035**	–
Obligations under finance leases		**–**	599
Current taxation		**23,988**	15,272
		294,732	228,486
Net current assets		**657,713**	596,503
Total assets less current liabilities		**989,611**	864,314

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
at 30 June 2019 – unaudited
(Expressed in Renminbi)

	Note	**30 June 2019** **RMB'000**	31 December 2018 *(Note)* *RMB'000*
Non-current liabilities			
Deferred income		**13,511**	10,522
Lease liabilities		**6,637**	–
Obligations under finance leases		**–**	347
Deferred tax liabilities		**15,467**	11,687
		35,615	22,556
Net assets		**953,996**	841,758
Capital and reserves			
Share capital	*9(a)*	**8,804**	8,779
Reserves		**945,192**	832,979
Total equity attributable to equity shareholders of the Company		**953,996**	841,758
Total Equity		**953,996**	841,758

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

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi)

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

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

The accompanying notes form part of these financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORTS
(Expressed in RMB'000 unless otherwise indicated)

1 BASIS OF PREPARATION

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

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES

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

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

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.

(a) Changes in the accounting policies

Lessee accounting

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

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.

(b) Transitional impact

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

	Carrying amount at 31 December 2018	**Capitalisation of operating lease contracts**	**Carrying amount at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Property, plant and equipment	165,547	(1,784)	163,763
Right-of-use assets	–	15,736	15,736
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)	–	6,304	6,304
Obligations under finance leases (current)	599	(599)	–
Current liabilities	228,486	5,705	234,191
Net current assets	596,503	(6,511)	589,992
Total assets less current liabilities	864,314	7,631	871,945
Lease liabilities (non-current)	–	8,949	8,949
Obligations under finance leases (non-current)	347	(347)	–
Total non-current liabilities	22,556	8,602	31,158
Net assets	841,758	(971)	840,787

(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.

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.

3 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

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

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

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

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

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

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

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

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

(c) **Reconciliations of reportable segment profit or loss**

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

4 INCOME TAX

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

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

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

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

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 RMB129,555,000 (six months ended 30 June 2018: RMB71,392,000) and the weighted average of 1,037,500,000 ordinary shares (2018: 1,036,878,000 shares) in issue during the reporting period.

(b) Diluted earnings per share

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

6 PROPERTY, PLANT AND EQUIPMENT

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

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

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

8 TRADE PAYABLES

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

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

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

9 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2019		2018	
	No. of shares	***Amount RMB'000***	*No. of shares*	*Amount RMB'000*
Authorised-ordinary shares of HK$0.01 each:				
At 1 January and 30 June	**20,000,000,000**	**168,981**	20,000,000,000	168,981
Ordinary shares, issued and fully paid:				
At 1 January	**1,040,475,000**	**8,779**	1,000,000,000	8,450
Issuance of new shares	**–**	**–**	37,500,000	304
Shares issued under share option scheme *(Note 9(c))*	**2,870,000**	**25**	250,000	2
At 30 June	**1,043,345,000**	**8,804**	1,037,750,000	8,756

(b) Dividends

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

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

(c) Equity settled share-based transactions

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

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

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

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

3D-printed Products Business

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

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

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

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

Hip and Knee Products Business

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

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

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

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

Research and Development

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

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

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

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

Sales and Operation

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

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

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

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

Outlook

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

FINANCIAL REVIEW

Overview

Faced with a challenging market for medical devices, the Group has benefited from its leading 3D-printing technology and continuous diversification of product lines, and leveraging on opportunities brought by import substitution, the Company expands the market proactively. Hence, for the six months ended 30 June 2019, the Company kept its rapid growth, maintained its leading position in the Chinese joint implants market in terms of sales, and recorded a further increase in market share. We firmly believe that we will grow our business even further and continue to improve the quality of life for patients, with our subsequent R&D of more new products, implementation of the dual-brand global strategy and our advantageous 3D ACT platform.

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

Revenue

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

Notes:

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

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

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

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

Hip and Knee Implants Products

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

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

3D-printed Products

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

Third Party Orthopedic Products

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

Domestic and Overseas Sales

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

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

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

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

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

Cost of Sales

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

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. Our gross profit grew by 59.6% to RMB304.6 million for the six months ended 30 June 2019 from RMB190.8 million for the six months ended 30 June 2018. The increase in gross profit was primarily driven by the increase in our overall business scale.

Gross margin is calculated as gross profit divided by revenue. Our gross margin was 69.6% for the six months ended 30 June 2019, up from 69.4% for the six months ended 30 June 2018, which was primarily due to the increased proportion of products such as A3 knee products and 3D-printed products with a relatively high gross margin in the product portfolio.

Other Income

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

Selling and Distribution Expenses

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

General and Administrative Expenses

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

Research and Development Expenses

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

Net Finance Income

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

Income Tax

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

Liquidity and Financial Resources

As at 30 June 2019, we had cash and cash equivalents of RMB462.3 million, as compared with RMB421.1 million as at 31 December 2018. The Board's approach to manage the liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities so as to avoid any unacceptable losses or damage to the Group's reputation.

Current Assets

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

Foreign Exchange Exposure

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

Capital Expenditure

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

Charge of Assets/Pledge of Assets

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

Borrowings

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

Contingent Liabilities

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

Significant Investments

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

Future Plans for Material Investments and Capital Assets

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

Employee and Remuneration Policy

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

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

Use of Proceeds from Initial Public Offering

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

The net proceeds from the initial public offering of the Company will be utilized in accordance with the purposes set out in the Prospectus. As of 30 June 2019, the Group applied the net proceeds for the following purposes.

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

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 2019.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code 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 2019.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

INTERIM DIVIDEND

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

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 2019 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, 26 August 2019

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.