愛康醫療控股有限公司

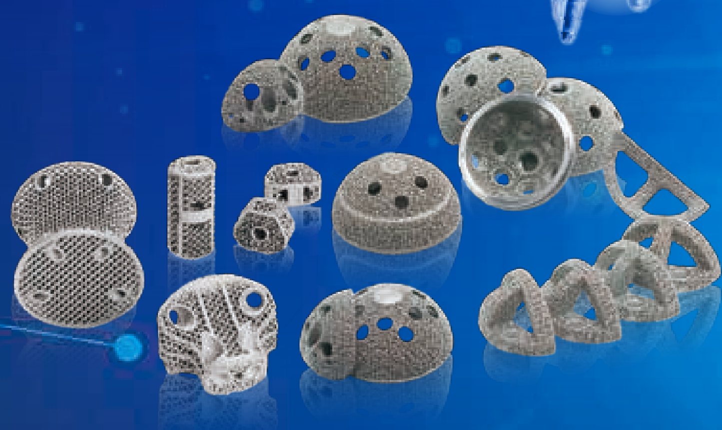
AK Medical Holdings Limited

(incorporated in the Cayman Islands with limited liability)

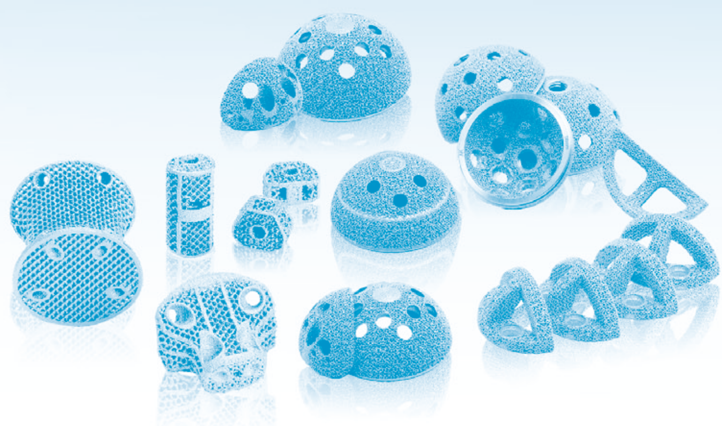
Stock Code : 1789

2018

INTERIM REPORT



CONTENTS



CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Li Wenming
Dr. Wang David Guowei

Independent Non-executive Directors

Mr. Dang Gengting
Mr. Kong Chi Mo
Mr. Li Shu Wing David

JOINT COMPANY SECRETARIES

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

AUTHORIZED REPRESENTATIVES

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

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

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

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

PRINCIPLE PLACE OF BUSINESS IN HONG KONG

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

AUDITOR

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

HONG KONG LEGAL ADVISER

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

COMPLIANCE ADVISER

Guotai Junan Capital Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

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

SHARE REGISTRAR IN HONG KONG

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.ak-medical.net

PRINCIPAL BANK

Agricultural Bank of China
Bank of China
Bank of Communications
East West Bank
The Hongkong and Shanghai Banking Corporation Limited

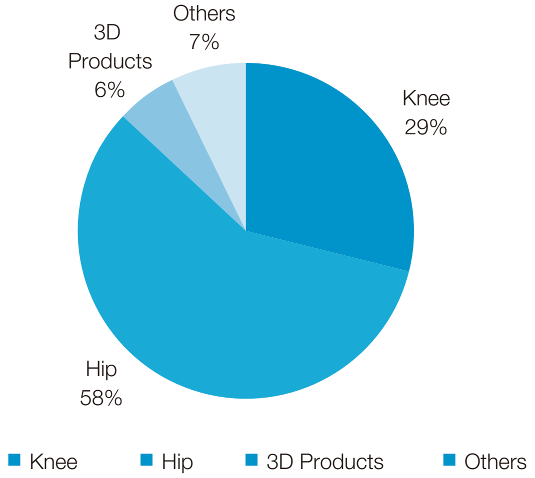
LISTING INFORMATION AND STOCK CODE

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

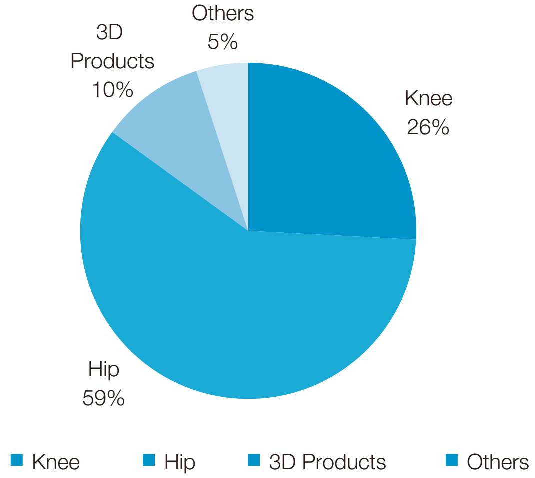
FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2018	2017	Variance
	RMB'000	RMB'000	%
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	–

Revenue Analysis
For six months ended 30 June 2017

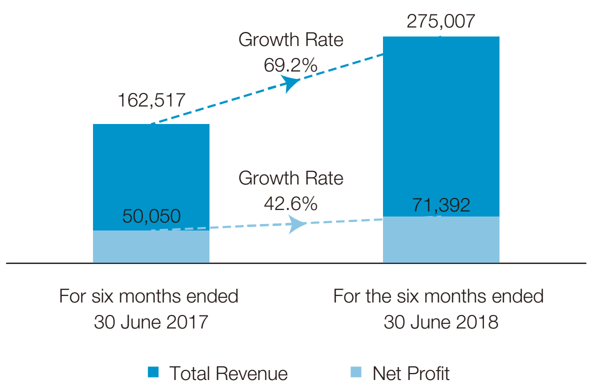


Revenue Analysis
For six months ended 30 June 2018

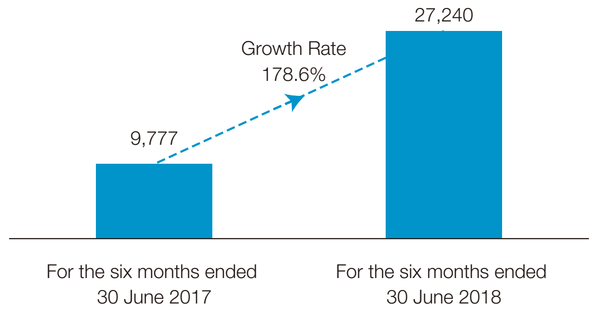


Note 1: "Others" include revenue from third party orthopedic products.

Growth of total revenue & net profit
(in thousand of RMB)



Growth of revenue from 3D-printed product
(in thousand of RMB)



CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

For the first half of 2018, AK Medical Holdings Limited (the "Company" or "AK Medical"), together with its subsidiaries (collectively the "Group"), attained steady development with the support of favorable industry policies. Leveraging AK's powerful brand effect, outstanding R&D capabilities, forward-looking deployment in 3D-printed orthopedic products and unremitting staff contribution, we achieved fruitful results for the six months ended 30 June 2018 (the "Reporting Period"), recording a year-on-year growth in revenue of 69.2% from RMB162.5 million to RMB275.0 million. Net profit amounted to RMB71.4 million, representing a marked increase of 42.6% as compared to the same period in 2017.

During the first half of 2018, AK Medical yielded remarkable results in the research and development ("R&D") of new products. We obtained three registration certificates for Class III medical devices as approved by China Food and Drug Administration ("CFDA") in the Reporting Period. In particular, our modular reconstruction system ("AMRS") is the first of its kind approved by CFDA through clinical trials in China. Along with the subsequent femoral internal fixation system ("FIFS") and the lamina fixation plate system ("LFPS"), the approval of the three products has enriched the product lines of the Group and helped it to gradually enter the fields of joint reconstruction relating to trauma, spine and bone tumors. The products also represent the Group's ability to offer complete clinical solutions from primary to complex surgeries, from revision to tumor reconstruction surgeries.

In the Reporting Period, we delivered positive growth in our respective business segments. Among them, 3D-printed orthopedic implant products grew more prominently, registering a growth rate of 178.6%. To the best knowledge of the Group, AK Medical is the first and only medical device company that has commercialized the application of 3D-printing technology to orthopedic joint and spine replacement implants in China. This has not only improved the Company's overall profitability, but also boosted the market presence of "AK" as a brand and further solidified our leadership in the market segment of bone-implant medical devices.

AK Medical also made great strides in going global during the Reporting Period. In April 2018, we completed the acquisition of the entire share capital of JRI Orthopaedics Limited ("JRI"), a British medical device company. The acquisition of JRI helps the Group materialize its dual-brand strategy and further widen its product lines. At the same time, the acquisition has equipped the Group with greater R&D capabilities and enabled it to gradually establish its overseas R&D training center. This also represents the Group's first step in entering the international market. In June 2018, our A3 Total Knee System gained the United States Food and Drug Administration ("FDA") 510(k) pre-market notification clearance, making the system the first FDA-approved joint product in China according to the Group's knowledge. The FDA clearance has promoted the development of the Group's overseas market business and further expanded the Company's plan to go global.

We established AK to address the skeletal diseases of elderly patients and offer effective treatment to patients in both urban and rural areas. Committed to this concept, we have devised an interactive R&D system for doctors and engineers, pioneered the commercialization of 3D printing technology and become a leader in the Chinese orthopedic industry. In the future, AK Medical will continue to act on its mission, "Serving Hundreds of Millions of Patients". By capturing the development opportunities of the Chinese orthopedic market, we strive to become a world-class innovative orthopedic joint product company that provides surgeons and patients with comprehensive orthopedic surgical solutions and orthopedic products so as to promote sustainable growth of AK Medical as well as giving back to its shareholders, customers and the society.

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 interim report, excluding the Hong Kong Special Administrative Region of the PRC, the Macao Special Administrative Region of the PRC and Taiwan) continued to push forward its medical system reform. 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 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 that 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. 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.

For the six months ended 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.

For the six months ended 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 an aim of facilitating 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 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 product registration certificates as approved by CFDA, we have also entered into the segments of tumor reconstruction.

For the six months ended 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 our product performance was recognised by more hospitals.

Research and Development

During the first half of 2018, the Group yielded strong results in the R&D of new products and we obtained three new registration certificates for Class III medical devices approved by CFDA. In particular, our AMRS is the first of its kind approved by CFDA through clinical trials in China. FIFS is an internal fixation product for the treatment of femoral lateral revision or periprosthetic fracture of the femur after hip replacement. LFPS treats spinal lesions including spinal stenosis. The approval of the three products has enriched the product lines of the Group and helped it 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, 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 Group believes that 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 help 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 in a timely manner, to ensure the realisation of annual targets.

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

	Fair value of net identifiable assets acquired as at the acquisition date
	RMB'000
Property, plant and equipment	18,443
Intangible assets	28,213
Deferred tax assets	3,111
Inventories	42,592
Trade and bills receivables	24,585
Deposits, prepayments and other receivables	3,922
Cash and cash equivalents	25,352
Trade payables	(7,657)
Accruals and other payables	(12,070)
Deferred tax liabilities	(5,928)
Net identifiable assets	120,563
Goodwill	28,588
Fair value of considerations	149,151
Cash considerations paid in 2018	149,151
Net cash outflow arising from the acquisition in 2018	(123,799)

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

The allocation of the purchase price represents the recognition of identifiable intangible assets as identified through the valuation report arising from the acquisition at their respective fair value (namely technical knowhow and brand name approximately RMB 25,043,000 in total), and the recognition of related deferred tax liabilities of RMB 4,758,000, as if the acquisition had been completed on 1 April 2018.

Outlook

Due to certain risks of downward adjustment in the macro-economy of the PRC in the second half of the year, and the anticipation of a restructuring in staffing of the pharmacuetical healthcare regulatory bodies in the PRC, it may result in uncertainties over the development of the medical device industry in the PRC. Facing such industrial risks, 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 has benefited from its leading 3D-printed products and continuous diversification of product lines, and has 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, artificial vertebral bodies and spinal interbody cages;

(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, 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 due to the fact that our 3D-printed products were the only 3D-printed orthopedic products in China with relevant registration certificates. Upon their launch, such products have been highly recognized by the market and hence delivered such sales growth.

Third party orthopedic products

To enrich our product portfolio, we also distribute the orthopedic products produced by third parties. 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%

The Group manages its businesses by geographical location in which the entities operate. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has 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	**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

Segment profit is reported as "reportable segment profit before taxation".

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 hip and knee replacement implants 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 amounted to 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 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 recognised for share option scheme 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 operating 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, which are held in RMB, US$, HK$, GBP and EUR, 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.

Current assets

We had 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 relates. 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

INDEPENDENT AUDITOR'S REPORT

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 15 to 35 which comprises the consolidated statements of financial position of AK Medical Holdings Limited (the "Company") as of 30 June 2018 and the related consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the condensed consolidated cash flow statements for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim financial reporting, issued by International Accounting Standards Board ("IASB"). The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim financial reporting.

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

27 August 2018

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	5	2,086	478
Profit before taxation	4	87,953	58,170
Income tax	6	(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 mainland 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	7(a)	RMB0.07	RMB0.07
Diluted	7(b)	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.

The accompanying notes form part of these financial statements.

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	8	**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	9	**132,928**	86,817
Trade receivables	10	**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	11	**430,427**	517,482
		778,011	731,568
Current liabilities			
Trade payables	12	**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
Total assets less current liabilities		**778,835**	678,245

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(At 30 June 2018 – unaudited)

	Note	30 June 2018 RMB'000	31 December 2017 (Note) RMB'000
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			
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.

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(For the six months ended 30 June 2018 – unaudited)

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Exchange reserve RMB'000	Total equity RMB'000
Balance at 31 December 2017 (Note)		8,450	411,196	55,174	742	191,385	1,036	667,983
Impact on initial application of IFRS 9		–	–	–	–	(623)	–	(623)
Adjusted Balance at 1 January 2018		**8,450**	**411,196**	**55,174**	**742**	**190,762**	**1,036**	**667,360**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**71,392**	**(6,875)**	**64,517**
Issuance of new shares		**304**	**52,844**	**–**	**–**	**–**	**–**	**53,148**
Equity settled share-based transactions		**–**	**–**	**–**	**3,041**	**–**	**–**	**3,041**
Shares issued under share option scheme	13(c)	**2**	**274**	**–**	**–**	**–**	**–**	**276**
Dividends approved in respect of the previous years	13(b)	**–**	**(30,622)**	**–**	**–**	**–**	**–**	**(30,622)**
Balance at 30 June 2018		**8,756**	**433,692**	**55,174**	**3,783**	**262,154**	**(5,839)**	**757,720**
Balance at 1 January 2017		1	109,940	55,174	–	125,009	4,269	294,393
Total comprehensive income for the period		–	–	–	–	50,050	(740)	49,310
Dividends declared	13(b)	–	(23,136)	–	–	–	–	(23,136)
Balance at 30 June 2017		1	86,804	55,174	–	175,059	3,529	320,567

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.

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

(For the six months ended 30 June 2018 – unaudited)

		Six months ended 30 June	
		2018	2017 (Note)
	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	14	**(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 generate 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.

The accompanying notes form part of these financial statements.

1 BASIS OF PREPARATION

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

2 CHANGES IN ACCOUNTING POLICIES (continued)

(a) Overview (continued)

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 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 9 and IFRS 15 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 9 and IFRS 15.

	At 31 December 2017	Impact on initial application of IFRS 9	Impact on initial application of IFRS 15	At 1 January 2018
	RMB'000	RMB'000	RMB'000	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)

Further details of these changes are set out in sub-sections (b) and (c) of this note.

2 CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

(i) Credit losses

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

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

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

Financial assets measured at fair value, including investment in bank financial product, are not subject to the ECL assessment.

Measurement of ECLs

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

2 CHANGES IN ACCOUNTING POLICIES (continued)

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

(i) Credit losses (continued)

Measurement of ECLs (continued)
The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

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

ECLs are measured on either of the following bases:

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

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

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

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk
In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (continued)

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

(i) Credit losses (continued)

Significant increases in credit risk (continued)

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

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

Write-off policy

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

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

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB 733,000, which decreased retained earnings by RMB 623,000 and increased gross deferred tax assets by RMB 110,000 at 1 January 2018.

(ii) Transition

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (continued)

(c) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18, "Revenue", IAS 11, "Construction contracts" and IFRIC 13, "Customer Loyalty Programs".

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.

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

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

Presentation of contract assets and liabilities

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

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

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

a. Refund assets and refund liabilities related to the provisions amounting to RMB 2,240,000 and RMB 7,216,000, which were previously included in "provisions" are now reclassified to "Deposits, prepayments and other receivables" and "accruals and other payables" respectively; and

b. Deferred revenue amounting to RMB 22,668,000 and advance and deposit from customers amounting to RMB 18,715,000 are now included in the "contract liabilities", respectively.

2 CHANGES IN ACCOUNTING POLICIES (continued)

(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		
– Mainland 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.

3 REVENUE AND SEGMENT INFORMATION (continued)

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

The Group manages its businesses by geographical location in which the entities operate. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has 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	**2018** **RMB'000**	2017 RMB'000	**2018** **RMB'000**	2017 RMB'000	**2018** **RMB'000**	2017 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".

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2018 **RMB'000**	2017 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 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Amortisation of intangible assets	**900**	588
Depreciation of property, plant and equipment	**6,795**	5,178
Impairment losses of trade and other receivables	**593**	2,267
Cost of inventories	**92,609**	53,843

5 NET FINANCE INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest income from bank deposits	**1,618**	532
Interest income from financial assets at fair value through profit and loss	**89**	–
Foreign currency exchange gain/(loss)	**379**	(54)
	2,086	478

6 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 reporting period and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate during the Relevant Periods is 16.5%. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

6 INCOME TAX (continued)

Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 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).

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of 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 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 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).

8 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 Orthopaedics Limited ("JRI") from Orthopaedic Research UK ("ORUK"). Please refer to note 14 for detailed information about the acquisition. 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).

9 INVENTORIES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Raw materials	**28,963**	13,047
Work in progress	**29,309**	17,963
Finished goods	**74,656**	55,807
	132,928	86,817

10 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.

11 CASH AND CASH EQUIVALENTS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Cash at banks	**430,367**	517,410
Cash on hand	**60**	72
Cash and cash equivalents in the statement of financial position and cash flow statement	**430,427**	517,482

12 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.

13 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2018		2017	
	No. of shares	Amount RMB'000	No. of shares	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 13(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 on 4 January 2018 by way of over-allotment option exercising in connection with its initial public offering. The proceeds less the listing costs directly attributable to the issue of shares, amounted to RMB 53,148,000, with RMB 304,000 representing the par value of these ordinary shares, were credited to the Company's share capital account. And the remaining proceeds amounted to RMB 52,844,000 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.

	Six months ended 30 June	
	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**	–

During the six months ended 30 June 2017, AK Medical Holdings Limited, the Company declared and paid dividends in cash totalling RMB23,160,000 to its then owners.

(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).

14 ACQUISITION OF A SUBSIDIARY

On 10 April 2018, the Group acquired JRI, a private company limited by shares incorporated in England and Wales and principally engaged in designing, manufacturing and supplying orthopaedic implants and related instruments, from ORUK, at a consideration of GBP16,732,000 (equivalent to RMB 149,151,000). Acquisition-related costs amounted to RMB 6,659,000, of which RMB 5,659,000 and RMB 1,000,000 were recognised in general and administrative expenses in the consolidated statement of profit or loss for the six months period ended 30 June 2018 and the year ended 31 December 2017, respectively.

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

	Fair value of net identifiable assets acquired as at the acquisition date RMB'000
Property, plant and equipment	18,443
Intangible assets	28,213
Deferred tax assets	3,111
Inventories	42,592
Trade and bills receivables	24,585
Deposits, prepayments and other receivables	3,922
Cash and cash equivalents	25,352
Trade payables	(7,657)
Accruals and other payables	(12,070)
Deferred tax liabilities	(5,928)
Net identifiable assets	120,563
Goodwill	28,588
Fair value of considerations	149,151
Cash considerations paid in 2018	149,151
Net cash outflow arising from the acquisition in 2018	(123,799)

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

The allocation of the purchase price represents the recognition of identifiable intangible assets as identified through the valuation report arising from the acquisition at their respective fair value (namely technical knowhow and brand name approximately RMB 25,043,000 in total), and the recognition of related deferred tax liabilities of RMB 4,758,000, as if the acquisition had been completed on 1 April 2018.

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

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

		Fair value measurements as at 30 June 2018 categorised into		
	Fair value at 30 June 2018 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Financial assets:				
Financial assets at fair value through profit and loss	**35,000**	**–**	**35,000**	**–**

No asset is measured at fair value as at 30 June 2017.

There were no changes in valuation techniques in 2018.

16 COMMITMENTS

(a) Capital commitments of the Group in respect of construction in progress outstanding as at 30 June 2018 and 31 December 2017 not provided for in this Financial Information were as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Contracted for	**39,000**	40,084
Authorised but not contracted for	**63,558**	78,761
	102,558	118,845

(b) As at 30 June 2018 and 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within one year	**6,566**	6,311
After 1 year but within 5 years	**4,853**	7,865
	11,419	14,176

The Group leases a number of warehouses and office premises under operating leases. The leases typically run for an initial period of 1 to 5 years, with an option to renew the leases after that date. Lease payments are usually increased every year to reflect market rentals. None of the leases includes contingent rentals.

17 MATERIAL RELATED PARTY TRANSACTIONS

There is no material related party transaction in the six months ended 30 June 2018. No amount was outstanding as at 30 June 2018 (2017: nil).

18 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; Except for the amendments to IFRS 9, Prepayment features with negative compensation, which have been adopted at the same time as IFRS 9 (see note 2(b)), the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following updates to the information provided in the last annual financial statements in respect of IFRS 16, Leases, which may have a significant impact on the Group's consolidated financial statements.

IFRS 16, Leases

As discussed in the 2017 annual financial statements, currently the group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Upon the adoption of IFRS 16, where the group is the lessee under the lease the group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. IFRS 16 will primarily affect the group's accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

The following is an updated information about the group's future minimum lease payments, based on the non-cancellable operating leases that have been entered into by 30 June 2018:

	Properties RMB'000
Amounts payable:	
Within 6 months	3,306
After 6 months but within 1 year	3,260
After 1 year but within 5 years	4,853
	11,419

Upon the initial adoption of IFRS 16 at 1 January 2019, the present value of most of the future minimum lease payments that are payable after 6 months will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. The group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Although the Group has not yet decided whether it will use the optional exemptions, considering the amount of the future minimum lease payments for the lease contracts held by the Group as of 30 June 2018 as disclosed above, the Group initially assessed that lease contracts held as of 30 June would not significantly affect the financial position and performance of the Group when adopting IFRS 16 on 1 January 2019.

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

As at 30 June 2018, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (a) to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

(i) Interest in Shares of the Company

Name of Directors	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate Percentage of Interest In the Company (Note 2)
Mr. Li Zhijiang (Note 3)	Founder of a discretionary trust and interest in a controlled corporation	585,157,500 (L)	56.39%
	Interest of spouse	10,125,000(L)	0.98%
Ms. Zhang Bin (Note 4)	Interest of controlled corporation	10,125,000(L)	0.98%
	Interest of spouse	585,157,500(L)	56.39%
Mr. Zhang Chaoyang (Note 5)	Interest of controlled corporation	67,432,500 (L)	6.50%
Ms. Zhao Xiaohong (Note 6)	Interest of controlled corporation	12,285,000(L)	1.18%
	Beneficial Interest	4,000,000 (L)	0.39%

Notes:

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

(2) The percentage is calculated based on the total number of issued shares as at 30 June 2018.

(3) Mr. Li Zhijiang, being the sole director of Ximalaya Limited, directly holds 50% of the issued share capital of Ximalaya Limited, which holds 585,157,500 long position in the Company's shares. Therefore, Mr. Li Zhijiang is deemed to be interested in Ximalaya Limited's interest in the Company's shares pursuant to the SFO. In addition, Mr. Li Zhijiang is the husband of Ms. Zhang Bin. Therefore, Mr. Li Zhijiang is deemed to be interested in Ms. Zhang Bin's interest in the Company's shares pursuant to the SFO. Mr. Li Zhijiang is also the founder of LZY Trust.

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

(5) Mr. Zhang Chaoyang, being the sole director of Suntop Limited, is the sole shareholder of Suntop Limited which holds 67,432,500 shares. Therefore, Mr. Zhang Chaoyang is deemed to be interested in Suntop Limited's interest in the Company's shares pursuant to the SFO. Mr. Zhang Chaoyang is the brother of Ms. Zhang Bin and the brother-in-law of Mr. Li Zhijiang.

(6) Ms. Zhao Xiaohong, being the sole director of Sanbao Limited, holds 30.22% of the issued share capital of Sanbao Limited, which holds 12,285,000 shares. Therefore, Ms. Zhao Xiaohong is deemed to be interested in Sanbao Limited's interest in the Company's shares pursuant to the SFO. In addition, Ms. Zhao has been granted with options to subscribe for 4,000,000 shares pursuant to the Pre-IPO Share Option Scheme.

(ii) Interest in Associated Corporation of the Company

Name of Director	Name of the Company's Associated Corporation	Capacity/Nature of Interest	Number and Class of Securities (Note)	Approximate Percentage of Interest in the Company's Associated Corporation
Mr. Li Zhijiang	Ximalaya Limited	Beneficial Interest	1 ordinary shares (L)	50%

Note: The letter "L" denotes our director's long position in the share of the Company's associated corporation.

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

As at 30 June 2018, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity/nature of Interest	Number of Shares (Note 1)	Approximate Percentage of Shareholding (Note 2)
Mr. Li Zhijiang	Founder of a discretionary trust and interest in a controlled corporation	585,157,500 (L)	56.39%
	Interest of spouse	10,125,000(L)	0.98%
Ms. Zhang Bin	Interest of controlled corporation	10,125,000(L)	0.98%
	Interest of spouse	585,157,500(L)	56.39%
Mr. Zhang Chaoyang	Interest of controlled corporation	67,432,500 (L)	6.50%
Ximalaya Limited	Beneficial owner	585,157,500 (L)	56.39%
Suntop Limited	Beneficial owner	67,432,500 (L)	6.50%
Trident Trust Company (HK) Limited (Note 3)	Trustee of a discretionary trust and interest in a controlled corporation	585,157,500 (L)	56.39%
Rainbow Holdings Limited (Note 3)	Interest in a controlled corporation	585,157,500 (L)	56.39%
OrbiMed Advisors II Limited (Note 4)	Interest in a controlled corporation	75,000,000 (L)	7.23%
OrbiMed Asia GP II, L.P. (Note 4)	Interest in a controlled corporation	75,000,000 (L)	7.23%
OrbiMed Asia Partners II L.P. (Note 4)	Beneficial owner	75,000,000 (L)	7.23%

Notes:

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

(2) The percentage is calculated based on the total number of issued shares as at 30 June 2018.

(3) LZY Trust is a discretionary trust established by Mr. Li Zhijiang as settlor, with Trident Trust Company (HK) Limited acting as trustee. The beneficiaries of LZY Trust are Mr. Li Zhijiang and certain of his family members. Trident Trust Company (HK) Limited holds 100% of the issued share capital of Rainbow Holdings Limited, which holds 50% of the issued share capital of Ximalaya Limited. Therefore, each of Trident Trust Company (HK) Limited and Rainbow Holdings Limited is deemed to be interested in Ximalaya Limited's interest in the Company's shares pursuant to the SFO.

(4) OrbiMed Asia Partners II L.P. holds 75,000,000 ordinary shares. The general partner of OrbiMed Asia Partners II L.P. is OrbiMed Asia GP II, L.P., whose general partner is OrbiMed Advisors II Limited. Therefore, each of OrbiMed Asia GP II, L.P. and OrbiMed. Advisors II Limited is deemed to be interested in OrbiMed Asia Partners II L.P.'s interest in the Company's shares pursuant to the SFO.

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

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

SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

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

As at 30 June 2018, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme (including both exercised or outstanding options) was 35,250,000, representing approximately 3.40% of the shares of the Company in issue.

All options under the Pre-IPO Share Option Scheme were granted on 17 November 2017. The exercise price of the option granted under the Pre-IPO Share Option Scheme is HKD1.34 per share.

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

Details of movements in the options granted under the Pre-IPO Share Option Scheme during the six months ended 30 June 2018 are as follows:

Category and Name of grantee	Date of grant of share option	Outstanding as at 1 January 2018	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/ lapsed during the Reporting Period	Outstanding as at 30 June 2018	Exercise period of share options	Exercise price of the share options
Director								
Zhao Xiaohong	17/11/2017	4,000,000	0	0	0	4,000,000	10 YEARS	HKD1.34
Senior Management and Other Employees of the Group								
Senior Management and Employees	17/11/2017	32,000,000	0	250,000	500,000	31,250,000	10 YEARS	HKD1.34
Total		**36,000,000**	**0**	**250,000**	**500,000**	**35,250,000**		

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

(aa) For the purpose of this paragraph:

"**Vesting Conditions**" means (i) the revenue of our Group as shown in the audited consolidated financial statements of our Group for the relevant financial year represents an increase of 30% or more of the revenue of our Group as shown in the audited consolidated financial statements of our Group for the immediately preceding financial year (adjusted to exclude the effect of any acquisition by our Group); (ii) the profit attributed to shareholders as shown in the audited consolidated financial statements of our Group for the relevant financial year (adjusted to exclude the effect of the listing expenses, the options granted, any withholding tax arising from profit generated by our Group companies in the PRC and any acquisition by our Group) represents an increase of 25% or more of the profit attributes to shareholders as shown in the audited consolidated financial statements of our Group for the immediately preceding financial year (adjusted to exclude the effect of the listing expenses, the options granted, any withholding tax arising from profit generated by our Group companies in the PRC and any acquisition by our Group); and (iii) the relevant grantee has passed the annual performance appraisal scheme established by our Group for the relevant financial year.

(bb) Options granted to the grantees will vest in four portions and the grantees shall be entitled to exercise, on the first business day immediately following May 1 of the relevant year until the end of the Option Period (both days inclusive):

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

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

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

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

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

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

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

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

(b) Share Option Scheme

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

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

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

(iii) the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 100,000,000 shares, representing approximately 9.62% of the total issued share capital of the Company as at the date of this interim report;

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

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

The terms of the Share Option Scheme are disclosed in the Company's prospectus dated 7 December 2017. No share options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 June 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 as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry by the Company, all the directors confirmed that they have complied with the requirements as set out in the Model Code throughout the 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.

INTERIM DIVIDEND

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

SUBSEQUENT EVENT

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

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.

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

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

Name of Director	Details of Change
Mr. Li Zhijiang	Appointed as a non-executive director of JRI Orthopaedics Limited on 10 April 2018
Ms. Zhao Xiaohong	Ceased to be a financial director of Beijing AK Medical Co., Ltd on 22 January 2018
	Appointed as a non-executive director of JRI Orthopaedics Limited on 10 April 2018
Mr. Li Wenming	Appointed as an independent non-executive director of Nanjing Pharmaceutical Co., Ltd (a company listed in The Shanghai Stock Exchange, stock code: 600713) on 23 April 2018

DISCLOSURE OF INFORMATION

The interim report of the Group for the six months ended 30 June 2018 containing all the relevant information required by the Listing Rules has been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://ak-medical.net).

By Order of the Board
AK Medical Holdings Limited
Li Zhijiang
Chairman
Hong Kong
27 August 2018