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AK MEDICAL HOLDINGS LIMITED

愛康醫療控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1789)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

The board (the “**Board**”) of directors (the “**Directors**”) of AK Medical Holdings Limited (the “**Company**”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the six months ended 30 June 2020 (the “**Reporting Period**”), which have been reviewed by the Company’s audit committee (the “**Audit Committee**”). The financial highlights of the Group for the Reporting Period together with the comparative figures for the corresponding previous period are set out as follows:

	Six months ended 30 June		
	2020	2019	Variance
	RMB’000	RMB’000	%
Revenue	478,979	437,783	9.4%
Gross profit	336,323	304,579	10.4%
Profit for the period	162,871	129,555	25.7%
Profit attributable to equity shareholders of the Company	162,871	129,555	25.7%
Earnings per share			
Basic	RMB0.15	RMB0.12	
Diluted	RMB0.15	RMB0.12	

Affected by the COVID-19 pandemic, the growth of the Group slowed down during the Reporting Period. For the six months ended 30 June 2020, the Group achieved revenue of RMB479.0 million, representing an increase of 9.4% as compared to the corresponding period of 2019. The Group sustained revenue growth despite the impact of the pandemic was mainly attributable to the established brand image of the Company by virtue of its 3D-printing technology and 3D ACT platform, hence effectively promoted the sales of its 3D-printed products and regular hip and knee products. The pandemic has hindered many marketing activities, resulting in a balance of related expenses while revenue experienced an increase. The net profit of the Group for the six months ended 30 June 2020 significantly increased by 25.7% as compared to the six months ended 30 June 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
	<i>Note</i>	2020	2019
		RMB'000	RMB'000
Revenue	3	478,979	437,783
Cost of sales		(142,656)	(133,204)
Gross profit		336,323	304,579
Other income, net		943	15,536
Selling and distribution expenses		(62,750)	(84,407)
General and administrative expenses		(38,260)	(47,560)
Research and development expenses		(43,900)	(35,134)
Operating profit		192,356	153,014
Net finance income		4,515	3,435
Profit before taxation		196,871	156,449
Income tax	4	(34,000)	(26,894)
Profit for the period		162,871	129,555
Profit attributable to equity shareholders of the Company		162,871	129,555
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		9,140	756
Other comprehensive income, net of tax		9,140	756
Total comprehensive income		172,011	130,311
Total comprehensive income attributable to equity shareholders of the Company		172,011	130,311
Earnings per share			
Basic	5(a)	RMB0.15	RMB0.12
Diluted	5(b)	RMB0.15	RMB0.12

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 – unaudited

(Expressed in Renminbi)

		30 June 2020	31 December 2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	6	333,203	284,384
Intangible assets		78,109	35,576
Goodwill		141,360	29,346
Deferred tax assets		47,538	14,861
		<u>600,210</u>	<u>364,167</u>
Current assets			
Inventories		315,441	229,330
Trade receivables	7	328,338	271,742
Bills receivable		92,116	84,167
Deposits, prepayments and other receivables		40,269	33,913
Other financial assets		337,832	217,386
Pledged deposits and time deposits		187,688	5,000
Cash and cash equivalents		538,198	276,521
		<u>1,839,882</u>	<u>1,118,059</u>
Current liabilities			
Trade payables	8	114,736	79,004
Contract liabilities		40,750	40,950
Accruals and other payables		255,499	170,573
Bank loans		–	1,700
Lease liabilities		17,499	3,940
Current taxation		34,692	31,710
		<u>463,176</u>	<u>327,877</u>
Net current assets		<u>1,376,706</u>	<u>790,182</u>
Total assets less current liabilities		<u>1,976,916</u>	<u>1,154,349</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)*at 30 June 2020 – unaudited**(Expressed in Renminbi)*

	30 June	31 December
	2020	2019
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities		
Deferred income	11,658	13,193
Lease liabilities	6,326	6,295
Deferred tax liabilities	34,846	18,851
	<u>52,830</u>	<u>38,339</u>
NET ASSETS	<u>1,924,086</u>	<u>1,116,010</u>
Capital and reserves		
Share capital	9,438	8,888
Reserves	1,914,648	1,107,122
Total equity attributable to equity shareholders of the Company	<u>1,924,086</u>	<u>1,116,010</u>
Total Equity	<u>1,924,086</u>	<u>1,116,010</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	171,009	112,544
Tax paid	(25,134)	(15,647)
Net cash generated from operating activities	<u>145,875</u>	<u>96,897</u>
Investing activities		
Acquisition of property, plant and equipment	(34,630)	(63,571)
Acquisition of a subsidiary, net of cash acquired	(261,039)	–
Acquisition of other financial assets and time deposits	(302,688)	–
Other cash flows arising from investing activities	4,028	6,501
Net cash used in investing activities	<u>(594,329)</u>	<u>(57,070)</u>
Financing activities		
Issuance of new shares	701,355	–
Capital element of lease rentals paid	(11,132)	(2,636)
Interest element of lease rentals paid	(278)	(359)
Proceeds from shares issued under share option scheme	9,534	3,374
Other cash flows arising from financing activities	(1,700)	237
Net cash generated from financing activities	<u>697,779</u>	<u>616</u>
Net increase in cash and cash equivalents	249,325	40,443
Cash and cash equivalents at 1 January	276,521	421,054
Effect of movements in exchange rates on cash hold	<u>12,352</u>	<u>845</u>
Cash and cash equivalents at 30 June	<u>538,198</u>	<u>462,342</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000 unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, Interim financial reporting, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 24 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 2019 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 International Financial Reporting Standards (“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 2019 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements. The Company’s annual consolidated financial statements for the year ended 31 December 2019 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 March 2020.

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IFRS 3, Definition of a Business
- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8, Definition of Material

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

3 REVENUE AND SEGMENT INFORMATION

(a) Revenue

The principal activities of the Group are manufacturing and sale of orthopedic joint implants, spinal implants, trauma implants and their complete set of surgical instruments.

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Revenue from contracts with customers		
Disaggregated by major products of service lines		
– Hip replacement implants	271,064	255,507
– Knee replacement implants	122,619	110,830
– Spinal and trauma implants	9,711	–
– 3D-printed products	60,546	51,253
– Third party orthopedic products	3,616	7,250
– Others	11,423	12,943
	<u>478,979</u>	<u>437,783</u>
Disaggregated by geographical location of customers		
– Mainland China	432,933	375,749
– Other countries	46,046	62,034
	<u>478,979</u>	<u>437,783</u>

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 2019 and 2020.

(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:

For the six months ended 30 June	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Revenue from external customers	449,957	390,825	29,022	46,958	478,979	437,783
Inter-segment revenue	–	–	37,593	21,378	37,593	21,378
Reportable segment revenue	449,957	390,825	66,615	68,336	516,572	459,161
Reportable segment profit	197,852	142,516	2,773	13,674	200,625	156,190
As at 30 June/31 December						
Reportable segment assets	1,891,820	1,082,300	187,635	191,817	2,079,455	1,274,117
Reportable segment liabilities	446,423	315,554	24,778	24,239	471,201	339,793

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	
	2020 RMB'000	2019 RMB'000
Reportable segment profit	200,625	156,190
Elimination of inter-segment (loss)/profit	(3,754)	259
Consolidated profit before taxation	196,871	156,449

4 INCOME TAX

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Current tax – the PRC Enterprise Income Tax	27,353	27,043
Current tax – Overseas	763	2,774
Deferred tax	5,884	(2,923)
	34,000	26,894

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

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

Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2020 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 2019: 25%). Taxation for a subsidiary in the PRC was calculated at a preferential tax rate of 15% (for the six months ended 30 June 2019: 15%). Taxation for subsidiaries operating mainly in the England and Wales was calculated at statutory enterprise income tax rate of 19% (for the six months ended 30 June 2019: 19%).

5 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB162,871,000 (six months ended 30 June 2019: RMB129,555,000) and the weighted average of 1,089,385,000 ordinary shares (2019: 1,037,500,000 shares) in issue during the reporting period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB162,871,000 (six months ended 30 June 2019: RMB129,555,000) and the weighted average of 1,097,283,000 ordinary shares (2019: 1,049,306,000 shares).

6 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

In April 2020, the Group had additions in right-of-use assets with fair value of RMB7,369,000 through the acquisition of Beijing Libeier Bio-engineering institute co., Ltd.* (北京理貝爾生物工程研究所有限公司) (“Libeier”).

(b) Acquisitions of owned assets

In April 2020, the Group had additions in other property, plant and equipment with fair value of RMB28,198,000 through the acquisition of Libeier.

7 TRADE RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date (or date of revenue recognition, if earlier) and net of loss allowance, is as follows:

	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Current to 3 months	252,819	212,972
3 to 6 months	10,993	18,332
6 to 12 months	39,004	26,382
Over 12 months	25,522	14,056
	<hr/>	<hr/>
Trade receivables, net of loss allowance	328,338	271,742

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

8 TRADE PAYABLES

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

	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Within 3 months	91,939	63,493
3 to 6 months	13,545	12,058
6 to 12 months	5,603	1,648
1 year to 2 years	1,024	526
Over 2 years	2,625	1,279
	<hr/>	<hr/>
	114,736	79,004

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

9 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2020		2019	
	<i>No. of shares</i>	<i>Amount RMB'000</i>	<i>No. of shares</i>	<i>Amount RMB'000</i>
Authorised-ordinary shares of HK\$0.01 each:				
At 1 January and 30 June	<u>20,000,000,000</u>	<u>168,981</u>	<u>20,000,000,000</u>	<u>168,981</u>
Ordinary shares, issued and fully paid:				
At 1 January	1,052,700,000	8,888	1,040,475,000	8,779
Issuance of new shares	53,500,000	479	–	–
Shares issued under share option scheme (<i>note 9(c)</i>)	<u>7,775,000</u>	<u>71</u>	<u>2,870,000</u>	<u>25</u>
At 30 June	<u>1,113,975,000</u>	<u>9,438</u>	<u>1,043,345,000</u>	<u>8,804</u>

The Company completed the placement and the subscription on 25 February 2020 and 4 March 2020. A total of 53,500,000 placing shares have been placed at the placing price of HK\$15.0 per share. The proceeds less the expenses directly attributable to the issue of shares, amounted to HK\$783,873,000 (approximately RMB701,355,000), with RMB479,000 representing the par value of these ordinary shares, were credited to the Company's share capital account. And the remaining proceeds amounted to RMB700,876,000 were credited to the Company's share premium account. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(b) Dividends

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

	Six months ended 30 June	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved during the following interim period, of HK\$7.5 cents per ordinary share (2019: HK\$3.5 cents per ordinary share)	<u>76,220</u>	<u>32,124</u>

(c) Equity settled share-based transactions

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

During the six months ended 30 June 2020, 7,775,000 (2019: 2,870,000) share options were exercised to subscribe for 7,775,000 (2019: 2,870,000) ordinary shares in the Company pursuant to the share option scheme at a total consideration of HK\$10,419,000 (approximately RMB9,534,000) (2019: HK\$3,846,000 (approximately RMB 3,374,000)).

No options were lapsed during the six months ended 30 June 2020 (2019: 400,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

In the first quarter of 2020, the novel coronavirus (COVID-19) broke out across the world. During the outbreak of the COVID-19 pandemic, the Chinese government has taken public health emergency measures to slow the spread of COVID-19, including but not limited to restrictions on public gatherings and travel etc. The Chinese government's emergency measures have restricted the operation of joint surgeries in hospitals, resulting in the postponement or suspension of some of the surgeries, which also had a negative impact on the performance of the Company. In the second quarter of 2020, the COVID-19 pandemic has been brought under control in China so the Chinese government has gradually eased the restrictions, hence joint operations have gradually returned to normal level in hospitals. During the COVID-19 pandemic, as the Group made rapid response at a timely manner to keep abreast of the pandemic status and national policies, and adjusted the procurement and sales plans, the normal operation of production was sustained.

In 2020, the high-value consumables volume-based procurement continued to pursue. The National Healthcare Security Administration in the PRC started with coronary stents to explore the centralized volume-based procurement of high-value medical consumables organised by the Chinese government. Currently, the volume-based procurement of orthopedic products is still held by each province. The provincial volume-based procurement will gradually become normalized, which will also have an impact on the competitive landscape of the orthopedic market in the future.

As of 30 June 2020, the Group recorded sales revenue of RMB479.0 million and a net profit of RMB162.9 million, representing an increase of 9.4% and 25.7% as compared to the same period last year respectively.

3D-Printed Products Business

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

The Group is the first orthopedic company that launched 3D-printed metal implants approved by the National Medical Products Administration (the "NMPA") in the PRC market. As of 30 June 2020, the Group owned a total of 5 Class III registration certificates for 3D printing approved by NMPA, namely 3D-printed acetabular cup and augment, 3D-printed spinal interbody cages, 3D-printed artificial vertebral bodies, 3D-printed pelvic defect matching prosthesis and 3D-printed customized cervical fusion. Meanwhile, the Group has filed 10 3D-printed customized products in the local drug regulatory department so it can be used for sales in cooperative hospitals.

In the first half of 2020, the Group launched the interactive platform PC software for physicians and technicians, with functions of X-ray film measurement and template matching. Compared to the previous mobile version, the PC software provides a more intuitive display, where X-ray film measurement and template matching are fully digitalized and it allows more precise and convenient operation for doctors.

As of 30 June 2020, the Group's 3D-printed products achieved sales revenue of RMB60.5 million, representing an increase of 18.1% as compared to the same period last year.

Hip and Knee Products Business

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

In the first half of 2020, the Group continued to provide its customers and patients with a full range of orthopedic joint products, including hip and knee implants and tools for primary, complex, revision and reconstruction surgeries.

As of 30 June 2020, the Group's hip and knee products delivered RMB393.7 million in revenue, representing a year-on-year increase of 7.5%.

Spinal and Trauma Implants Business

After the completion of acquisition of Libeier, the Group further replenished its orthopedic portfolio with spinal and trauma implants products.

The spinal and trauma implants products under the brand of Libeier have covered more than 800 hospitals across China, and generated revenue of RMB9.7 million for the Group since 24 April 2020, being the completion date of the acquisition of Libeier, until 30 June 2020.

Research and Development

In the first half of 2020, Beijing AK Medical, a subsidiary of the Group, obtained four new registration certificates for Class III medical devices approved by the NMPA, including metal 3D-printed customized cervical fusion, metal 3D-printed pelvic defect matching prosthesis, cervical spine anterior nail plate fixation system and spinal internal fixation system. Meanwhile, the metal 3D-printed customized cervical fusion and the metal 3D-printed pelvic defect matching prosthesis also obtained the innovative product qualification approved by the NMPA. During the Reporting Period, Beijing AK Medical also obtained the CE Full Quality Assurance System Certification for its hip system, knee system, as well as its 3D-printed interbody cage. After obtaining the CE certification, its products are allowed to be sold in the European market.

As of 30 June 2020, AK Medical brand owned 36 registration certificates for Class III medical devices approved by the NMPA, and ITI Medical, a subsidiary of the Group, obtained 6 registration certificates for Class III medical devices approved by the NMPA. JRI brand owned 11 CE certifications approved by European regulators and 2 registration certificates for Class III medical devices approved by the NMPA.

In the first half of 2020, the research on the "Establishment of New Technology for Hip and Knee Joints Replacement Diagnosis and Treatment and its Promotion and Application" project jointly carried out by the Group with Beijing Jishuitan Hospital, Peking University Third Hospital and Tsinghua University was completed and was reviewed by the expert team. The project has conducted a significant amount of research on basic theories and medical technologies for the diagnosis and treatment of hip and knee joints replacement, which shaped

a series of achievements such as diagnosis, treatment and theoretical breakthrough of hip and knee joints, and technology and product innovation. The project technological achievements evaluation expert team evaluated the technological achievements of the project, and concluded that “the achievements of the project are innovative, and overall maintain a leading position in China and international advanced level where certain achievements have met leading international standards”.

Sales and Operation

In the first half of 2020, the sales and operation of the Group have been affected to some extent due to the outbreak of the COVID-19 pandemic. During the pandemic, the Group adjusted the marketing and training activities from offline to online, where it conducted a total of 76 training sessions and trained approximately 30,000 surgeons. The Group also took this opportunity to further strengthen the training of distributors and internal employees during the period, and enhance their professional knowledge and understanding of the Company’s products in order to better serve its customers. With the gradual mitigation of the pandemic, the Group aimed to launch various marketing activities in the future taking into account the actual situation and prepared for the long-term coexistence with the pandemic by adopting small-scale, high-frequency and pertinent marketing activities.

In the first half of 2020, Fujian province held provincial level volume-based procurement for joint products. The Group has become one of the tender-winning companies by virtue of its relatively higher market share, excellent product reputation and reasonable price, which will contribute to the better operation ahead in Fujian province.

During the pandemic, the Group has established an emergency response team for managing and coordinating all kinds of potential emergencies to maximize the risk control. The Group extended the period of paid leave and subsequently also implemented remote working, shift work as well as other measures to prioritize employees’ health and protect them from the risk of infection commuting to and at work while the business is in operation.

During the pandemic, the Group made immediate donation of RMB0.5 million in cash to Wuhan Charity Federation and coordinated in the global procurement of resources for donation to hospitals fighting in the frontline against the pandemic.

Placement

The Group completed a placement and top-up subscription exercise in the first half of 2020. A total of 53,500,000 placing shares have been placed at a placing price of HK\$15.0 per share to no fewer than six independent placees who and whose respective ultimate beneficial owners are independent of and not connected with the Company and its connected persons.

The Group received total net proceeds of approximately HK\$783.9 million from the top-up subscription and a portion of the proceeds was used for strategic acquisition investment of the Group while the remaining will be used to supplement the general working capital of the Group.

Acquisition of Libeier

In the first half of 2020, the Group completed the acquisition of all shares of Libeier with a consideration of US\$40,200,000. Libeier is a PRC-based company established under the laws of the PRC with limited liability, mainly engaged in the production, sales and research of orthopedic implants and surgical instruments. Prior to the acquisition, Libeier was wholly-owned by Medtronic China Kanghui Holdings. Libeier is a renowned orthopedic PRC company with professional knowledge and skills in the design, development as well as manufacture of orthopedic spinal and trauma implants and surgical instruments.

Becoming one of the leaders in China's orthopedic field is the long term strategic goal of the Group. The acquisition of Libeier is in line with the above strategic goal and will enhance the overall financial performance of the Group in the future.

Upon the acquisition of Libeier, the Company has established a new board of directors and dispatched management team to integrate Libeier in full range, covering research and development ("R&D"), marketing and sales, so as to gradually resume the business of Libeier and improve its operational efficiency.

Outlook

The Group is always upholding the vision of becoming a world-class orthopedic company with the aim of improving better living quality of hundreds of millions of patients. In the first half of 2020, the Group successfully acquired Libeier, further enriching the product lines of spines and traumas and becoming an orthopedic platform company. In the future, the Group will achieve its long term strategy step by step to become a orthopedic leading brand in the PRC through continuous innovation.

FINANCIAL REVIEW

Overview

	Six months ended 30 June		
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	Variance %
Revenue	478,979	437,783	9.4%
Gross profit	336,323	304,579	10.4%
Profit for the period	162,871	129,555	25.7%
Profit attributable to equity shareholders of the Company	162,871	129,555	25.7%
Net profit, net of non-operating gains or losses	162,871	116,712	39.5%
Earnings per share			
Basic	RMB0.15	RMB0.12	
Diluted	RMB0.15	RMB0.12	

Affected by the COVID-19 pandemic, the growth of the Group slowed down during the Reporting Period. For the six months ended 30 June 2020, the Group achieved revenue of RMB479.0 million, representing an increase of 9.4% as compared to the corresponding period of 2019. The Group sustained revenue growth despite the impact of the pandemic was mainly attributable to the established brand image of the Company by virtue of its 3D-printing technology and 3D ACT platform, hence effectively promoted the sales of its 3D-printed products and regular hip and knee products. The Group maintained its leading position in the Chinese joint implants market in terms of sales, and recorded a further increase in market share. The Group firmly believes that it will grow its business even further and continue to improve the quality of life for hundreds of millions of patients, with its subsequent R&D of more new products, implementation of the dual-brand global strategy and its advantages on international clinical education and research resources as well as 3D ACT platform.

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

Revenue

	Six months ended 30 June		
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	Variance %
Hip replacement implants ⁽¹⁾	271,064	255,507	6.1%
Knee replacement implants	122,619	110,830	10.6%
Spinal and trauma implants ⁽²⁾	9,711	–	N/A
3D-printed products ⁽³⁾	60,546	51,253	18.1%
Third party orthopedic products	3,616	7,250	–50.1%
Others ⁽⁴⁾	11,423	12,943	–11.7%
Total	478,979	437,783	9.4%

Note:

- (1) Excluding 3D-printed hip replacement implants;
- (2) Excluding 3D-printed spinal and trauma implants;
- (3) Including 3D-printed hip replacement implants, spinal interbody cages, artificial vertebral bodies and artificial pelvis;
- (4) Others primarily include surgical instruments and medical irrigators

The Group's revenue amounted to RMB479.0 million for the six months ended 30 June 2020, representing an increase of 9.4% as compared with RMB437.8 million for the six months ended 30 June 2019. The Group sustained revenue growth despite the impact of the pandemic was mainly attributable to the established brand image of the Company by virtue of its 3D-printing technology and 3D ACT platform, hence effectively promoted the sales of 3D-printed products and regular hip and knee products.

Hip and Knee Implants Products

The Group's hip implants recorded revenue of RMB271.1 million for the six months ended 30 June 2020, representing an increase of 6.1% as compared with RMB255.5 million for the six months ended 30 June 2019. The Group's knee implants recorded revenue of RMB122.6 million for the six months ended 30 June 2020, representing an increase of 10.6% as compared with RMB110.8 million for the six months ended 30 June 2019. Such increase was attributable to the Group's brand influence, which boosted the sales of both hip and knee implants.

Spinal and Trauma Implants Products

The Group's spinal and trauma implants products include Libeier's spinal implants and trauma implants. The revenue from spinal and trauma implants products were consolidated in the Group following the completion of the acquisition on 24 April 2020. As at 30 June 2020, the Group recorded revenue of RMB9.7 million.

3D-printed Products

The Group's 3D-printed products mainly include 3D-printed hip implants, 3D-printed artificial vertebral bodies and spinal interbody cages and 3D-printed artificial pelvis implants. The Group's 3D-printed products recorded revenue of RMB60.5 million for the six months ended 30 June 2020, representing an increase of 18.1% as compared with RMB51.3 million for the six months ended 30 June 2019. Such increase was mainly due to the fact that the Group's 3D-printed products have been highly recognized by the market for their technological innovation and functional superiority and hence delivered such sales growth.

Third Party Orthopedic Products

To enrich the Group's product portfolio, the Group also distributed the orthopedic products produced by third parties. For the six months ended 30 June 2020 and the six months ended 30 June 2019, the Group's revenue from distributing third party orthopedic products amounted to RMB3.6 million and RMB7.3 million, representing 0.8% and 1.7% of its revenue, respectively. As the Group's own-brand product lines becomes more extensive, the proportion of the Group's revenue deriving from distributing third party orthopedic products has continued to decline.

Domestic and Overseas Sales

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

	Six months ended 30 June		
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	Variance %
China	432,933	375,749	15.2%
Other countries	46,046	62,034	-25.8%
Total	478,979	437,783	9.4%

As the overseas market has been affected by the pandemic for a relatively longer duration, the sales revenue from overseas for the six months ended 30 June 2020 was RMB46.0 million, representing a decrease of 25.8% as compared to the corresponding period last year; the revenue from China for the six months ended 30 June 2020 was RMB432.9 million, representing an increase of 15.2% as compared to the corresponding period last year.

Cost of Sales

For the six months ended 30 June 2020, the Group's cost of sales was RMB142.7 million, representing an increase of 7.1% as compared with RMB133.2 million for the six months ended 30 June 2019. The increase in cost of sales was primarily due to an increase in sales volume of the Group's products.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. The Group's gross profit grew by 10.4% to RMB336.3 million for the six months ended 30 June 2020 from RMB304.6 million for the six months ended 30 June 2019. The increase in gross profit was primarily driven by the increase in the Group's overall business scale.

Gross margin is calculated as gross profit divided by revenue. The Group's gross margin was 70.2% for the six months ended 30 June 2020, up from 69.6% for the six months ended 30 June 2019, which was primarily due to the increase in sales of products such as A3 knee products and 3D-printed products with a relatively higher gross margin in the product portfolio.

Other Income, net

The Group's other income for the six months ended 30 June 2020 was RMB0.9 million, representing a decrease of RMB14.6 million as compared of RMB15.5 million for the six months ended 30 June 2019. This other income in 2019 was primarily from the one-off insurance compensation received by JRI Orthopaedics.

Selling and Distribution Expenses

Selling and distribution expenses were RMB62.8 million for the six months ended 30 June 2020, representing a decrease of 25.7% as compared with RMB84.4 million for the six months ended 30 June 2019. The decrease was primarily due to the failure to carry out marketing activities as a result of the pandemic, which led to the corresponding decrease in related expenses such as marketing activity expenses and travelling expenses.

General and Administrative Expenses

General and administrative expenses amounted to RMB38.3 million for the six months ended 30 June 2020, representing a decrease of 19.6% as compared with RMB47.6 million for the six months ended 30 June 2019. The decrease was mainly due to the decrease in share option expenses and the decrease in management consulting services.

Research and Development Expenses

Research and development expenses for the six months ended 30 June 2020 was RMB43.9 million, representing an increase of 25.0% as compared with RMB35.1 million for the six months ended 30 June 2019. The increase was mainly due to the increase in labor costs for R&D staff, service fee from external cooperative R&D institutions and R&D materials as a result of the continuous investment in R&D and the proactive promotion of R&D projects.

Net Finance Income

Net finance income was RMB4.5 million for the six months ended 30 June 2020, representing an increase of RMB1.1 million from RMB3.4 million for the six months ended 30 June 2019. Such increase was primarily attributable to the increase in the average balance of capital held by the Company in 2020.

Income Tax Expenses

Income tax expense was RMB34.0 million for the six months ended 30 June 2020, representing an increase of 26.4% as compared with RMB26.9 million for the six months ended 30 June 2019. Such increase was primarily due to an increase in the Group's profit before tax resulting from its 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 2020 also led to the increase in income tax.

Liquidity and Financial Resources

As at 30 June 2020, the Group had cash and cash equivalents of RMB538.2 million, structured deposit of RMB337.8 million, time deposits over 3 months of RMB182.7 million and import tariff monthly settlement deposit of RMB5.0 million, amounting to RMB1,063.7 million in aggregate, as compared with RMB498.9 million as at 31 December 2019. The Board's approach to manage the liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities so as to avoid any unacceptable losses or damage to the Group's reputation.

Net Current Assets

The Group had net current assets of RMB1,376.7 million as at 30 June 2020, representing an increase of RMB586.5 million as compared with RMB790.2 million as at 31 December 2019. Such increase primarily represents the increase in the average balance of capital held by the Group in 2020.

Foreign Exchange Exposure

The Group's principal business is located in China, and it is exposed to foreign currency risks, primarily including trade receivables, trade payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transaction relates generating from overseas sales and purchases. The currencies giving rise to this risk are primarily US dollars and Euro. For the six months ended 30 June 2020, the Group recorded an exchange loss of RMB0.6 million, as compared to an exchange loss of RMB0.04 million for the six months ended 30 June 2019. So far, the Group has not had any hedging arrangements to manage foreign exchange risks but has been actively monitoring and overseeing its foreign exchange risks.

Capital Expenditure

For the six months ended 30 June 2020, the Group's total capital expenditure amounted to approximately RMB37.7 million, which was primarily used in (i) construction of factories; (ii) acquiring equipment, machinery, and software for manufacturing and R&D activities.

Charge of Assets/Pledge of Assets

As at 30 June 2020, the Group pledged a deposit of RMB5.0 million in the margin account to obtain the monthly settlement qualification of relevant tax for import and export operations incurred by the PRC Customs. Other than that, the Group did not have any charge of assets or pledge of assets.

Borrowings and Gearing Ratio

As at 30 June 2020, the Group did not have any outstanding bank loans or other borrowings. Gearing ratio represents the percentage of bank borrowings to total equity. As at 30 June 2020, no gearing ratio of the Group is presented (as at 31 December 2019: 0.2%).

Contingent Liabilities

As of 30 June 2020, the Group did not have any material contingent liabilities (as of 31 December 2019: Nil).

Significant Investments

Except for the acquisition of Libeier, the Group did not hold any significant investments in the equity interests of any other companies as at 30 June 2020.

Material Acquisitions and Disposals

Except for the acquisition of Libeier, for the six months ended 30 June 2020, the Group did not have any material acquisitions and disposals.

Future Plans for Material Investments and Capital Assets

As at 30 June 2020, the Group did not have other plans for material investments and capital assets, except for the continuous construction of Changzhou Facilities (see the paragraph headed “Use of Proceeds from Initial Public Offering” below for further details).

Employee and Remuneration Policy

As at 30 June 2020, the Group had 963 employees (30 June 2019: 616 employees). Total staff remuneration expenses including Directors’ remuneration for the six months ended 30 June 2020 amounted to RMB73.8 million (for the six months ended 30 June 2019: RMB65.6 million). The increase in staff remuneration was primary due to the increase in headcounts.

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

Use of Proceeds from Initial Public Offering

The net proceeds from the initial public offering of the Company were approximately HK\$477.0 million. During the two years ended 31 December 2018 and 2019, respectively, the net proceeds were used in the manner consistent with that disclosed in the prospectus of the Company dated 7 December 2017 under the section headed “Future Plans and Use of Proceeds” and there was no material change in the use of proceeds. The unutilised amount is expected to be used in accordance with the intended purposes as disclosed in the prospectus and the supplemental announcement of the Company dated 14 August 2020.

The table below sets out the actual use of the net proceeds from the initial public offering of the Company as at 30 June 2020. The unutilised amount (as set forth in the table below) will be fully utilised before 31 December 2020.

	Percentage of total amount	Use of proceeds in the same manner and proportion as stated in the prospectus (HK\$ million)	Actual use of proceeds as at 30 June 2020 (HK\$ million)	Balance as at 30 June 2020 (HK\$ million)
Construction of the Changzhou Facilities, and, to a lesser extent, upgrading the existing facilities in Beijing and acquisition of new equipment for both the Changzhou Facilities and the existing facilities in Beijing	41%	195	195	–
Development and upgrade of the 3D-printed products and PTIP	21%	100	95	5
Other R&D activities	15%	73	73	–
Funding potential acquisitions and developing strategic alliances that could complement the existing product portfolio, technology and business growth	15%	73	73	–
General corporate purposes	8%	36	36	–
Total	100%	477	472	5

Use of Proceeds from placement and top-up subscription

The net proceeds from the top-up subscription of the Company in the first half of 2020 were approximately HK\$783.9 million. A portion of the net proceeds was used for the acquisition of Libeier while the remaining will be used to supplement the general working capital of the Group.

SUBSEQUENT EVENT

Save for the continuing impact of the COVID-19 pandemic, there is no important event affecting the Group which has occurred since 30 June 2020 and up to the date of this announcement.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 June 2020, other than the acquisition of Libeier, the Group did not have any material acquisition and disposal of subsidiaries and affiliated companies.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as the code of conduct regarding securities transactions by Directors. Having made specific enquiries 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 the six months ended 30 June 2020.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

For the six months ended 30 June 2020, 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

Following the retirement of Mr. Li Wenming on 15 June 2020, Dr. Wang David Guowei has been appointed as a member of the Audit Committee with effect from 15 June 2020.

The Audit Committee consists of two independent non-executive Directors, Mr. Kong Chi Mo (Chairman), Dr. Li Shu Wing David and one non-executive Director, Dr. Wang David Guowei.

The Group's interim results for the six months ended 30 June 2020 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. The Audit Committee does not have any disagreement with the accounting treatment adopted by the Company.

INDEPENDENT REVIEW BY AUDITORS

The interim financial report for the six months ended 30 June 2020 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 of the Company.

INTERIM DIVIDEND

The Board did not recommend to declare any interim dividend for the six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement has been published on the websites of the Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://ak-medical.net>). The interim report of the Company for the six months ended 30 June 2020 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and will be available on the same websites in due course.

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

Hong Kong, 24 August 2020

* *for identification purpose only*

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