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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 2022

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 2022 (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		Variance %
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	
Revenue	531,211	447,633	18.7%
Gross profit	338,535	308,333	9.8%
Profit for the period	126,033	111,483	13.1%
Profit attributable to equity shareholders of the Company	126,033	111,483	13.1%
Earnings per share			
Basic	RMB0.11	RMB0.10	
Diluted	RMB0.11	RMB0.10	

For the six months ended 30 June 2022, the Group achieved revenue of RMB531.2 million, representing an increase of 18.7% as compared to the corresponding period in 2021. The implementation of nationwide joint implant volume-based procurement since April 2022 boosted the number of joint operations under the Group’s brands in the hospitals, which brought significant growth in sales volume and compensated the decrease in price due to such volume-based procurement. Along with the growth in revenue, profit of the Group for the six months ended 30 June 2022 increased by 13.1% as compared to the six months ended 30 June 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2022 - unaudited

(Expressed in Renminbi (“RMB”))

		Six months ended 30 June	
	<i>Note</i>	2022	2021
		RMB’000	RMB’000
Revenue	3	531,211	447,633
Cost of sales		<u>(192,676)</u>	<u>(139,300)</u>
Gross profit		338,535	308,333
Other income, net		4,956	2,080
Selling and distribution expenses		(99,713)	(78,721)
General and administrative expenses		(54,536)	(51,036)
Research and development expenses		<u>(54,399)</u>	<u>(51,737)</u>
Operating profit		134,843	128,919
Net finance income		<u>14,611</u>	<u>2,693</u>
Profit before taxation		149,454	131,612
Income tax	4	<u>(23,421)</u>	<u>(20,129)</u>
Profit for the period		<u>126,033</u>	<u>111,483</u>
Profit attributable to equity shareholders of the Company		<u>126,033</u>	<u>111,483</u>
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		<u>3,255</u>	<u>(4,438)</u>
Other comprehensive income, net of tax		<u>3,255</u>	<u>(4,438)</u>
Total comprehensive income		<u>129,288</u>	<u>107,045</u>
Total comprehensive income attributable to equity shareholders of the Company		<u>129,288</u>	<u>107,045</u>
Earnings per share			
Basic	5(a)	RMB0.11	RMB0.10
Diluted	5(b)	RMB0.11	RMB0.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2022 - unaudited

(Expressed in RMB)

	<i>Note</i>	30 June 2022 RMB'000	31 December 2021 RMB'000
Non-current assets			
Property, plant and equipment	6	423,266	382,401
Intangible assets		91,002	79,989
Goodwill		131,407	132,449
Deferred tax assets		61,654	76,074
		<u>707,329</u>	<u>670,913</u>
Current assets			
Inventories		347,121	423,068
Trade receivables	7	394,854	387,990
Bills receivable		73,281	142,458
Deposits, prepayments and other receivables		24,006	28,213
Other financial assets		395,611	365,528
Pledged deposits and time deposits		229,235	111,508
Cash and cash equivalents		484,943	475,606
		<u>1,949,051</u>	<u>1,934,371</u>
Current liabilities			
Trade payables	8	95,163	92,769
Contract liabilities		58,072	167,413
Accruals and other payables		223,248	166,779
Lease liabilities		13,038	10,952
Current taxation		28,948	51,522
		<u>418,469</u>	<u>489,435</u>
Net current assets		<u>1,530,582</u>	<u>1,444,936</u>
Total assets less current liabilities		<u>2,237,911</u>	<u>2,115,849</u>

	<i>Note</i>	30 June 2022 RMB'000	31 December 2021 RMB'000
Non-current liabilities			
Deferred income		12,511	12,351
Other payables		8,695	–
Lease liabilities		32,214	30,607
Deferred tax liabilities		44,355	41,340
		<u>97,775</u>	<u>84,298</u>
NET ASSETS		<u>2,140,136</u>	<u>2,031,551</u>
Capital and reserves			
Share capital	<i>9(a)</i>	9,453	9,453
Reserves		2,130,683	2,022,098
Total equity attributable to equity shareholders of the Company		<u>2,140,136</u>	<u>2,031,551</u>
TOTAL EQUITY		<u>2,140,136</u>	<u>2,031,551</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*for the six months ended 30 June 2022 - unaudited**(Expressed in RMB)*

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	243,091	19,703
Tax paid	(28,305)	(15,009)
Net cash generated from operating activities	214,786	4,694
Investing activities		
Acquisition of property, plant and equipment and intangible assets	(71,583)	(39,230)
Uplift of structured deposits and time deposits	855,508	349,709
Placement of structured deposits and time deposits	(999,705)	(458,280)
Other cash flows arising from investing activities	8,219	4,688
Net cash used in investing activities	(207,561)	(143,113)
Financing activities		
Capital element of lease rentals paid	(7,611)	(10,952)
Interest element of lease rentals paid	(1,151)	(426)
Payment for shares held for share award scheme	–	(16,785)
Net cash used in financing activities	(8,762)	(28,163)
Net decrease in cash and cash equivalents	(1,537)	(166,582)
Cash and cash equivalents at 1 January	475,606	713,091
Effect of movements in exchange rates on cash hold	10,874	(5,429)
Cash and cash equivalents at 30 June	484,943	541,080

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 (“**Listing Rules**”) 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 30 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 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 2021 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 2021 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2022.

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by the IASB to this interim financial report for the current accounting period:

- Amendments to IAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37, *Provision, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

None of these developments have had a material effect on how the Group’s results and financial position for the current period 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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers		
Disaggregated by major products of service lines		
– Hip replacement implants	327,864	282,964
– Knee replacement implants	128,124	109,917
– Spinal and trauma implants	45,305	36,368
– Others (i)	29,918	18,384
	<u>531,211</u>	<u>447,633</u>
Disaggregated by geographical location of customers		
– China	467,573	379,553
– Other countries	63,638	68,080
	<u>531,211</u>	<u>447,633</u>

(i) Others

The Group reclassified the disaggregation by major products of service lines in the second half of 2021. The 3D-printed products disclosed in the six months ended 30 June 2021 has been reclassified into respective products.

Others primarily include customised products and services, surgical instruments and third party orthopedic products. Customised products and services is an orthopedic implant manufactured by patient matching design and 3D printing technology based on different patients' differentiated lesions and pathological characteristics, which include customised joint, pelvis and spinal and trauma implants and also customised surgical value-added service.

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 2021 and 2022.

(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	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Revenue from external customers	489,976	408,682	41,235	38,951	531,211	447,633
Inter-segment revenue	–	–	14,667	38,034	14,667	38,034
Reportable segment revenue	489,976	408,682	55,902	76,985	545,878	485,667
Reportable segment profit/(loss)	153,552	137,854	(8,093)	3,887	145,459	141,741
As at 30 June/31 December						
Reportable segment assets	2,025,567	2,003,739	177,186	174,454	2,202,753	2,178,193
Reportable segment liabilities	414,465	473,582	32,114	21,800	446,579	495,382

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	
	2022 RMB'000	2021 RMB'000
Reportable segment profit	145,459	141,741
Elimination of inter-segment loss/(profit)	3,995	(10,129)
Consolidated profit before taxation	149,454	131,612

4 INCOME TAX

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current tax - the PRC Enterprise Income Tax	5,731	19,875
Current tax - Overseas	–	1,186
Deferred tax	17,690	(932)
	<u>23,421</u>	<u>20,129</u>

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 2022 at the rates of taxation prevailing in the countries in which the Group operates. Applicable statutory enterprise income tax rate of PRC subsidiaries of the Company for the six months ended 30 June 2022 are 25% (six months ended 30 June 2021: 25%). According to the relevant PRC income tax law, the Company's subsidiaries, Beijing AKEC Medical Co., Ltd. (“**AK Medical Beijing**”) and ITI Medical Co., Ltd. (“**AK Medical Changzhou**”) were certified as New and High Technology Enterprises, and are entitled to a preferential income tax rate of 15%. The current certification of New and High Technology Enterprise held by AK Medical Beijing and AK Medical Changzhou will be expired on 21 October 2023 and 2 December 2023, respectively. Taxation for subsidiaries operating mainly in the England and Wales were calculated at statutory enterprise income tax rate of 19% for the six months ended 30 June 2022 (six months ended 30 June 2021: 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 RMB126,033,000 (six months ended 30 June 2021: RMB111,483,000) and the weighted average of 1,109,176,000 ordinary shares (2021: 1,114,609,000 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 RMB126,033,000 (six months ended 30 June 2021: RMB111,483,000) and the weighted average of 1,115,675,000 ordinary shares (2021: 1,115,735,000 shares).

6 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2022, the Group entered into a number of lease agreements for use of factories and offices, and land use right with a lease term of 20 years, and therefore recognised the additions to right-of-use assets of RMB11,304,000 (six months ended 30 June 2021: RMB7,928,000) and RMB51,312,000 (six months ended 30 June 2021: Nil), respectively.

(b) Acquisitions of owned assets

During the six months ended 30 June 2022, the Group acquired items of property, plant and machinery with a total cost of RMB23,562,000 (six months ended 30 June 2021: RMB27,596,000).

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 2022 RMB'000	At 31 December 2021 RMB'000
Current to 3 months	262,425	239,330
3 to 6 months	13,166	10,877
6 to 12 months	99,237	90,666
Over 12 months	20,026	47,117
	<hr/>	<hr/>
Trade receivables, net of loss allowance	394,854	387,990
	<hr/> <hr/>	<hr/> <hr/>

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

8 TRADE PAYABLES

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Within 3 months	80,940	72,240
3 to 6 months	7,093	13,253
6 to 12 months	4,949	1,709
1 year to 2 years	1,385	4,377
Over 2 years	796	1,190
	<hr/>	<hr/>
	95,163	92,769
	<hr/> <hr/>	<hr/> <hr/>

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

9 CAPITAL AND DIVIDENDS

(a) Share capital

	2022		2021	
	No. of shares	Amount <i>RMB'000</i>	No. of shares	Amount <i>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 and 30 June	<u>1,115,700,000</u>	<u>9,453</u>	<u>1,115,500,000</u>	<u>9,451</u>

(b) Dividends

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

	Six months ended 30 June	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved during the following interim period, of HK\$2.5 cents per ordinary share (2021: HK\$4.0 cents per ordinary share)	<u>23,853</u>	<u>37,127</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

Business Overview

In the first half of 2022, the Company continued to face a complex external environment. Since April 2022, the results of the nationwide tender for the volume-based procurement (“VBP”) of joint implants began to be implemented in various provinces, and the uncertainty in this regard has been gradually eliminated. Under the new pricing structure, every stage of the industry chain has to be reshaped and adapted, which is the new challenge facing by the Group.

Amidst the complex and unstable external environment, the Company has actively adopted countermeasures. Upon the implementation of the results of the nationwide VBP tender, the Company has facilitated channels to secure the supply of products under centralized procurement and increased its market share of joint products. At the same time, our innovative products utilizing 3D printing technology have gained popularity by surgeons in the hospitals. In the first half of 2022, the volume of operations in the hospitals under the Group’s brands increased substantially.

For the six months ended 30 June 2022, the Group recorded sales revenue of RMB531.2 million and net profit of RMB126.0 million, representing increases of 18.7% and 13.1% respectively compared to the same period of the previous year.

Industrial Policies

In September 2021, the National Healthcare Security Administration (“NHSA”) organized and conducted a round of nationwide VBP tender on joint implants, which mainly involved primary artificial total hip system and primary artificial total knee system. A total of approximately 538,000 sets will be purchased in the first year with the procurement cycle lasting for two years, and the average retail price of all tender winning brands fell by around 82%.

On 31 March 2022, the NHSA and the National Health Commission (“NHC”) jointly issued the “Opinions on Supporting Measures for the Centralized Volume-based Procurement and Use of High-Value Medical Consumables joint implants by State Organizations”, and since April 2022, most provinces have been implementing the tender results of this round of VBP. As of 30 June 2022, all provinces except Shanghai and Anhui have started implementing the results of VBP.

During the process of VBP, for primary hip and knee systems, approximately 538,000 pieces will be purchased based on the submitted volume by hospital, and the Group has been allocated approximately 81,000 pieces according to the contracts, ranked first among all brands. A total of 3,497 hospitals are tending to purchase the Group’s joint prostheses, of which 953 are newly covered hospitals.

Hip and Knee Implants Business

The hip and knee implants under this segment include those manufactured by regular technology and those by 3D printing technology. The Group provides customers and patients with a full line of joint implants manufactured by different technologies, including hip and knee implants and instruments suitable for primary, complicated, revision, and reconstructive surgeries.

Despite a reduction in the ex-factory price of some of the Company's product lines as a result of the VBP policy, the volume of operations in the hospitals increased rapidly. The Group seized the opportunity to step into over ten key hospitals, such as Chinese PLA General Hospital, The Affiliated Hospital of Qingdao University, The First Affiliated Hospital of Zhejiang University School of Medicine. Hence, the sales volume of hips and knees implants increased significantly. For the six months ended 30 June 2022, the Group's revenue from hip and knee products was RMB456.0 million, a year-on-year increase of 16.1%.

Spinal and Trauma Implants Business

The Group acquired the regular spinal and trauma product lines by the acquisition of Beijing Libeier Bio-engineering Institute Co., Ltd. ("**Libeier**"). Combined with the Group's own 3D printing technology, the Group forms a well-established product portfolio to meet different customers' needs. Through continuous research and development of new products, the Group currently focuses on providing comprehensive solutions for spine fusion surgery featured with 3D printing technology.

With the advantages of 3D printing technology, the Company's products can be applied to the treatment of various rare and difficult spinal diseases. With the support of the national policy on rare and difficult diseases, the Company has completed many customised and complex surgeries with renowned Class III A hospitals in China, including surgeries related to cervical spine, thoracolumbar spine and pelvis, basically solving the situation where there is no prosthesis available or that prosthesis cannot match well with the patient.

For the six months ended 30 June 2022, the Group's revenue from spinal and trauma implants reached RMB45.3 million, a year-on-year increase of 24.6%.

Research and Development

Against the background of nationwide VBP of orthopaedic products, the Group has reformulated its future R&D strategy to focus more on new technologies and new products that are innovative and meet urgent clinical needs. Led by 3D customised products and services, the Group will become a master of joint and an expert in spinal fusion, and extend its business to the digital smart orthopaedic and biomaterials segment.

In the field of joints, the Group is committed to the synergistic development of product lines both in and out of the scope of VBP to address clinical differentiation and individual needs through joint ancillary products, customised products, early intervention products and revision and reconstruction products. In the first half of 2022, AK Medical Beijing, a subsidiary of the Group, obtained the Class-III medical devices registration certificate with high cross-linked polyethylene tibial insert base for knee joints, further enriching the Company's knee joint product line and providing clinical solutions for ultra-abrasive knee joint friction interfaces. The Group further explored customised products and services and enrich the experience in pelvic tumours, humeral tumours, finger, shoulder, wrist and ankle joint reconstruction and customised repair of trauma. The first surface total elbow replacement prosthesis implantation was completed, followed by the first half-elbow surface elbow prosthesis implantation. The customised reconstruction of complex articular surfaces is now more precise with better preservation of bone tissues and function.

In the field of spine, the Group has leveraged its leading 3D printing technology to develop synergies between standardised and customised products and to drive innovation based on the market demand. In the first half of 2022, the Company developed a 3D-printed adjustable artificial interbody which was put into clinical application. The Group has applied for the National 14th Five-Year Plan as a special project to conduct more in-depth research on 3D printing technology for the fusion of the anterior thoracolumbar spine with hospitals such as Sir Run Run Shaw Hospital affiliated with the Zhejiang University School of Medicine, Shanghai Changzheng Hospital and Tianjin Hospital.

With the aid of Innovative Customised Orthopedic Solution (“**ICOS**”), as well as its advantages in 3D printing and image processing, the Group is committed to building an innovative orthopedic customisation platform. On the platform, the Group will offer both services and products including preoperative planning, bone model printing, customised vetting guide, 3D-printed customised implants, etc., covering joint, spine, trauma, bone tumor surgeries, etc. Moreover, relying on this platform, the Group will cooperate with hospitals nationwide to develop and establish 3D-printed customised orthopedics workstations to promote the R&D, registration and popularisation of relevant customised products. At present, the Group has commenced relevant technical services in a few key hospitals, such as Beijing Jishuitan Hospital, Peking University Third Hospital, Peking University People's Hospital and The First Affiliated Hospital of Chongqing Medical University.

At present, the Group has two Class-III 3D-printed customised products registration certificates approved by the China National Medical Products Administration (“**NMPA**”), as well as 39 customised products filed with cooperating hospitals.

With an eye on the future direction of the orthopaedic industry, the Group has set up the digital smart orthopaedic business and a biomaterials segment. The digital orthopaedics business builds on its existing pre-surgery planning system, which integrates pre-surgery planning, 3D guiding models, navigational auxiliary system and robotic system to assist surgeons in surgery and optimise the surgical process. In the biomaterials segment, the Group has a range of product lines including bone fillers, surface functional materials and bioresorbable materials that will complement its prosthetic implants to meet clinical needs.

In the first half of 2022, the Group was awarded the first year of funding support for the first batch of national “Specialized and New” Small and Medium Enterprises High Quality Development Project. In terms of intellectual property rights, the Group was ranked among the top three in the list of national invention patents for national-level specialized and new “Small Technology Giants” enterprises in the field of medical devices. The Group signed an agreement on the technological achievements transformation of “hip and knee reconstruction technology and implants” with Beijing Jishuitan Hospital.

MARKETING AND SALES

Marketing

In the first half of 2022, under the circumstances of national VBP, the Group continued to implement Branded Academic Projects such as “Master Plan” and Pathways, with the aim of building a 3D platform composed of a new product platform, an international technology platform and a customer platform. The Group promoted surgeon education programs on new products, new technologies and new surgical operations, built an international academic exchange platforms at different levels in different training directions.

Products:

- 1) 3D-printing orthopedic fillers: Relying on the Group’s accumulated experience in 3D printing technology, the Company has launched various orthopedic fillers to enhance the stability as a whole on the one hand, and the long-term osseointegration between the implants and bone on the other hand, in the clinical application of inclusive bone defects, non-inclusive bone defects, osteoporosis, local sclerosis superimposed on non-inclusive bone defects and revision of bone defects, preserving more bone tissues and providing more reliable and long-term support for joint prostheses.
- 2) The first highly cross-linked, dual-system knee joint unicondylar replacement system in China: The system includes both mobile and fixed platform designed to meet different clinical indications, enriching the Group’s knee product line and further expanding its product advantage in knee joints.
- 3) In response to the launch of the 3D hip-conserving product AVN last year, a multi-centre clinical study was launched this year in collaboration with 28 provincial hip-conserving hospitals across China to collect data on the use of the product and made positive contribution to hip-conserving treatment in China.

- 4) For patients with congenital hip dysplasia, the Group has developed the SR II hip prosthesis system with orthopaedic experts in China and is actively promoting the multi-centre research project in collaboration with more than 20 provincial hospitals in China, with the aim of introducing a more suitable prosthesis for Chinese patients with hip dysplasia and promoting related clinical research.

Academic platform:

- 1) Relying on the Pathways branded academic event platform, the Group established an academic platform for communication between Chinese and foreign doctors. The Group held the Pathways UK academic event in the first half of the year, inviting core R&D experts from China to give academic presentations on the international platform, with over 10,000 Chinese doctors participating, and the Group plans to hold a similar academic event in China in the second half of the year to promote international academic exchange and enhance the academic branding of AK Medical.
- 2) In 2022, leveraging on the “Master Plan” platform, the Group continued to launch a number of online and offline academic activities surrounding the promotion and training on hip and knee revision products with the focus on the professional upgrading needs of doctors, and with the help of the provincial training centres established, accumulatively covered approximately 300 key hospitals and trained over 100,000 clients.

Sales

Since April 2022, provinces across China have been implementing the results of national tenders for VBP of artificial joints, which has changed the competitive landscape of the industry.

The Group has always sold its products primarily through distributors. The distributors are important partners for the Company in providing services to hospitals and doctors. Following the national VBP, the retail price of primary hip and knee prostheses dropped significantly and the distributors’ business was affected to some extent. The Group communicated with distributors well in advance of the implementation of the VBP results to clarify the sales policy and to enhance distributors’ confidence with its extensive product line, good brand reputation among hospitals and flexible sales strategy.

After the implementation of the tender results of the VBP, the volume of operations under the Group’s brands in hospitals increased rapidly, and the Company has newly penetrated a number of large Class III A hospitals.

Outlook

Being the first year for implementation of the Artificial Joint VBP, the industry is undergoing rapid changes in 2022. The Company believes that two important trends in the industry will be brought about by the nationwide VBP, first is the acceleration of import substitution and second is the acceleration of market consolidation of the industry.

As a leading domestic brand in the orthopaedic industry, the Group plans to leverage its core strengths in research and development and products and continues to enrich its product lines to meet the strong end-use demand for surgery and to capture the opportunities of increasing market share brought about by VBP.

FINANCIAL REVIEW

Overview

	Six months ended 30 June		Variance %
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	
Revenue	531,211	447,633	18.7%
Gross profit	338,535	308,333	9.8%
Profit for the period	126,033	111,483	13.1%
Profit attributable to equity shareholders of the Company	126,033	111,483	13.1%
Earnings per share			
Basic	RMB0.11	RMB0.10	
Diluted	RMB0.11	RMB0.10	

For the six months ended 30 June 2022, the Group achieved revenue of RMB531.2 million, representing a significant increase of 18.7% as compared to the same period in 2021. In the first half of 2022, following the implementation of the nationwide VBP policy for joint implants, the Company recorded significant growth in sales of hip and knee implants within the scope of VBP. At the same time, the Company's aggressive market expansion efforts and the launch of new products effectively drove revenue growth in revision replacement implants and ICOS customised products and value-added surgical services. Along with the significant revenue growth, the Group's net profit for the six months ended 30 June 2022 increased significantly by 13.1% compared to the six months ended 30 June 2021. The increase in net profit was mainly attributable to the increase in revenue mentioned above.

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

Revenue

	Six months ended 30 June		Variance %
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	
Hip replacement implants ⁽¹⁾	327,864	282,964	15.9%
Knee replacement implants ⁽²⁾	128,124	109,917	16.6%
Spinal and trauma implants ⁽³⁾	45,305	36,368	24.6%
Others ⁽⁴⁾	29,918	18,384	62.7%
Total	531,211	447,633	18.7%

Notes:

- (1) Including 3D-printed hip replacement implants;
- (2) Including 3D-printed knee replacement implants;
- (3) Including 3D-printed spinal and trauma implants;
- (4) Others primarily include customised products and services, surgical instruments and third party orthopedic products.

The Group's revenue amounted to RMB531.2 million for the six months ended 30 June 2022, representing a significant increase of 18.7% as compared with RMB447.6 million for the six months ended 30 June 2021. The increase in revenue was mainly attributable to the increase in sales volume of hip and knee replacement implants within the scope of VBP driven by the nationwide VBP policy for joint implants.

Hip and Knee Replacement Implants Products

Hip and knee replacement implants products include regular knee implants and hip implants as well as 3D-printed standardised hip and knee replacement implants.

Hip implants recorded revenue of RMB327.9 million for the six months ended 30 June 2022, representing an increase of 15.9% as compared with RMB283.0 million for the six months ended 30 June 2021. Knee implants recorded revenue of RMB128.1 million for the six months ended 30 June 2022, representing an increase of 16.6% as compared with RMB109.9 million for the six months ended 30 June 2021.

In the first half of 2022, with the implementation of the tender results of nationwide VBP of joint implants, the Company has significantly increased the sales volume of hip and knee implants within the scope of VBP, resulting in an increase in sales revenue. At the same time, the Company achieved growth in revenue from the sale of revision replacement implants through aggressive market expansion and the launch of new products.

Spinal and Trauma Implants Products

The Group's spinal and trauma implants products include regular spinal implants and trauma implants, which are under the Libeier brand, as well as 3D-printed spinal implants. For the six months ended 30 June 2022, spinal and trauma implants products recorded a revenue of RMB45.3 million, representing an increase of 24.6% as compared to that of RMB36.4 million for the six months ended 30 June 2021. In the first half of 2022, the Company's innovative and functional 3D printing technology and its expanding spine product line have been highly recognised by the market and have further facilitated the implantation of spine products, resulting in a significant increase in sales.

Others

Revenue from others include revenue from customised joint, pelvis, spinal and trauma implants products, customised surgical value-added services, surgical instruments and third party orthopaedic product. For the six months ended 30 June 2022, others recorded a revenue of RMB29.9 million, representing a significant increase of 62.7% as compared to that of RMB18.4 million for the six months ended 30 June 2021. In the first half of 2022, the Company further leveraged its technical advantages in 3D printing customised products and value-added surgical services to successfully develop customised surgeries in a number of hospitals, resulting in a significant growth in revenue from others.

Domestic and Overseas Sales

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

	Six months ended 30 June		
	2022	2021	Variance
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
China	467,573	379,553	23.2%
Other countries	63,638	68,080	-6.5%
Total	<u>531,211</u>	<u>447,633</u>	<u>18.7%</u>

Revenue from China for the six months ended 30 June 2022 was RMB467.6 million, a significant increase of 23.2% compared to the same period last year. Affected by the pandemic, for the six months ended 30 June 2022, the Group's sales revenue from overseas was RMB63.6 million, a decrease of 6.5% compared to the same period last year.

Cost of Sales

For the six months ended 30 June 2022, the cost of sales was RMB192.7 million, representing an increase of 38.3% as compared with RMB139.3 million for the six months ended 30 June 2021. 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 increased by 9.8% to RMB338.5 million for the six months ended 30 June 2022 from RMB308.3 million for the six months ended 30 June 2021. The increase in gross profit was primarily due to the increase in revenue.

Gross margin is calculated as gross profit divided by revenue. The Group's gross margin was 63.7% for the six months ended 30 June 2022, decreased 5.2% from 68.9% for the six months ended 30 June 2021. Since April 2022, the implementation of the national VBP policy for joint implants resulted in a decrease in the sales price of hip and knee implants within the scope of VBP, which led to a decrease in gross profit margin. There was no significant change in gross profit margin for other products except for the change in gross profit for the hip and knee implants within the scope of VBP.

Other Income, net

The Group's other income for the six months ended 30 June 2022 was RMB5.0 million, representing an increase of RMB2.9 million as compared with RMB2.1 million for the six months ended 30 June 2021. Other income for the six months ended 30 June 2022 mainly represents government subsidy income received and grants for research and development projects.

Selling and Distribution Expenses

Selling and distribution expenses were RMB99.7 million for the six months ended 30 June 2022, representing an increase of 26.7% as compared with RMB78.7 million for the six months ended 30 June 2021. Such increase was mainly due to the marketing activities and promotions actively carried out by the Company for customised and revision products as well as product trainings, thus relevant marketing expenses increased.

General and Administrative Expenses

General and administrative expenses amounted to RMB54.5 million for the six months ended 30 June 2022, representing an increase of 6.9% as compared with RMB51.0 million for the six months ended 30 June 2021. The increase is mainly due to the increase in equity-settled share-based payment expenses in the current period.

Research and Development Expenses

Research and development expenses for the six months ended 30 June 2022 were RMB54.4 million, representing an increase of 5.1% as compared with RMB51.7 million for the six months ended 30 June 2021. The increase was mainly due to the increase in cost of R&D materials as a result of more investment in R&D and the progress made in R&D projects.

Net Finance Income

Net finance income was RMB14.6 million for the six months ended 30 June 2022, representing an increase of RMB11.9 million from RMB2.7 million for the six months ended 30 June 2021. Such increase was primarily attributable to the increase in interest income and the impact of exchange rate movements resulted in a significant increase in foreign exchange gains.

Income Tax Expenses

Income tax expense was RMB23.4 million for the six months ended 30 June 2022, representing an increase of 16.4% as compared with RMB20.1 million for the six months ended 30 June 2021. The increase was mainly due to an increase in profit before tax.

Liquidity and Financial Resources

As of 30 June 2022, the Group had cash and cash equivalents of RMB484.9 million, structured deposit of RMB391.1 million, time deposits over 3 months of RMB224.2 million and import tariff monthly settlement deposit of RMB5.0 million, amounting to RMB1,105.2 million in aggregate, as compared with RMB948.3 million as at 31 December 2021. 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 RMB1,530.6 million as at 30 June 2022, representing an increase of RMB85.7 million as compared with RMB1,444.9 million as at 31 December 2021. Such increase primarily represents the proceeds from the operations of the Group.

Foreign Exchange Exposure

The Group's principal business is located in China, and it is exposed to foreign currency risks, primarily including trade receivables, trade payables and cash balances that are denominated in 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 2022, the Group recorded an exchange gain of RMB7.3 million, as compared to an exchange loss of RMB1.3 million for the six months ended 30 June 2021. So far, the Group has not had any hedging arrangements to manage foreign exchange risks but has been actively monitoring and overseeing such risks.

Capital Expenditure

For the six months ended 30 June 2022, the Group's total capital expenditure amounted to approximately RMB71.6 million, which was primarily used in (i) land use right; (ii) purchase of patents; and (iii) acquiring equipment, machinery, and software for manufacturing and R&D activities.

Charge of Assets/Pledge of Assets

As of 30 June 2022, the Group pledged a deposit of RMB5.0 million in the margin account to obtain the monthly settlement qualification of relevant tax for import and export operations incurred by the PRC Customs. Other than that, the Group did not have any charge of assets or pledge of assets.

Borrowings and Gearing Ratio

As of 30 June 2022, the Group did not have any outstanding bank loans or other borrowings. Gearing ratio represents the percentage of bank borrowings to total equity. As of 30 June 2022, the gearing ratio of the Group was Nil (as of 31 December 2021: Nil).

Contingent Liabilities

As of 30 June 2022, the Group did not have any material contingent liabilities (as of 31 December 2021: Nil).

Significant Investments

The Group did not hold any significant investments in the equity interests of any other companies as of 30 June 2022.

Material Acquisitions and Disposals

For the six months ended 30 June 2022, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Future Plans for Material Investments and Capital Assets

As of 30 June 2022, the construction of approximately 33,000 square meters of facility located at Changping New Town East has commenced and is expected to be completed in 2025. Future expenditure of construction is estimated at approximately RMB250.0 million.

Employee and Remuneration Policy

As of 30 June 2022, the Group had 950 employees (30 June 2021: 963 employees). Total staff remuneration expenses including Directors' remuneration for the six months ended 30 June 2022 amounted to RMB100.2 million (for the six months ended 30 June 2021: RMB100.4 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.

On 31 March 2022, the Company offered to grant 8,582,362 share options under the share option scheme and 838,784 share awards under the share award scheme, respectively, to selected employees of the Group.

Use of Proceeds from placement and top-up subscription

The Group completed a placement and top-up subscription exercise in the first half of 2020. A total of 53,500,000 placing shares were placed at a placing price of HK\$15.0 per share to no fewer than six independent placees 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, a portion of which was used for the acquisition of Libeier (being approximately HK\$313.6 million) and as general working capital of the Group (being approximately HK\$420.5 million). Up to the date of this announcement, the net proceeds had not been fully utilised by the Group. It is expected that the remaining proceeds (being approximately HK\$49.8 million) will be used for strategic acquisition investment (if any) and/or general working capital of the Group by 31 December 2022. There is no material change in the case of proceeds as previously disclosed.

Subsequent Events

No material event affecting the Group has occurred since 30 June 2022 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 2022.

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 six months ended 30 June 2022.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

For the six months ended 30 June 2022, save as the provision addressed below, the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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

The positions of 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 beneficial to the management and development of the Group's business as a whole.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee consists of three members, including two independent non-executive Directors namely Mr. Kong Chi Mo and Dr. Li Shu Wing David and one non-executive Director, Dr. Wang David Guowei. Mr. Kong Chi Mo is the chairman of the Audit Committee.

The Group's interim results for the six months ended 30 June 2022 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 2022 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to the shareholders.

INTERIM DIVIDEND

The Board did not recommend to declare any interim dividend for the six months ended 30 June 2022 (for the six months ended 30 June 2021: Nil).

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 2022 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, 30 August 2022

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.