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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 2023

FINANCIAL HIGHLIGHTS

The board (the “**Board**”) of directors (the “**Directors**”) of AK Medical Holdings Limited (the “**Company**”) hereby announced the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2023 (the “**Reporting Period**”), which have been reviewed by the audit committee (the “**Audit Committee**”) of the Company. The Group’s financial highlights for the Reporting Period together with comparative data for the corresponding period of the previous year are set out below:

	Six months ended 30 June		Variance %
	2023 RMB’000	2022 RMB’000	
Revenue	648,686	531,211	22.1%
Gross profit	401,565	338,535	18.6%
Profit for the period	132,574	126,033	5.2%
Profit attributable to equity shareholders of the Company	132,574	126,033	5.2%
Earnings per share			
Basic	RMB0.12	RMB0.11	
Diluted	RMB0.12	RMB0.11	

For the six months ended 30 June 2023, the Group achieved revenue of approximately RMB648.7 million, representing a year-on-year increase of 22.1%. The revenue growth is primarily due to the continued strong demand for the Group’s products from hospitals in the first half of 2023 under further accelerated import substitution driven by the volume-based procurement (“**VBP**”) policy. With the continuous expansion of product lines, the Group’s extensive product lines effectively met the differentiated market needs, which further boosted the growth in revenue. Meanwhile, through aggressive market expansion, the Company saw a significant growth in overseas revenue in the first half of 2023. Together with the revenue growth, the Group achieved a 5.2% year-on-year increase in profit for the six months ended 30 June 2023. The increase in profit was primarily attributable to the above revenue growth.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2023 – unaudited

(Expressed in Renminbi (“RMB”))

	Note	Six months ended 30 June	
		2023 RMB'000	2022 RMB'000
Revenue	3	648,686	531,211
Cost of sales		<u>(247,121)</u>	<u>(192,676)</u>
Gross profit		401,565	338,535
Other income, net		1,048	4,956
Selling and distribution expenses		(117,407)	(99,713)
General and administrative expenses		(75,171)	(54,536)
Research and development expenses		<u>(66,325)</u>	<u>(54,399)</u>
Operating profit		143,710	134,843
Net finance income		<u>14,278</u>	<u>14,611</u>
Profit before taxation		157,988	149,454
Income tax	4	<u>(25,414)</u>	<u>(23,421)</u>
Profit for the period		<u>132,574</u>	<u>126,033</u>
Profit attributable to equity shareholders of the Company		<u>132,574</u>	<u>126,033</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 Chinese Mainland		<u>17,710</u>	<u>3,255</u>
Other comprehensive income, net of tax		<u>17,710</u>	<u>3,255</u>
Total comprehensive income		<u>150,284</u>	<u>129,288</u>
Total comprehensive income attributable to equity shareholders of the Company		<u>150,284</u>	<u>129,288</u>
Earnings per share			
Basic	5(a)	<u>RMB0.12</u>	RMB0.11
Diluted	5(b)	<u>RMB0.12</u>	RMB0.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2023 – unaudited

(Expressed in RMB)

		30 June 2023	31 December 2022
	<i>Note</i>	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	6	516,186	435,629
Intangible assets		80,745	85,275
Goodwill		113,411	113,411
Pledged deposits		183,704	–
Deferred tax assets		78,443	74,820
		<u>972,489</u>	<u>709,135</u>
Current assets			
Inventories		538,852	402,330
Trade receivables	7	598,720	467,079
Bills receivable		100,295	78,274
Deposits, prepayments and other receivables		28,129	34,362
Other financial assets		305,203	416,593
Pledged deposits and time deposits		30,302	40,890
Cash and cash equivalents		525,788	625,829
		<u>2,127,289</u>	<u>2,065,357</u>
Current liabilities			
Trade payables	8	277,643	155,167
Contract liabilities		85,554	79,846
Accruals and other payables		225,055	165,098
Bank loans	9	11,075	–
Lease liabilities		15,576	13,500
Current taxation		24,662	22,773
		<u>639,565</u>	<u>436,384</u>
Net current assets		<u>1,487,724</u>	<u>1,628,973</u>
Total assets less current liabilities		<u>2,460,213</u>	<u>2,338,108</u>

		30 June	31 December
		2023	2022
	<i>Note</i>	RMB'000	RMB'000
Non-current liabilities			
Deferred income		13,667	13,331
Other payables		5,791	8,324
Lease liabilities		23,439	25,281
Bank loans	<i>9</i>	22,000	–
Deferred tax liabilities		50,286	47,411
		<u>115,183</u>	<u>94,347</u>
NET ASSETS		<u>2,345,030</u>	<u>2,243,761</u>
Capital and reserves			
Share capital	<i>10(a)</i>	9,501	9,453
Reserves		2,335,529	2,234,308
Total equity attributable to equity shareholders of the Company		<u>2,345,030</u>	<u>2,243,761</u>
TOTAL EQUITY		<u>2,345,030</u>	<u>2,243,761</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*for the six months ended 30 June 2023 – unaudited**(Expressed in RMB)*

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	38,920	243,091
Tax paid	(24,562)	(28,305)
Net cash generated from operating activities	14,358	214,786
Investing activities		
Acquisition of property, plant and equipment and intangible assets	(113,096)	(71,583)
Uplift of structured deposits and time deposits	1,000,890	855,508
Placement of structured deposits and time deposits	(1,052,408)	(999,705)
Other cash flows arising from investing activities	8,242	8,219
Net cash used in investing activities	(156,372)	(207,561)
Financing activities		
Capital element of lease rentals paid	(5,840)	(7,611)
Interest element of lease rentals paid	(864)	(1,151)
Proceeds from bank loans	33,000	–
Proceeds from equity settled share-based payment	6,241	–
Net cash generated from/(used in) financing activities	32,537	(8,762)
Net decrease in cash and cash equivalents	(109,477)	(1,537)
Cash and cash equivalents at 1 January	625,829	475,606
Effect of movements in exchange rates on cash hold	9,436	10,874
Cash and cash equivalents at 30 June	525,788	484,943

NOTES TO THE UNAUDITED INTERIM RESULTS ANNOUNCEMENT

(Expressed in RMB'000 unless otherwise indicated)

1 BASIS OF PREPARATION

This announcement 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 22 August 2023.

This announcement has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of this announcement 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 announcement 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 2022 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**”).

This announcement 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 2022 that is included in this announcement 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 2022 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 March 2023.

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following new and amendments to IFRSs issued by the IASB to this announcement for the current accounting period:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

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 announcement. 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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers		
Disaggregated by major products of service lines		
– Hip replacement implants	341,496	327,864
– Knee replacement implants	210,959	128,124
– Spinal and trauma implants	50,201	45,305
– Customised products and services	27,782	21,124
– Others (i)	18,248	8,794
	<u>648,686</u>	<u>531,211</u>
Disaggregated by geographical location of customers		
– China	535,236	467,573
– Other countries	113,450	63,638
	<u>648,686</u>	<u>531,211</u>

(i) Others primarily include surgical instruments, medical irrigators and third party orthopedic products.

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 2022 and 2023.

(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	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Revenue from external customers	601,061	489,976	47,625	41,235	648,686	531,211
Inter-segment revenue	1,371	–	25,845	14,667	27,216	14,667
Reportable segment revenue	602,432	489,976	73,470	55,902	675,902	545,878
Reportable segment profit/(loss)	164,621	153,552	(6,205)	(8,093)	158,416	145,459
As at 30 June/31 December						
Reportable segment assets	2,555,359	2,149,067	189,382	156,570	2,744,741	2,305,637
Reportable segment liabilities	660,680	453,793	47,728	29,312	708,408	483,105

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	
	2023 RMB'000	2022 RMB'000
Reportable segment profit	158,416	145,459
Elimination of inter-segment (profit)/loss	(428)	3,995
Consolidated profit before taxation	157,988	149,454

4 INCOME TAX

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Current tax – the PRC Enterprise Income Tax	26,451	5,731
Deferred tax	(1,037)	17,690
	<u>25,414</u>	<u>23,421</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 2023 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 2023 are 25% (six months ended 30 June 2022: 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 2023 (six months ended 30 June 2022: 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 RMB132,574,000 (six months ended 30 June 2022: RMB126,033,000) and the weighted average of 1,110,994,000 ordinary shares (2022: 1,109,176,000 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 RMB132,574,000 (six months ended 30 June 2022: RMB126,033,000) and the weighted average of 1,119,973,000 ordinary shares (2022: 1,115,675,000 shares).

6 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2023, the Group entered into a number of lease agreements are used for offices. Therefore recognised the additions to right-of-use assets of RMB5,612,000 (six months ended 30 June 2022: RMB11,304,000). No land use rights were recognised during the six months ended 30 June 2023 (six months ended 30 June 2022: RMB51,312,000).

(b) Acquisitions of owned assets

During the six months ended 30 June 2023, the Group acquired items of property plant and machinery with a total cost of RMB109,677,000 (six months ended 30 June 2022: RMB23,562,000).

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 2023 RMB'000	At 31 December 2022 RMB'000
Current to 3 months	423,185	284,885
4 to 6 months	46,603	103,051
7 to 12 months	107,581	48,459
Over 12 months	21,351	30,684
	<hr/>	<hr/>
Trade receivables, net of loss allowance	598,720	467,079
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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 months to 1 year. 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 2023 RMB'000	At 31 December 2022 RMB'000
Within 3 months	221,995	126,716
4 to 6 months	42,506	23,633
7 to 12 months	9,111	2,043
1 year to 2 years	3,405	1,871
Over 2 years	626	904
	<hr/>	<hr/>
	277,643	155,167
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All trade payables are expected to be settled within one year.

9 BANK LOANS

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Current		
Secured bank loans	11,075	–
Non-current		
Secured bank loans	<u>22,000</u>	<u>–</u>
	<u>33,075</u>	<u>–</u>

At June 30, 2023, the Group had bank loans of RMB33,075,000, and the bank loans were secured by the Group's non-current pledged deposits of United States dollar 25,000,000 (approximately RMB183,204,000).

10 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2023		2022	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
Authorised-ordinary shares of HK\$0.01 each:				
At 1 January and 30 June	<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	1,115,750,000	9,453	1,115,700,000	9,453
Shares issued under share option scheme	<u>5,421,056</u>	<u>48</u>	<u>–</u>	<u>–</u>
At 30 June	<u>1,121,171,056</u>	<u>9,501</u>	<u>1,115,700,000</u>	<u>9,453</u>

(b) Dividends

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

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of HK\$6.0 cents per ordinary share (2022: HK\$2.5 cents per ordinary share)	<u>62,023</u>	<u>23,853</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

In the first half of 2023, with the end of the COVID-19 pandemic, the national orthopedic surgery volume experienced rapid growth in the latter part of the first quarter and then stabilized at a relatively fast growth rate. The steady implementation of the VBP policy also accelerated the import substitution, leading to further expansion of the market share for domestic brands. The Company continuously introduced innovative products, further strengthening its coverage of provincial-level hospitals and increasing its market share in these hospitals.

For the six months ended 30 June 2023, the Group recorded revenue of approximately RMB648.7 million and profit of approximately RMB132.6 million, representing increases of 22.1% and 5.2%, respectively, compared to the same period of the previous year.

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.

In the first half of 2023, there was a notable recovery in the volume of hip and knee joint implants, driven by the further promotion of new products such as partial knee implants. This contributed to a significant growth in revenue for hip and knee joint procedures. For the six months ended 30 June 2023, the Group's revenue from hip and knee products was approximately RMB552.5 million, a year-on-year increase of 21.2%.

Spinal and Trauma Implants Business

The Group has a complete line of conventional spinal and trauma products, as well as 3D-printed spinal products. With its leading 3D printing technology, the Group has developed a differentiated product portfolio. On one hand, the Company utilizes 3D printing technology to provide comprehensive solutions for spinal fusion surgeries. On the other hand, it continues to explore the application of 3D printing customization technology in the field of spine and trauma to meet various customer needs.

In September 2022, National Healthcare Security Administration (“NHS”) conducted National VBP of Spine Consumables. Spine products of the Group's Libeier and AK brands have won the bidding. In March 2023, the nationwide implementation of VBP for spine products commenced. The Company, through its leading 3D printing technology and rich product lines, has provided surgeons with more choices and allowed the Company to gain access to more high-level hospitals, accelerate the substitution of imports, and increase its market share.

For the six months ended 30 June 2023, the Group’s revenue from spinal and trauma implants reached approximately RMB50.2 million, a year-on-year increase of 10.8%.

Customised Products and Services

The customised product, an orthopedic implant, is designed based on different patients’ anatomy data and pathological characteristics, and manufactured by 3D printing technology. At present, the Group has four Class-III 3D-printed customised products registration certificates approved by the China National Medical Products Administration (“NMPA”), as well as 62 customised products filings with cooperating hospitals.

The Group has established the Innovative Customized Orthopedic Solution (“ICOS”) platform, utilizing advantages in 3D printing and image processing, with the goal of creating an innovative orthopedic customization platform. Within this platform, services and products are offered, including preoperative planning, printing of bone models, customized osteotomy guides, and 3D-printed customised implants, covering various areas such as joints, spine, trauma, and pelvis. Leveraging this platform, the Group collaborates with hospitals nationwide to establish 3D printing orthopedic customisation workstations, facilitating the research, registration, and promotion of related customised products. Currently, the Group has established partnerships with several prominent tertiary hospitals.

In the first half of 2023, the Company obtained two new registration certificates for customised products and secured the approval through the “Special Review Procedure for Innovative Medical Devices” for the metal additive manufacturing thoracolumbar fusion matching prosthetic system, classified as a Class III innovative medical device. The Company successfully established a customised production order system, built a customised imaging database, and implemented a customised design and development process with an evaluation and review system. These efforts further enhanced the maturity of the ICOS orthopedic customization platform, enriching the Group’s 3D printing solutions.

For the six months ended 30 June 2023, the Group’s income from customised product and services reached approximately RMB27.8 million, a year-on-year increase of 31.5%.

Research and Development

The Group continues to build an innovative, technology-integrated and market-oriented research and development (“R&D”) system, not only realizing iterative upgrade of product lines within the scope of VBP so as to drive the innovation of joint implants with market demands, but also satisfying clinical differentiation by taking advantages of 3D printing technologies and researching and developing diversified and customised products. Meanwhile, the Company has stepped into the fields of digital intelligent orthopedics and biological materials.

In the field of orthopedic implants, the Company has obtained the registration certificate for the metal 3D-printed tibial platform, marking another significant breakthrough in the Company’s knee joint 3D printing products. This achievement further enhances the Company’s knee joint product portfolio, officially introducing domestic knee joint products into the era of 3D printing and bridging a gap between domestic and international levels.

Positioning itself as fusion experts empowered by innovative technology, in the first half of 2023, the Company launched a series of innovative new products based on 3D printing technology in the spine and trauma domain, which gained attention from the market. These products include the followings:

- (1) **Osteo Match Biomechanically Adaptive Interbody Fusion Device:** This product is the result of collaboration between the Company and research experts, making it the first domestically developed interbody fusion device with biomechanical adaptability. The Osteo Match product is equipped with biomechanical adaptability, providing a lower gradient elastic modulus compared to the currently available titanium alloy and PEEK fusion devices. In the future, Osteo Match will be developed into a product system with three major functions: “Biomechanical Adaptation”, “Biological Activity Loading”, and “AI Algorithm Assistance”, encompassing all aspects of spinal surgery.
- (2) **Apollo Self-Stabilizing Artificial Vertebral Body:** Developed through innovative collaboration between the Company and Chinese orthopedic experts, it is the world’s first ACCF (Anterior Cervical Corpectomy and Fusion) zero-profile 3D printed fusion product. This product is used in cervical spine surgeries for open internal fixation, which replaces the conventional use of titanium plates combined with titanium mesh.
- (3) **The TCBridge metal additive manufacturing matching long segment bone defect repair system:** This product is manufactured using 3D printing technology which can be customised according to the patient’s anatomical structure for the reconstruction and treatment of large bone defects caused by trauma, tumors, infections, osteomyelitis and more. This product pioneers a new approach to personalized treatment for long segment bone repair, catering to individual patient needs and advancing the field of trauma orthopedic repair and reconstruction technology to a new level.
- (4) **The ReTruss metal additive manufacturing thoracolumbar fusion customized prosthetic system:** This product is approved through an innovative medical device special approval process, designed based on the patient’s spinal anatomical structure, and manufactured using 3D printing technology. It is used for structural reconstruction surgeries following multi-level vertebral body resections due to tumors or other pathological conditions.

In the field of innovative materials, the Company took the lead in applying for the innovative task of the Ministry of Industry and Information Technology (“**MIIT**”) of the People’s Republic of China (“**PRC**” or “**China**”) and NMPA jointly organised project for the biomedical ultra-high molecular weight polyethylene material. This initiative aims to promote the localization of high-end biomedical wear-resistant polyethylene materials.

In the field of intelligent devices, the Company has obtained the registration certificate for the orthopedic CT image processing software. This software enables image import, processing, display, and storage (excluding automatic diagnosis). It can be used independently within the scope of the mentioned applications and can also be used in conjunction with the Company’s joint replacement surgery navigation system and surgical robotic system.

In the first half of 2023, the Company actively participated in the construction of the National Orthopedic Center and established a strategic partnership. Together, the Company co-founded a 3D printing joint laboratory and conducted a series of collaborations and developments in prosthetics and technologies, effectively addressing gaps in this field.

The Group currently holds 83 registration certificates for Class III medical devices approved by the NMPA, including 17 certificates for 3D-printed products, of which four are for 3D-printed customised products.

Marketing and Sales

In the first half of 2023, the Company focused on offering innovative technology and products as well as total solution initiatives to make breakthroughs in the markets of national and provincial hospitals and increase its market share in those areas. The Company aimed to consolidate its presence in city-level, county-level, and private hospitals through differentiated products, reshaping the value of its commercial supply chain. By emphasizing innovation and new technology, the Company strengthened its image as pioneers in orthopedic innovation. Through sustained efforts, the Company achieved continuous breakthroughs in key hospitals during the first half of 2023. The Company actively promoted the import substitution, resulting in a significant increase in the proportion of surgeries conducted in national and provincial hospitals.

In the field of joint business:

The Company has placed a strong emphasis on breakthroughs and increasing surgical volumes in national and provincial hospitals. In the first half of 2023, the Group actively continued to promote innovative technology and clinical total solutions and further advanced brand projects, such as “Pathways”. The Company focused on promoting surgical education projects for surgeons related to new products, technologies and procedures. In addition, the Company established international academic education and exchange platforms to facilitate knowledge-sharing and collaboration.

As the demand for stepwise knee preservation treatments among young patients continues to grow, there is an urgent need for surgeons nationwide to have a comprehensive understanding of knee preservation concepts and surgical techniques. The Group has conducted a series of education programs, which aims to enhance surgeons’ knowledge of knee preservation concepts and surgical techniques.

In the first half of 2023, the Company organised a special edition of the Pathways Revision Salon. The Company invited nearly a hundred international experts to participate in offline academic discussions, fostering international academic exchange and enhancing the academic brand of the Company.

In the field of spine and trauma:

Leveraging the 3D spinal products, the Company expanded its spine business to nearly 200 hospitals in the first half of 2023, with almost 30 of them being provincial and national-level hospitals, which achieved significant results.

The Company will leverage the changes in the industry landscape following the implementation of the VBP policy to actively promote a series of innovative solutions and achieving breakthroughs in the field of spine.

In the field of digital orthopedics:

The Company has launched the first domestically produced joint replacement visualization and intelligent assistance system – Visual Treatment Solution (“VTS”) system, to promote the widespread application of digital technology systems. In addition, in collaboration with experts, the Company provided free hip joint replacement surgeries for patients in Rikaze, Tibet, bringing digital orthopedic technology to the region. The Company later extended VTS surgical implants to other regions, such as Guangzhou and Shandong of the PRC, benefiting a large number of patients.

With the introduction of VTS, the Company has established a comprehensive portfolio of solutions in the field of digital orthopedics, including model printing, surgical templates, surgical planning and intelligent surgical assistance. The future development of orthopedic robots will further enhance the Company’s layout in the digital orthopedics domain.

Outlook

In 2023, the orthopedic industry is gradually recovering from the COVID-19 pandemic. It is expected to regain and maintain a relatively fast growth similar to pre-pandemic levels. Leveraging the opportunities arising from the industry’s rapid development and changing competitive landscape, the Group will capitalise on its leading R&D capabilities and 3D printing technology to further expand its market share and strengthen its leadership position in the orthopedic market in the PRC.

FINANCIAL REVIEW

Overview

	Six months ended 30 June		Variance %
	2023 <i>RMB’000</i>	2022 <i>RMB’000</i>	
Revenue	648,686	531,211	22.1%
Gross profit	401,565	338,535	18.6%
Profit for the period	132,574	126,033	5.2%
Profit attributable to equity shareholders of the Company	132,574	126,033	5.2%
Earnings per share			
Basic	RMB0.12	RMB0.11	
Diluted	RMB0.12	RMB0.11	

For the six months ended 30 June 2023, the Group achieved revenue of approximately RMB648.7 million, representing a year-on-year increase of 22.1%. The revenue growth is primarily due to the continued strong demand for the Group's products from hospitals in the first half of 2023 under further accelerated import substitution driven by the VBP policy. With the continuous expansion of product lines, the Group's extensive product lines effectively met the differentiated market needs, which further boosted the growth in revenue. Meanwhile, through aggressive market expansion, the Company saw a significant growth in overseas revenue in the first half of 2023. Together with the revenue growth, the Group achieved a 5.2% year-on-year increase in profit for the six months ended 30 June 2023. The increase in profit was primarily attributable to the revenue growth.

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
	2023	2022	
	RMB'000	RMB'000	%
Hip replacement implants ⁽¹⁾	341,496	327,864	4.2%
Knee replacement implants ⁽²⁾	210,959	128,124	64.7%
Spinal and trauma implants ⁽³⁾	50,201	45,305	10.8%
Customised products and services ⁽⁴⁾	27,782	21,124	31.5%
Others ⁽⁵⁾	18,248	8,794	107.5%
	<hr/>	<hr/>	<hr/>
Total	648,686	531,211	22.1%
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (1) Including 3D-printed hip replacement implants;
- (2) Including 3D-printed knee replacement implants;
- (3) Including 3D-printed spinal and trauma implants;
- (4) Including customised joint, pelvic, spinal and trauma implant products and customised value-added surgical services;
- (5) Others primarily include surgical instruments, medical irrigators and third party orthopedic products.

Revenue for the six months ended 30 June 2023 amounted to approximately RMB648.7 million, representing a significant increase of 22.1% from approximately RMB531.2 million for the six months ended 30 June 2022. The increase in revenue was largely attributable to the boost in the sales of hip and knee replacement implant products covered by the national VBP policy for joint implants. Meanwhile, the Group's extensive product lines effectively met the differentiated market needs, which further boosted the growth in revenue.

Hip and Knee Replacement Implant Products

The hip and knee replacement implant products include conventional knee replacement implants and hip replacement implants, as well as 3D-printed hip and knee replacement implants.

Revenue from hip replacement implants for the six months ended 30 June 2023 amounted to approximately RMB341.5 million, representing an increase of 4.2% from RMB327.9 million for the six months ended 30 June 2022. Revenue from knee replacement implants for the six months ended 30 June 2023 amounted to approximately RMB211.0 million, representing a significant increase of 64.7% from approximately RMB128.1 million for the six months ended 30 June 2022.

Further driven by the national VBP policy for joint implants, the demand for the Company's surgical products kept growing in the first half of 2023, leading to sustained revenue growth. New products such as partial knee products contributed to the remarkable growth in revenue from knee replacement implants. In the meantime, the Company achieved significant growth in revenue from its revision replacement implant products through aggressive market expansion.

Spinal and Trauma Implant Products

Our spinal and trauma implant products include conventional spinal implants and trauma implants, as well as 3D-printed spinal implants. Revenue from spinal and trauma implant products for the six months ended 30 June 2023 amounted to approximately RMB50.2 million, representing an increase of 10.8% from approximately RMB45.3 million for the six months ended 30 June 2022. During the first half of 2023, the Company was highly recognised for the innovation and functional superiority of its 3D printing technology and its ever-expanding spinal product line, which further facilitated the implantation of spinal products. Accordingly, its sales increased.

Customised Products and Services

Revenue from customised products and services include revenue from customised joint, pelvic, spinal and trauma implant products and customised value-added surgical services. Revenue from customised products and services for the six months ended 30 June 2023 amounted to approximately RMB27.8 million, representing a significant increase of 31.5% from approximately RMB21.1 million for the six months ended 30 June 2022. In the first half of 2023, the Company further leveraged its technical advantages in 3D-printed customised products and value-added surgical services to successfully extend its customised surgeries to a number of hospitals, and achieved remarkable growth in revenue from customised products and services.

Domestic and Overseas Sales

The vast majority of revenue of the Group is generated in China, with a smaller percentage derived from overseas sales. A breakdown of the Group's domestic and overseas revenue is set forth below:

	Six months ended 30 June		Variance %
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>	
China	535,236	467,573	14.5%
Other countries	113,450	63,638	78.3%
Total	648,686	531,211	22.1%

For the six months ended 30 June 2023, the overseas revenue of the Group amounted to approximately RMB113.5 million, representing a significant year-on-year increase of 78.3%. The increase was primarily due to the rise in the volume of surgeries in the first half of 2023 as a result of the Company's active expansion of overseas markets. Revenue from China for the six months ended 30 June 2023 amounted to approximately RMB535.2 million, representing a year-on-year increase of 14.5%, which was largely because of the growth in sales of the aforesaid joint replacement implant products.

Cost of Sales

For the six months ended 30 June 2023, the cost of sales was approximately RMB247.1 million, representing an increase of 28.3% from approximately RMB192.7 million for the six months ended 30 June 2022. The increase in cost of sales was primarily due to an increase in the sales volume of the products of the Group.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. Gross profit for the six months ended 30 June 2023 amount to approximately RMB401.6 million, representing an increase of 18.6% as compared to approximately RMB338.5 million for the six months ended 30 June 2022. The growth in gross profit was primarily due to the increase in revenue.

Gross margin is calculated as gross profit divided by revenue. The gross margin of the Group was 61.9% for the six months ended 30 June 2023, a decrease of 1.8% from 63.7% for the six months ended 30 June 2022. Since April 2022, the implementation of the national VBP policy for joint implants has resulted in a decrease in the sales prices of hip and knee implants covered by the VBP policy, which led to a drop in gross margin. There was no significant change in gross margin of other products except for the change in gross profit of hip and knee implants covered by the VBP policy.

Other Income, Net

Other income for the six months ended 30 June 2023 was approximately RMB1.0 million, representing a decrease of approximately RMB4.0 million from approximately RMB5.0 million for the six months ended 30 June 2022. Other income for the six months ended 30 June 2023 mainly represents government subsidy income received and grants for research and development projects.

Selling and Distribution Expenses

Selling and distribution expenses were approximately RMB117.4 million for the six months ended 30 June 2023, representing an increase of 17.7% from approximately RMB99.7 million for the six months ended 30 June 2022. Such increase was mainly due to the fact that the Company proactively expanded its market, including providing new product trainings, and therefore, relevant marketing expenses and labour cost for sales personnel increased.

General and Administrative Expenses

General and administrative expenses amounted to approximately RMB75.2 million for the six months ended 30 June 2023, representing an increase of 37.8% from approximately RMB54.5 million for the six months ended 30 June 2022. The increase was primarily due to the increase in labor cost of administrative staff and the provision for credit losses based on the aging and balance of accounts receivables.

Research and Development Expenses

Research and development expenses for the six months ended 30 June 2023 were approximately RMB66.3 million, representing a significant increase of 21.9% from approximately RMB54.4 million for the six months ended 30 June 2022. The increase was primarily due to the Company's continued active investment in R&D, strengthening of its R&D team, active implementation of R&D projects, as well as the development of new products.

Net Finance Income

Net finance income was approximately RMB14.3 million for the six months ended 30 June 2023, representing a decrease of RMB0.3 million from approximately RMB14.6 million for the six months ended 30 June 2022. The slight decrease in finance income was primarily due to the remarkable growth in interest income and the decline in foreign exchange gains as a result of exchange rate movements.

Income Tax Expenses

Income tax expense was approximately RMB25.4 million for the six months ended 30 June 2023, representing an increase of 8.5% from approximately RMB23.4 million for the six months ended 30 June 2022. The increase was primarily due to an increase in profit before tax.

Liquidity and Financial Resources

As at 30 June 2023, the Group had cash and cash equivalents of approximately RMB525.8 million, structured deposits of approximately RMB305.2 million, time deposits over 3 months of approximately RMB30.3 million and deposits of approximately RMB183.7 million, amounting to approximately RMB1,045.0 million in aggregate, as compared with approximately RMB1,083.3 million as at 31 December 2022. The Group's cash and cash equivalents were mainly denominated in RMB, US dollars and Hong Kong dollars. 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 approximately RMB1,487.7 million as at 30 June 2023, representing a decrease of approximately RMB141.3 million from approximately RMB1,629.0 million as at 31 December 2022. Such decrease was primarily due to the Group's investment in new plant construction.

Foreign Exchange Exposure

The principal business of the Group is conducted in China. The Group is exposed to foreign currency risks, primarily including accounts receivables, accounts payables and cash balances that are denominated in foreign currencies, i.e. a currency other than the functional currency of the operations to which the transaction relates generating from overseas sales and purchases. The foreign currencies giving rise to this risk are primarily US dollars and Euro. For the six months ended 30 June 2023, the Group recorded a net exchange gain of approximately RMB3.4 million, as compared to an exchange gain of approximately RMB7.3 million for the six months ended 30 June 2022. So far, the Group has not had any hedging arrangements nor has it used any financial instruments for hedging purpose to manage foreign exchange risks. The Group has been actively monitoring and overseeing such risks.

Capital Expenditure

For the six months ended 30 June 2023, the Group's total capital expenditure amounted to approximately RMB113.1 million, which was primarily used for (i) plant construction; (ii) purchase of patents; (iii) purchase of equipment, instruments and software for manufacturing and R&D activities.

Charge of Assets/Pledge of Assets

As at 30 June 2023, the Group pledged a deposit of approximately RMB183.7 million in the pledged deposits account mainly to obtain a bank loan for new plant construction. Other than that, the Group did not pledge or mortgage any assets.

Borrowings and Gearing Ratio

As at 30 June 2023, the Group had a bank loan balance of RMB33.1 million, which was utilised for the construction of a new plant. The gearing ratio is defined as a percentage of bank borrowings to total equity. As at 30 June 2023, the gearing ratio of the Group was 1.4% (as at 31 December 2022: Nil).

Contingent Liabilities

As at 30 June 2023, the Group did not have any material contingent liabilities (as at 31 December 2022: Nil).

Significant Investments

The Group did not hold any significant investments in the equity interests of any other companies as at 30 June 2023.

Material Acquisitions and Disposals

For the six months ended 30 June 2023, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

Future Plans for Material Investments and Capital Assets

As at 30 June 2023, the Group had two projects under construction and ready for construction in the PRC: a new office park in the eastern part of Changping New City and a new plant in Changzhou West Taihu Lake Park. Subject to the actual situation at the relevant time, the Company currently expects to provide funding for the two projects through the use of internal funds and/or external financing. Other than that, the Group have no other plans for material investments and capital assets.

Employee and Remuneration Policy

As at 30 June 2023, the Group had 1,082 employees (30 June 2022: 950 employees). Total staff remuneration expenses including Directors' remuneration for the six months ended 30 June 2023 amounted to approximately RMB125.1 million (for the six months ended 30 June 2022: approximately RMB100.2 million). The increase in staff remuneration was largely due to an increase in the number of employees.

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

Subsequent Events

No material event affecting the Group has occurred since 30 June 2023 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 2023.

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 to 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 2023.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

For the six months ended 30 June 2023, save for the provision addressed below, the Company has complied with all the applicable code provisions (the “**Code Provision(s)**”) 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 2023 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 2023 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 2023 (for the six months ended 30 June 2022: Nil).

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement has been published on the websites of the Hong Kong Exchanges and Clearing Limited (<https://www.hkexnews.hk>) and the Company (<http://ak-medical.net>), respectively. The interim report of the Company for the six months ended 30 June 2023 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and will be available on the aforementioned websites in due course.

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

Hong Kong, 22 August 2023

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.