



愛康醫療控股有限公司

AK Medical Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1789



INTERIM REPORT

2020

CONTENTS

Corporate Information	2
Financial Highlights	4
Chairman's Statement	5
Management Discussion and Analysis	6
Independent Auditor's Report	14
Consolidated Statement of Profit or Loss and Other Comprehensive Income	15
Consolidated Statement of Financial Position	16
Consolidated Statement of Changes in Equity	18
Condensed Consolidated Cash Flow Statement	19
Notes to the Unaudited Interim Financial Report	20
Other Information	30

DIRECTORS

Executive Directors

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

Non-executive Director

Dr. Wang David Guowei

Independent Non-executive Directors

Mr. Kong Chi Mo
Dr. Li Shu Wing David
Mr. Eric Wang

JOINT COMPANY SECRETARIES

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

AUTHORIZED REPRESENTATIVES

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

AUDIT COMMITTEE

Mr. Kong Chi Mo (*Chairman*)
Dr. Li Shu Wing David
Dr. Wang David Guowei

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

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

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

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China

PRINCIPLE PLACE OF BUSINESS IN HONG KONG

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AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road, Central, Hong Kong

HONG KONG LEGAL ADVISER

Mayer Brown
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**CAYMAN ISLANDS PRINCIPAL
SHARE REGISTRAR**

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Cricket Square
Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

SHARE REGISTRAR IN HONG KONG

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.ak-medical.net

PRINCIPAL BANKS

Agricultural Bank of China
Bank of China
Bank of Communications
Hang Seng Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited

**LISTING INFORMATION
AND STOCK CODE**

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

FINANCIAL HIGHLIGHTS

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

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

In the face of the novel coronavirus (COVID-19) outbreak in 2020, as AK Medical Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") made rapid response at a timely manner to keep abreast of the pandemic status and national policies, and adjusted the procurement and sales plans, the normal operation of production was assured. In addition, business growth was maintained by leveraging on its extensive product lines and high quality products. As of 30 June 2020, the Group achieved sales revenue of RMB479.0 million, representing an increase of 9.4% as compared with that of the corresponding period last year. Net profit of RMB162.9 million was achieved, representing an increase of 25.7% as compared with that of the corresponding period last year.

In the first half of 2020, the Company has made good progress on the operations of 3D-printed products and the regular hip and knee joint products.

In respect of the operations of 3D-printed products, the Group owned a total of 5 Class III registration certificates for 3D printing approved by the National Medical Products Administration ("NMPA") as of 30 June 2020. Meanwhile, the Group has filed 10 3D-printed customized products in the local drug regulatory department so it can be used for sales in cooperative hospitals. As of 30 June 2020, the Group's 3D-printed products achieved sales revenue of RMB60.5 million, representing an increase of 18.1% as compared to the corresponding period last year.

In respect of the operations of hip and knee products, the Group continued to provide its customers and patients with a full range of orthopedic joint products, and continued to launch new products to meet the needs of customers for different diseases. As of 30 June 2020, the Group's regular hip and knee products delivered RMB393.7 million in revenue, representing a year-on-year increase of 7.5%.

In the first half of the year, the Group has achieved fruitful results in research and development. Beijing AK Medical, a subsidiary of the Group, obtained four new registration certificates for Class III medical devices approved by the NMPA, as well as two innovative product qualifications approved by the NMPA. During the six months ended 30 June 2020 (the "Reporting Period"), Beijing AK Medical also obtained the CE Full Quality Assurance System Certification for its hip system, knee system, as well as its 3D-printed interbody cage, which marks that related products are allowed to be sold in the European market.

In the first half of the year, the Group also completed the acquisition of all the equity interest of Beijing Libeier Bio-engineering Institute Co., Ltd.* (北京理貝爾生物工程研究所有限公司) ("Libeier"). Libeier is an orthopedic PRC company, mainly engaged in the production, sales and research of orthopedic implants and surgical instruments. The acquisition of Libeier is beneficial to the Group in further enriching the product lines of spines and traumas which will realize its long term strategic goal of becoming one of the orthopedic leading brands in the PRC. It is expected to enhance the overall financial performance of the Group in the future.

The Group is always upholding the vision of becoming a world-class orthopedic company with the aim of improving living quality of hundreds of millions of patients. Looking ahead, the Group will achieve its long term strategies step by step to become an orthopedic leading brand in the PRC through continuous innovation, promote the sustainable business development, pay close attention to industry dynamics and seize market opportunities, so as to deliver returns to its shareholders, customers and the society.

* The English translations of Chinese entities are for identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

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

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

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

3D-Printed Products Business

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

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

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

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

Hip and Knee Products Business

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

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

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

Spinal and Trauma Implants Business

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

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

Research and Development

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

As of 30 June 2020, AK Medical brand owned 36 registration certificates for Class III medical devices approved by the NMPA, and ITI Medical Co. Ltd.* (天衍醫療器材有限公司) (“ITI Medical”), a subsidiary of the Group, obtained 6 registration certificates for Class III medical devices approved by the NMPA. JRI brand owned 11 CE certifications approved by European regulators and 2 registration certificates for Class III medical devices approved by the NMPA.

In the first half of 2020, the research on the “Establishment of New Technology for Hip and Knee Joints Replacement Diagnosis and Treatment and its Promotion and Application” project jointly carried out by the Group with Beijing Jishuitan Hospital, Peking University Third Hospital and Tsinghua University was completed and was reviewed by the expert team. The project has conducted a significant amount of research on basic theories and medical technologies for the diagnosis and treatment of hip and knee joints replacement, which shaped a series of achievements such as diagnosis, treatment and theoretical breakthrough of hip and knee joints, and technology and product innovation. The project technological achievements evaluation expert team evaluated the technological achievements of the project, and concluded that “the achievements of the project are innovative, and overall maintain a leading position in China and international advanced level where certain achievements have met leading international standards”.

Sales and Operation

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

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

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

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

Placement

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

The net share price for the subscription (after the deduction of the expenses incurred by the vendor (which, in turn, were borne by the Company) in relation to the placing and the subscription) is approximately HK\$14.65 for each subscription share. The Group received total net proceeds of approximately HK\$783.9 million from the top-up subscription and a portion of the proceeds was used for strategic acquisition investment of the Group while the remaining will be used to supplement the general working capital of the Group.

Acquisition of Libeier

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

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

For the six months ended 30 June 2020, the Group recorded a gain of RMB2,157,000 in its investments in Libeier and during the Reporting Period, the Group did not receive any dividends from its investment in Libeier. The management of the Company does not expect any significant adverse change to such investment for the latter half of 2020.

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

Outlook

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

FINANCIAL REVIEW

Overview

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

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

The following discussions are based on the financial information and notes set out in the Independent Auditor's Report of this report below and should be read in conjunction with them.

Revenue

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

Notes:

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

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

Hip and Knee Implants Products

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

Spinal and Trauma Implants Products

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

3D-printed Products

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

Third Party Orthopedic Products

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

Domestic and Overseas Sales

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

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

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

Cost of Sales

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

Gross Profit and Gross Margin

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

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

Other Income, net

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

Selling and Distribution Expenses

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

General and Administrative Expenses

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

Research and Development Expenses

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

Net Finance Income

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

Income Tax Expenses

Income tax expense was RMB34.0 million for the six months ended 30 June 2020, representing an increase of 26.4% as compared with RMB26.9 million for the six months ended 30 June 2019. Such increase was primarily due to an increase in the Group's profit before tax resulting from its expansion of operations. At the same time, the withholding income tax that withholds 10% of the expected profit available for distribution from the operating entities in China for the six months ended 30 June 2020 also led to the increase in income tax.

Liquidity and Financial Resources

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Reporting Period. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

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

Net Current Assets

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

Foreign Exchange Exposure

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

Capital Expenditure

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

Charge of Assets/Pledge of Assets

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

Borrowings and Gearing Ratio

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

Contingent Liabilities

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

Significant Investments

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

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Except for the acquisition of Libeier, during the six months ended 30 June 2020, the Group did not have any material acquisitions and disposals of its subsidiaries, associates, and joint ventures.

Future Plans for Material Investments and Capital Assets

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

Employee and Remuneration Policy

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

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

Use of Proceeds from Initial Public Offering

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

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

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

Use of Proceeds from placement and top-up subscription

The net proceeds from the top-up subscription of the Company in the first half of 2020 were approximately HK\$783.9 million. A portion of the net proceeds was used for the acquisition of Libeier while the remaining will be used to supplement the general working capital of the Group. It is expected that the unutilized remaining net proceeds will be used by 2023.

INDEPENDENT AUDITOR'S REPORT

Review report to the board of directors of AK Medical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report of AK Medical Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 15 to 29 which comprises the consolidated statement of financial position as of 30 June 2020 and the related consolidated statement of profit or loss and other comprehensive income, and the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim financial reporting, issued by International Accounting Standards Board ("IASB"). The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial report as at 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim financial reporting.

KPMG

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

24 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020 – unaudited

	Note	Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Revenue	3	478,979	437,783
Cost of sales		(142,656)	(133,204)
Gross profit		336,323	304,579
Other income, net		943	15,536
Selling and distribution expenses		(62,750)	(84,407)
General and administrative expenses		(38,260)	(47,560)
Research and development expenses		(43,900)	(35,134)
Operating profit		192,356	153,014
Net finance income	5	4,515	3,435
Profit before taxation	4	196,871	156,449
Income tax	6	(34,000)	(26,894)
Profit for the period		162,871	129,555
Profit attributable to equity shareholders of the Company		162,871	129,555
Other comprehensive income items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of entities outside mainland China		9,140	756
Other comprehensive income, net of tax		9,140	756
Total comprehensive income		172,011	130,311
Total comprehensive income attributable to equity shareholders of the Company		172,011	130,311
Earnings per share			
Basic	7(a)	RMB0.15	RMB0.12
Diluted	7(b)	RMB0.15	RMB0.12

The notes on pages 20 to 29 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 13.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – unaudited

	Note	30 June 2020 RMB'000	31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	8	333,203	284,384
Intangible assets		78,109	35,576
Goodwill		141,360	29,346
Deferred tax assets		47,538	14,861
		600,210	364,167
Current assets			
Inventories	9	315,441	229,330
Trade receivables	10	328,338	271,742
Bills receivable		92,116	84,167
Deposits, prepayments and other receivables		40,269	33,913
Other financial assets		337,832	217,386
Pledged deposits and time deposits		187,688	5,000
Cash and cash equivalents	11	538,198	276,521
		1,839,882	1,118,059
Current liabilities			
Trade payables	12	114,736	79,004
Contract liabilities		40,750	40,950
Accruals and other payables		255,499	170,573
Bank loans		–	1,700
Lease liabilities		17,499	3,940
Current taxation		34,692	31,710
		463,176	327,877
Net current assets		1,376,706	790,182
Total assets less current liabilities		1,976,916	1,154,349

The notes on pages 20 to 29 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – unaudited

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

The notes on pages 20 to 29 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 – unaudited

	Note	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Exchange reserve RMB'000	Total equity RMB'000
Balance at 1 January 2019		8,779	435,440	(3,439)	55,174	5,723	334,727	4,383	840,787
Total comprehensive income for the period		-	-	-	-	-	129,555	756	130,311
Equity settled share-based transactions	13(c)	-	-	3,439	-	8,209	-	-	11,648
Shares issued under share option scheme	13(c)	25	3,349	-	-	-	-	-	3,374
Dividends approved in respect of the previous years	13(b)	-	(32,124)	-	-	-	-	-	(32,124)
Balance at 30 June 2019		8,804	406,665	-	55,174	13,932	464,282	5,139	953,996
Balance at 1 January 2020		8,888	426,380	-	55,174	7,855	601,719	15,994	1,116,010
Total comprehensive income for the period		-	-	-	-	-	162,871	9,140	172,011
Issuance of new shares	13(a)	479	700,876	-	-	-	-	-	701,355
Equity settled share-based transactions	13(c)	-	-	-	-	1,513	-	-	1,513
Shares issued under share option scheme	13(c)	71	13,867	-	-	(4,404)	-	-	9,534
Dividends approved in respect of the previous years	13(b)	-	(76,337)	-	-	-	-	-	(76,337)
Balance at 30 June 2020		9,438	1,064,786	-	55,174	4,964	764,590	25,134	1,924,086

The notes on pages 20 to 29 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020 – unaudited

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

The notes on pages 20 to 29 form part of this interim financial report.

1 BASIS OF PREPARATION

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements. The Company’s annual consolidated financial statements for the year ended 31 December 2019 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 March 2020.

2 CHANGES IN ACCOUNTING POLICIES

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

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

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

3 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Hip replacement implants	271,064	255,507
– Knee replacement implants	122,619	110,830
– Spinal and trauma implants	9,711	–
– 3D-printed products	60,546	51,253
– Third party orthopedic products	3,616	7,250
– Others	11,423	12,943
	478,979	437,783
Disaggregated by geographical location of customers		
– Mainland China	432,933	375,749
– Other countries	46,046	62,034
	478,979	437,783

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

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue during the six months ended 30 June 2019 and 2020.

3 REVENUE AND SEGMENT INFORMATION (continued)

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

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

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

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

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Reportable segment profit	200,625	156,190
Elimination of inter-segment (loss)/profit	(3,754)	259
Consolidated profit before taxation	196,871	156,449

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Amortisation of intangible assets	4,559	3,404
Depreciation of property, plant and equipment	21,460	11,515
(Net reversals) of impairment/impairment losses on trade receivables	(246)	819
Cost of inventories	147,064	137,696

5 NET FINANCE INCOME

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest income from bank deposits	5,417	3,838
Foreign currency exchange loss	(624)	(44)
Interest on lease liabilities	(278)	(359)
	4,515	3,435

6 INCOME TAX

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

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

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

Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2020 at the rates of taxation prevailing in the countries in which the Group operates. The Company's subsidiaries operate mainly in the PRC and the applicable statutory enterprise income tax rate is 25% (for the six months ended 30 June 2019: 25%). Taxation for a subsidiary in the PRC was calculated at a preferential tax rate of 15% (for the six months ended 30 June 2019: 15%). Taxation for subsidiaries operating mainly in the England and Wales was calculated at statutory enterprise income tax rate of 19% (for the six months ended 30 June 2019: 19%).

7 EARNINGS PER SHARE

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

8 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

In April 2020, the Group had additions in right-of-use assets with fair value of RMB7,369,000 through the acquisition of Beijing Libeier Bio-engineering institute co., Ltd. (北京理貝爾生物工程研究所有限公司) ("Libeier"). Please refer to note 14 for detailed information about the acquisition.

(b) Acquisitions of owned assets

In April 2020, the Group had additions in other property, plant and equipment with fair value of RMB28,198,000 through the acquisition of Libeier. Please refer to note 14 for detailed information about the acquisition. In addition, the Group also acquired items of other property, plant and equipment with a total costs of RMB25,512,000 (six months ended 30 June 2019: RMB60,309,000).

9 INVENTORIES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Raw materials	79,729	78,834
Work in progress	47,252	52,899
Finished goods	188,460	97,597
	315,441	229,330

10 TRADE RECEIVABLES

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

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

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

11 CASH AND CASH EQUIVALENTS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Cash at banks	538,154	276,467
Cash on hand	44	54
Cash and cash equivalents in the statement of financial position and cash flow statement	538,198	276,521

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

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

13 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2020		2019	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
Authorised-ordinary shares of HK\$0.01 each: At 1 January and 30 June	20,000,000,000	168,981	20,000,000,000	168,981
Ordinary shares, issued and fully paid:				
At 1 January	1,052,700,000	8,888	1,040,475,000	8,779
Issuance of new shares	53,500,000	479	–	–
Shares issued under share option scheme (note 13(c))	7,775,000	71	2,870,000	25
At 30 June	1,113,975,000	9,438	1,043,345,000	8,804

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

(b) Dividends

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

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

(c) Equity settled share-based transactions

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

During the six months ended 30 June 2020, 7,775,000 (2019:2,870,000) share options were exercised to subscribe for 7,775,000 (2019:2,870,000) ordinary shares in the Company pursuant to the share option scheme at a total consideration of HK\$10,419,000 (approximately RMB9,534,000)(2019: HK\$3,846,000 (approximately RMB3,374,000)).

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

14 ACQUISITION OF A SUBSIDIARY

On 24 April 2020, the Group acquired Libeier, a private company incorporated in China and principally engaged in designing, manufacturing and supplying spinal and trauma implants and related instruments, at a consideration of US\$40,200,000 (equivalent to RMB284,688,000). Acquisition-related costs amounted to RMB1,089,000, of which RMB660,000 and RMB429,000 were recognised in general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the six months period ended 30 June 2020 and the year ended 31 December 2019, respectively.

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

	Fair value of net identifiable assets acquired as at the acquisition date RMB'000
Property, plant and equipment	35,567
Intangible assets	47,268
Deferred tax assets	33,898
Inventories	61,944
Trade and bills receivables	8,151
Deposits, prepayments and other receivables	5,304
Cash and cash equivalents	23,649
Trade payables	(1,104)
Accruals and other payables	(18,325)
Lease liabilities	(13,483)
Deferred tax liabilities	(11,592)
Net identifiable assets	171,277
Goodwill	113,411
Fair value of considerations	284,688
Cash considerations paid in 2020	284,688
Net cash outflow arising from the acquisition in 2020	261,039

The allocation of the purchase price is determined based on the Director's estimates of the fair value of the identifiable assets and liabilities of Libeier as at the acquisition date, and with reference to a valuer report dated 5 August 2020 prepared by Colliers International (Hong Kong) Ltd, an independent valuer. The independent valuer report is prepared using the income approach and with reference/benchmark to the valuer's industry knowledge and past experience of comparable cases, as well as a high-level analysis on the proportions of potential intangible assets as compared to the business enterprise value implied by the purchase consideration.

The allocation of the purchase price represents the recognition of identifiable intangible assets as identified through the valuation report arising from the acquisition at their respective fair value (namely technical knowhow and brand name approximately RMB46,367,000 in total), and the recognition of related deferred tax liabilities of RMB11,592,000, as if the acquisition had been completed on 30 April 2020.

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets of Libeier at the date of acquisition. Goodwill is attributable mainly to the synergies expected to be achieved from integrating Libeier into the Group's existing operations. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses.

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

Fair value measurements as at 30 June 2020 categorised into

	Fair value at 30 June 2020 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Financial assets:				
Other financial assets – investments in structured deposit at fair value through profit or loss	337,832	–	337,832	–

Fair value measurements as at 31 December 2019 categorised into

	Fair value at 31 December 2019 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Financial assets:				
Other financial assets – investments in structured deposit at fair value through profit or loss	217,386	–	217,386	–

There were no changes in valuation techniques in 2020.

16 COMMITMENTS

Capital commitments outstanding as at 31 December 2019 and 30 June 2020 not provided for were as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Contracted for	1,889	10,636
Authorised but not contracted for	27,791	84,121
	29,680	94,757

17 MATERIAL RELATED PARTY TRANSACTIONS

There is no material related party transaction in the six months ended 30 June 2020 and 2019, except for key management personnel remuneration. No material amounts from related parties were outstanding as at 30 June 2020 and 31 December 2019.

18 EVENTS AFTER THE REPORTING PERIOD

As of the date of the report, there was no material event occurred for the Group after the reporting period.

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

As at 30 June 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), were as follows:

(i) Interest in Shares of the Company

Name of Directors	Capacity/ Nature of Interest	Number of Shares (Note 1)	Approximate Percentage of Interest In the Company (Note 2)
Mr. Li Zhijiang (Note 3)	Founder of a discretionary trust	505,157,500 (L)	45.35%
	Interest of spouse	10,125,000 (L)	0.91%
Ms. Zhang Bin (Note 4)	Interest in a controlled corporation	10,125,000 (L)	0.91%
	Interest of spouse	505,157,500 (L)	45.35%
Mr. Zhang Chaoyang (Note 5)	Interest in a controlled corporation	58,818,500 (L)	5.28%
Ms. Zhao Xiaohong (Note 6)	Interest in a controlled corporation	9,282,000 (L)	0.83%
	Beneficial Interest	2,000,000 (L)	0.18%

Notes:

- (1) The letter “L” denotes the Company’s directors’ long position in the shares of the Company.
- (2) The percentage is calculated based on the total number of 1,133,975,500 shares in issue as at 30 June 2020.
- (3) Mr. Li Zhijiang, being the founder of LZY Trust who can influence how the trustee exercises his discretion, is deemed to be interested in 505,157,500 long positions in the Company’s shares. In addition, Mr. Li Zhijiang is the husband of Ms. Zhang Bin. Therefore, Mr. Li Zhijiang is deemed to be interested in Ms. Zhang Bin’s interest in the shares of the Company pursuant to the SFO.
- (4) Ms. Zhang Bin, being the sole director of Summer Limited, is the sole shareholder of Summer Limited which holds 10,125,000 shares. Therefore, Ms. Zhang Bin is deemed to be interested in Summer Limited’s interest in the shares of the Company pursuant to the SFO. In addition, Ms. Zhang Bin is the wife of Mr. Li Zhijiang. Therefore, Ms. Zhang Bin is deemed to be interested in Mr. Li Zhijiang’s interest in the Company’s shares pursuant to the SFO.
- (5) Mr. Zhang Chaoyang, being the sole director of Suntop Limited, is the sole shareholder of Suntop Limited which holds 58,818,500 shares. Therefore, Mr. Zhang Chaoyang is deemed to be interested in Suntop Limited’s interest in the shares of the Company pursuant to the SFO. Mr. Zhang Chaoyang is the brother of Ms. Zhang Bin and the brother-in-law of Mr. Li Zhijiang.
- (6) Ms. Zhao Xiaohong, being the sole director of Sanbao Limited, holds 30.22% of the issued share capital of Sanbao Limited, which holds 9,282,000 shares. Therefore, Ms. Zhao Xiaohong is deemed to be interested in Sanbao Limited’s interest in the shares of the Company pursuant to the SFO. In addition, Ms. Zhao directly holds options to subscribe for 1,000,000 shares of the Company pursuant to the Pre-IPO Share Option Scheme and 1,000,000 shares in the Company.

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

As at 30 June 2020, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or were otherwise notified to the Company:

Name of Shareholder	Capacity/ nature of Interest	Number of Shares (Note 1)	Approximate Percentage of Shareholding (Note 2)
Mr. Li Zhijiang	Founder of a discretionary trust	505,157,500 (L)	45.35%
	Interest of spouse	10,125,000 (L)	0.91%
Ms. Zhang Bin	Interest in a controlled corporation	10,125,000 (L)	0.91%
	Interest of spouse	505,157,500 (L)	45.35%
Mr. Zhang Chaoyang	Interest in a controlled corporation	58,818,500 (L)	5.28%
Ximalaya Limited	Beneficial owner	505,157,500 (L)	45.35%
Suntop Limited	Beneficial owner	58,818,500 (L)	5.28%
Trident Trust Company (HK) Limited (Note 3)	Trustee of a discretionary trust	505,157,500 (L)	45.35%
Rainbow Holdings Limited (Note 3)	Interest in a controlled corporation	505,157,500 (L)	45.35%
Hillhouse Capital Advisors, Ltd. (Note 4)	Investment manager	75,738,000 (L)	6.80%
Gaoling Fund, L.P. (Note 4)	Beneficial owner	71,025,000 (L)	6.38%

Notes:

- (1) The letter “L” denotes a person’s long position in the shares of the Company.
- (2) The percentage is calculated based on the total number of 1,113,975,500 shares in issue as at 30 June 2020.
- (3) LZY Trust is a discretionary trust established by Mr. Li Zhijiang as settlor, with Trident Trust Company (HK) Limited acting as trustee. The beneficiaries of LZY Trust are Mr. Li Zhijiang and certain of his family members. Trident Trust Company (HK) Limited holds 100% of the issued share capital of Rainbow Holdings Limited, which holds 100% of the issued share capital of Ximalaya Limited. Therefore, each of Trident Trust Company (HK) Limited and Rainbow Holdings Limited is deemed to be interested in Ximalaya Limited’s interest in the shares of the Company pursuant to the SFO.
- (4) Hillhouse Capital Advisors, Ltd. is the sole investment manager and the general partner of Gaoling Fund, L.P. and YHG Investment, L.P. respectively. Gaoling Fund, L.P. and YHG Investment, L.P. hold 71,025,000 shares and 4,713,000 shares, respectively. Hillhouse Capital Advisors, Ltd. is deemed to be interested in the aggregate number of 75,738,000 shares held by Gaoling Fund, L.P. and YHG Investment, L.P.

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

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

SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

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

As at 30 June 2020, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme (including both exercised or outstanding options) was 11,000,000, representing approximately 0.99% of the shares of the Company in issue.

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

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

Details of movements in the options granted under the Pre-IPO Share Option Scheme during the Reporting Period (i.e. the six months ended 30 June 2020) by category of grantees are set out below:

Category and Name of Grantee	Date of Grant of Share Option	Outstanding as at 1 January 2020	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/ lapsed during the Reporting Period	Outstanding as at 30 June 2020	Exercise period of Share Options	Exercise Price of the Share Options
Director								
Zhao Xiaohong	17/11/2017	2,000,000	0	1,000,000	0	1,000,000	10 YEARS	HKD1.34
Senior Management and Other Employees of the Group								
Senior Management and Other Employees	17/11/2017	16,775,000	0	6,775,000	0	10,000,000	10 YEARS	HKD1.34
Total		18,775,000	0	7,775,000	0	11,000,000		

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

(aa) For the purpose of this paragraph:

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

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

- (I) 25% of the total number of options granted when the Vesting Conditions are met for the first time during the Option Period;
- (II) 25% of the total number of options granted when the Vesting Conditions are met for the second time during the Option Period;
- (III) 25% of the total number of options granted when the Vesting Conditions are met for the third time during the Option Period; and
- (IV) 25% of the total number of options granted when the Vesting Conditions are met for the fourth time during the Option Period.

- (cc) Any options granted will lapse if the conditions for exercise under paragraph (bb) above have not been met within the Option Period.
- (dd) The grantees shall enter into service contracts with the Group for a term of no less than four years from the date of grant of the options.
- (ee) The Board has the sole and absolute discretion to amend the relevant vesting conditions of the Pre-IPO Share Option Scheme from time to time and the consent from each grantee has to be obtained prior to any amendment in the event that such amendment is prejudicial to such grantee.
- (ff) During the Option Period, if the grantee terminates its service contract with the Group under paragraph (dd) above or commits a material breach of any restrictive covenant in respect of the Group that the grantee is subject to (e.g. a non-competition undertaking), (i) to the extent not already exercised, the options granted to such grantee shall lapse automatically and not be exercisable, and (ii) to the extent already exercised, the Company may demand the grantee to return any entitlement or interest obtained from the exercise of the options granted. The Company has resolved not to demand any grantee of the pre-IPO share options to return any entitlement or interest obtained from the exercise of the options granted even though the grantee terminated its service contract with the Group during the Option Period, to the extent already exercised.

(b) Share Option Scheme

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

- (i) the eligible participants are any directors, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries, any advisors, consultants, suppliers, customers and agents to the Company or any of its subsidiaries and such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group;
- (ii) the maximum number of shares in respect of which options may be granted shall not exceed 10% of the total number of shares in issue at the date of listing of the shares of the Company on the Main Board of the Stock Exchange;
- (iii) the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 100,000,000 shares, representing approximately 8.98% of the total issued share capital of the Company as at the date of this interim report;
- (iv) the maximum entitlement of each eligible participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant; and
- (v) the exercise price is determined by the directors of the Company at their discretion and will not be lower than the highest of: (a) the closing price of the ordinary shares on the Stock Exchange at the date of offer to grant, which must be a trading day; (b) the average closing price of the ordinary shares on the Stock Exchange for the five business days immediately preceding the date of offer to grant; and (c) the nominal value of the Company's share.

No share options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the Reporting Period of the Company. There were no outstanding share options granted under the Share Option Scheme as at the end of the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiries by the Company, all the directors of the Company confirmed that they have complied with the requirements as set out in the Model Code throughout the Reporting Period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the Reporting Period, save as the code provision addressed below, the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules.

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

The chairman and chief executive officer of the Company are held by Mr. Li Zhijiang who is one of the founders of the Group and has extensive experience in the industry.

The Board believes that Mr. Li Zhijiang can provide the Company with strong and consistent leadership that allows for effective and efficient planning and implementation of business decisions and strategies.

The Board is of the view that given that Mr. Li Zhijiang had been responsible for leading the strategic planning and business development of the Group, the arrangement would allow for effective and efficient planning and implementation of business decisions and strategies of the Company under his strong and consistent leadership, and should be overall beneficial to the management and development of the Group's business.

REVIEW BY THE AUDIT COMMITTEE

The Company has an audit committee with terms of reference aligned with the code provisions as set out in Appendix 14 to the Listing Rules for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The audit committee consists of two independent non-executive directors, Mr. Kong Chi Mo (Chairman), Dr. Li Shu Wing David and one non-executive director, Dr. Wang David Guowei.

The Group's interim report for the six months ended 30 June 2020 have been reviewed by all members of the audit committee. Based on such review, the audit committee was of the opinion that the Group's unaudited interim financial report were prepared in accordance with the applicable accounting standards as well as the Listing Rules and that adequate disclosures have been duly made. The audit committee does not have any disagreement with the accounting treatment adopted by the Company.

INTERIM DIVIDEND

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

SUBSEQUENT EVENT

Save for the continuing impact of the COVID-19 pandemic, since 30 June 2020 and up to the date of this interim report, the Group had no material events.

INDEPENDENT REVIEW OF AUDITORS

The interim financial report for the six months ended 30 June 2020 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to the shareholders of the Company.

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

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

Name of Director	Details of Change
Ms. Zhao Xiaohong	Appointed as a director of Beijing Libeier Bio-engineering Institute Co., Ltd.* with effect from 24 April 2020. Appointed as a director of Beijing AK Medical Co., Ltd.* with effect from 20 May 2020
Dr. Wang David Guowei	Ceased to be a director of Union Medical Healthcare Limited (a company listed on the Hong Kong Stock Exchange, stock code: 2138) with effect from 24 April 2020.
Mr. Zhang Chaoyang	Appointed as a director of Beijing Libeier Bio-engineering Institute Co., Ltd.* with effect from 24 April 2020
Dr. Li Shu Wing David	Received a Doctorate degree in Business Administration on 3 February 2020 from Swiss Business School

* The English translations of Chinese entities are for identification purpose only

DISCLOSURE OF INFORMATION

The interim report of the Group for the six months ended 30 June 2020 containing all the relevant information required by the Listing Rules has been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://ak-medical.net>).

By Order of the Board
AK Medical Holdings Limited
Li Zhijiang
Chairman
 Hong Kong
 24 August 2020