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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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

	2017 RMB'000	2016 RMB'000	Variance %
Revenue	372,700	270,777	37.6%
Gross Profit	263,790	187,311	40.8%
Gross profit margin	70.8%	69.2%	
Profit for the year attributable to equity shareholders of the Company	105,376	77,326	36.3%
Net profit margin	28.3%	28.6%	
Earnings per share			
Basic	RMB0.14	RMB0.10	40.0%
Diluted	RMB0.14	RMB0.10	40.0%

For the year ended 31 December 2017, the Group achieved revenue of RMB 372.7 million, representing an increase of 37.6% as compared to 2016. The increase of revenue was mainly due to the growth in sales of off-the-shelf replacement implant products, stimulated by 3D-printed products, with the revenue of off-the-shelf replacement implants increased by 31.0%, and the revenue of 3D-printed products increased by 175.7%.

For the year ended 31 December, 2017, the Group realized a net profit of RMB105.4 million, representing an increase of 36.3% as compared to 2016 mainly as a result of the increase of revenue.

The Directors have resolved to recommend the payment of a final dividend of HKD3.5 cent per share for the year ended 31 December 2017.

The board (the “**Board**”) of directors (the “**Directors**”) of AK Medical Holdings Limited (the “**Company**”) is pleased to announce the audited financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2017 as below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(Expressed in Renminbi)

		2017	2016
	<i>Note</i>	RMB'000	RMB'000
Revenue	3	372,700	270,777
Cost of sales		<u>(108,910)</u>	<u>(83,466)</u>
Gross profit		263,790	187,311
Other income	4	2,680	793
Selling and distribution expenses		(50,397)	(36,229)
General and administrative expenses		(56,222)	(38,115)
Research and development expenses		<u>(34,963)</u>	<u>(20,390)</u>
Operating profit		124,888	93,370
Net finance income		496	1,657
Profit before taxation	5	<u>125,384</u>	<u>95,027</u>
Income tax	6	<u>(20,008)</u>	<u>(17,701)</u>
Profit for the year		<u>105,376</u>	<u>77,326</u>
Profit attributable to equity shareholders of the Company		<u>105,376</u>	<u>77,326</u>
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of entities outside mainland China		<u>(3,233)</u>	<u>4,189</u>
Other comprehensive income, net of tax		<u><u>(3,233)</u></u>	<u><u>4,189</u></u>
Total comprehensive income		<u>102,143</u>	<u>81,515</u>
Total comprehensive income attributable to equity shareholders of the Company		<u>102,143</u>	<u>81,515</u>
Earnings per share			
Basic	8(a)	RMB0.14	RMB0.10
Diluted	8(b)	<u>RMB0.14</u>	<u>RMB0.10</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

(Expressed in Renminbi)

		At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		104,670	69,837
Intangible assets		10,458	6,571
Deferred tax assets		10,366	6,670
Other non-current assets		545	–
		126,039	83,078
Current assets			
Inventories		86,817	67,805
Trade receivables	9	121,198	81,530
Deposits, prepayments and other receivables		6,071	12,525
Cash and cash equivalents		517,482	160,597
		731,568	322,457
Current liabilities			
Trade payables	10	43,048	33,740
Accruals and other payables		95,389	31,195
Current tax		13,281	8,917
Deferred revenue		22,668	21,922
Provisions		4,976	3,260
		179,362	99,034
Net current assets		552,206	223,423
Total assets less current liabilities		678,245	306,501
Non-current liability			
Deferred income		7,903	8,208
Deferred tax liabilities		2,359	3,900
		10,262	12,108
NET ASSETS		667,983	294,393
Capital and reserves			
Share capital	11	8,450	1
Reserves		659,533	294,392
Total equity attributable to equity shareholders of the Company		667,983	294,393
Total equity		667,983	294,393

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 ORGANISATION AND PRINCIPAL ACTIVITIES

AK Medical Holdings Limited (the “**Company**”) was incorporated in Cayman Islands on 17 July 2015 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands.

The Company and its subsidiaries (together, “**the Group**”) are principally engaged in design, develop, produce and market orthopedic joint implants and related products. The Group’s business were conducted mainly through Beijing AKEC Medical Co., Ltd. (“**AK Medical Beijing**”) and other subsidiaries in People’s Republic of China (“**PRC**” or “**China**”) (for the purpose of this announcement, excluding the Hong Kong Special Administrative Region of the PRC, the Macao Administrative Region of the PRC and Taiwan).

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”), which collective term includes all applicable individual International Accounting Standards (“**IASs**”) and Interpretations issued by the International Accounting Standards Board (“**IASB**”). These financial statements also comply with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of measurement and preparation of the financial statements

The financial statements are presented in Renminbi (“**RMB**”), rounded to the nearest thousand, while the functional currency of the Company is United States dollars (US\$). The Company’s primary subsidiaries were incorporated in the People’s Republic of China (the “**PRC**”) and the subsidiaries considered RMB as their functional currency. As the operations of the Group are within the PRC, the Group determined to present these financial statements in RMB, unless otherwise stated.

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries.

The financial statements are prepared on the historical cost basis.

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included to satisfy the new disclosure requirements introduced by the amendments to IAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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 and its complete set of surgical instrument.

The amount of each significant category of revenue is as follows:

	2017 RMB'000	2016 <i>RMB'000</i>
Off-the-shelf products	316,972	241,879
3D-printed product	33,444	12,131
Others	22,284	16,767
	<u>372,700</u>	<u>270,777</u>

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue in 2017 (2016: nil).

(b) Segment information

The Group has one reportable segment, which is manufacturing and sale of orthopedic joint implants.

The Group's operations, assets and most of the customers are located in the PRC. Accordingly, no geographic information of revenue, non-current assets and customers is presented.

4 OTHER INCOME

	2017 RMB'000	2016 <i>RMB'000</i>
Government grants	1,625	778
Others	1,055	15
	<u>2,680</u>	<u>793</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Salaries wages and other benefits	49,156	38,632
Contribution to defined contribution retirement scheme	2,140	2,405
Equity settled share-based transactions	742	–
	<u>52,038</u>	<u>41,037</u>

The Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

(b) Other items

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Cost of Inventories*	113,991	88,826
Amortisation of intangible assets	1,304	907
Depreciation of property, plant and equipment	10,937	7,865
Impairment losses of trade and other receivables	3,760	664
Operating lease charge	6,058	3,648

* *Cost of inventories includes RMB17,501,000 in 2017 (2016: RMB16,912,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which are also included in the respective total amounts disclosed separately above.*

6 INCOME TAX EXPENSE

(a) Amounts recognised in profit or loss

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Current tax expense-the PRC Enterprise Income Tax		
Provision for the year	25,245	15,594
Deferred tax		
Origination and reversal of temporary differences	(5,237)	2,107
	20,008	17,701

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 for 2017 (2016: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2017 is 16.5% (2016: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

In accordance with the Enterprise Income Tax Law (“**Income Tax Law**”) of the PRC, enterprise income tax rate for the Group’s PRC subsidiary for 2017 is 25% (2016: 25%). According to the relevant PRC income tax law, the Company’s subsidiary, Beijing AKEC Medical Co., Ltd. (“**AK Medical Beijing**”) was certified as a New and High Technology Enterprise in Beijing since 2008, and is entitled to a preferential income tax rate of 15%. The current certification of New and High Technology Enterprise held by AK Medical Beijing will be expired on 9 August 2020.

According to the Income Tax Law and its implementation rules, dividends receivable by non-PRC resident investors from PRC-entities are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. AK Medical HK and Bright AK HK were established during 2015 and would be subject to PRC dividend withholding tax on dividends receivables from their PRC subsidiaries.

(b) Reconciliation between income tax and accounting profit at applicable tax rates:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Profit before taxation	125,384	95,027
Tax calculated at statutory tax rate applicable to profits in the respective countries	31,346	23,757
Preferential income tax rates applicable to subsidiaries	(12,790)	(8,767)
Expenses not deductible or tax purpose	112	92
Additional deductible allowance for research and development expenses	(1,019)	(1,281)
PRC dividends withholding tax	2,359	3,900
Income tax	20,008	17,701

7 DIVIDENDS

In 2017, dividends of RMB73,136,000 (2016: RMB30,060,000) were declared by the Company. All the dividends have been paid by 31 December 2017.

The rate of dividend and the number of shares ranking for dividends are not presented as these dividends were declared and payable to the equity shareholders of the Company before the Company offered and listed public shares in December 2017 and such information is not meaningful.

After the period end, the directors of the Company proposed a final dividend of HKD3.5 cent per ordinary share for the year ended 31 December 2017, which has not been recognised as a liability at 31 December 2017.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB105,376,000 (2016: RMB77,326,000) and the weighted average number of issued ordinary shares of 758,219,178 (2016: 750,000,000 shares) during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2017	2016
Issued ordinary shares at 1 January	100,000	100,000
Effect of capitalisation issue	749,900,000	749,900,000
Effect of issue of shares upon initial public offering	8,219,178	—
	<u>758,219,178</u>	<u>750,000,000</u>
Weighted average number of ordinary shares at 31 December	<u>758,219,178</u>	<u>750,000,000</u>

The weighted average number of shares in issue in 2017 and 2016 was based on the assumption that the 750,000,000 shares were issued before the listing of shares on the Stock Exchange, as if such shares had been outstanding throughout the years 2017 and 2016.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB105,376,000 (2016: RMB77,326,000) and the weighted average number of issued ordinary shares of 758,931,913 (2016: 750,000,000 shares) in 2017, calculated as follows:

(i) Weighted average number of ordinary shares (diluted)

	2017	2016
Weighted average number of ordinary shares at 31 December	758,219,178	750,000,000
Effect of deemed issue of shares under the Company's share option scheme and over-allotment option	712,735	—
	<u>758,931,913</u>	<u>750,000,000</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u>758,931,913</u>	<u>750,000,000</u>

9 TRADE RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Bills receivable	23,205	14,773
Trade debtors	103,806	68,810
Less: allowance for doubtful debts	(5,813)	(2,053)
	97,993	66,757
	121,198	81,530

Ageing analysis

Bills receivable are bank notes received from customer, with expiration dates within 6 months.

As at 31 December 2017, the ageing analysis of trade debtors based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Current to 3 months	67,504	44,798
3 to 6 months	14,638	10,460
6 to 12 months	12,010	7,020
Over 12 months	3,841	4,479
	97,993	66,757

The credit terms agreed with customers were normally ranged from 1 month to 6 months from the date of billing. No interest are charged on the trade receivables.

10 TRADE PAYABLES

As at 31 December 2017, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 3 months	34,791	25,502
3 to 6 months	6,757	3,436
6 to 12 months	597	4,138
1 year to 2 years	604	664
Over 2 years	299	—
	43,048	33,740

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

11 SHARE CAPITAL

	2017		2016	
	<i>No. of shares</i>	<i>Amount RMB'000</i>	<i>No. of shares</i>	<i>Amount RMB'000</i>
Authorised-ordinary shares of HK\$0.01 each:				
At 1 January	38,000,000	300	38,000,000	300
Increase	<u>19,962,000,000</u>	<u>168,681</u>	<u>–</u>	<u>–</u>
At 31 December	<u>20,000,000,000</u>	<u>168,981</u>	<u>38,000,000</u>	<u>300</u>
Ordinary shares, issued and fully paid:				
At 1 January	100,000	1	100,000	1
Capitalisation issue	749,900,000	6,336	–	–
Initial public offering	<u>250,000,000</u>	<u>2,113</u>	<u>–</u>	<u>–</u>
At 31 December	<u>1,000,000,000</u>	<u>8,450</u>	<u>100,000</u>	<u>1</u>

The holders of ordinary shares as at 31 December 2017 are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview and outlook

Overview

2017 was a year of rapid development for medical device industry in China due to favourable policy development. The ministries and commission under the State Council issued a series of guiding principles for medical device in October 2017 and the General Office of the State Council issued the “Opinions on Deepening the Examination and Approval System for Drugs, and Reforming and Encouraging Innovation of Drugs and Medical Devices” (《關於深化審評審批制度改革鼓勵藥品醫療器械創新的意見》), covering various areas and strengthening the entire life cycle management for drugs and medical devices. The promulgation of this series of regulations has expedited the approval process, encouraged innovation on medical device, optimized the registration process and strengthened the management for clinical trials, which was beneficial to the medical device industry, especially for the future development of the medical device enterprise with R&D (as defined below) capability.

Leveraging on the opportunities brought about by the policy development, the Group promoted its business growth on a steady pace. For the year ended 31 December 2017, we obtained three product registration certificates for Class II medical devices and 26 product registration certificates for Class III medical devices approved by China Food and Drug Administration (“CFDA”). We remain the orthopedic joint company with the largest number of registration certificates for Class III medical devices in China and its products can meet the needs of all kinds of orthopedic joint surgeries.

For the year ended 31 December 2017, the Group achieved an annual revenue of RMB372.7million, representing an increase of 37.6% as compared to the same period in 2016; the Group achieved profit of RMB105.4million, representing a growth of 36.3% as compared to the same period in 2016.

3D-printed Products Business

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

For the year ended 31 December 2017, we had a total of three 3D-printed products approved by CFDA, namely 3D-printed acetabular cup and augment, 3D-printed spinal interbody cages and 3D-printed artificial vertebral bodies, respectively. We remain the only orthopedic company in China with 3D-printed metal implants approved by CFDA.

In 2017, our 3D-printed products achieved sales revenue of RMB33.4 million, including hip joint products of RMB28.5 million. Meanwhile, our 3D-printed products technologies also allow us to enter into the spine field. In 2017, our spine products achieved sales revenue of RMB4.9 million. The increase in revenue from sales of our 3D-printed products was 175.7% as compared with 2016. This rapid growth was due to the fact that we are the only company which can provide 3D-printed orthopedic implant products in the market, while the structural advantage of 3D-printed products is gradually gaining the recognition from the orthopedists.

Other than our products, we also provide our customers with personalized 3D Accurate Construction Technology (“**3D ACT**”) solutions, which are personalized solutions the Group developed and introduced in July 2014 to assist surgeons in simulating and planning for implant surgeries to achieve their expectation. For the year ended 31 December 2017, such platform has covered 546 hospitals to assist the doctors design 2616 surgical solutions, an increase of 1700 cases from the figures in 2016. Out of the 546 hospitals covered by this platform, 368 hospitals of which are Class III hospitals, an increase of 310 hospitals from the figures in 2016, so this platform played an important role in helping us to enter into high-end medical market and especially in the top-three hospitals in the first- and second-tier cities.

Off-the-shelf Products Business

Off-the-shelf products are the standard, mass-produced orthopedic products that are of pre-determined shapes and sizes.

In 2017, we continued to provide our customers and patients with a full product line of orthopedic joint products, including hip and knee implants and tools for initial, complex, revision and reconstruction surgeries.

Our hip and knee off-the-shelf products achieved a revenue of RMB317.0 million in 2017, representing a year-on-year increase of 31.0%. The rapid growth in revenue from sales of off-the-shelf products was owing to our excellent product quality and extensive sales channels. At the same time, as a hip system includes several components and is sold by set, our off-the-shelf products have also been driven by the strong sales of 3D-printed acetabular cup and augment, gaining excess growth.

Research and Development

As an orthopedic company driven by research and development (“**R&D**”), we continue to focus on enhancing the Group’s capabilities of and investments in R&D. We improve the Group’s capabilities of R&D through various aspects. Firstly, we cultivate talent to enhance the strength of the Group’s internal R&D team. We provide training for R&D personnel on regular basis and give particular attention to the development of reserve personnel. Secondly, we step up cooperation with external experts to explore the R&D of innovative products. In January 2017, we entered into a five-year R&D strategic framework agreement with Peking University Third Hospital, whereby both parties will jointly conduct R&D in 3D-printing area. Thirdly, we develop good interaction with surgeons, thus accumulating data to enhance R&D capabilities. Our 3D ACT Physician-Technician Interaction Platform (PTIP) provides physician and our R&D technician with an unimpeded communication channel, through which the Group’s R&D team will gain experience and data in practice while assisting the physicians in designing surgical solutions.

The number of patents we obtained can indicate our strong R&D capabilities. As of 31 December 2017, we have obtained a total of 40 invention patents, 146 utility patents, two patents under Patent Cooperation Treaty (“**PCT**”) and two appearance patents, with 130 invention patents, 74 utility patents and six patents under PCT pending for approval.

Production facilities

In 2017, the Group persistently strengthened the lean procedure management and the concepts of safety and protection, continued to enhance the utilization rate of equipment and lowered the unit material cost and processing time.

In 2017, there was no material safety accident occurred in the Group and we have passed all the relevant compliance inspection of the government.

Changzhou Facilities

We plan to establish new production facilities in the Taihu West Science, Technology and Properties Park, Changzhou, Jiangsu Province, China to meet the demands of increased capacity from the development of business.

The construction of the Changzhou Facilities commenced at the end of 2017, and the first phase of construction is expected to be completed at the end of 2018.

Sales and Marketing

In 2017, we continued to strengthen the management of the entire sales system, expand our internal sales team and broaden the sales network. As of 31 December 2017, we have a sound distributor system over all regions of the PRC (for the purpose of this announcement, excluding the Hong Kong Special Administrative Region of the PRC, the Macao Special Administrative Region of the PRC and Taiwan), covering 3715 hospitals, 1124 of which are class III hospitals, an increase of 821 hospitals from 2016.

With the enhancement of our technologies and product quality and leveraging on the deepening of the national policy of import substitution, our products gradually entered into the high-end market and obtained more market shares. Meanwhile, our 3D ACT solution also became an important auxiliary means to enter the high-end market.

Outlook

In December 2017, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), which provided the Group with a good opportunity to develop in the future. With the help of the capital market, we will consolidate our leading position in the joint industry in China and adopt active development strategies, including but not limited to the following:

1. Continuous development of 3D-printing orthopedic products and promotion of 3D ACT Physician-Technician Interaction Platform (“PTIP”)

In 2018, we will continuously deepen the research and development of 3D-printing technology, which is regarded as one of important development strategies of the Group and conduct further research and development of 3D standardized and customized products to increase the proportion of 3D-printing products in sales income. At the same time, we will also continuously promote our 3D ACT PTIP among hospitals and orthopaedic surgeons to accumulate more case data for future product development.

2. *Committed to research and development as the core of the Group's development and more investment in research and development*

We always believe that research and development capability is the core competitiveness of the Group's development. In the coming year, we will continue to invest in research and development, and will explore advanced technologies and products from abroad to be introduced into the markets in China.

3. *Consolidating the leadership position of the Group in the field of joint and forging the Group into a well-established orthopedic platform step by step*

We will continue to maintain our leadership in the field of joint, and further expand the market share of our brand. At the same time, we also believe that China's orthopaedic industry will gradually enter into the consolidation period. We will explore opportunities in other segments of orthopedics and gradually build the Group into a platform for orthopaedic industry in China.

4. *Actively respond to policies initiated by government*

In 2017, the PRC Government issued a series of policies and regulations in respect of medical devices industry. We expect that these policies and regulations, such as "two invoice policy" and "national price negotiation mechanism", will be further carried out and implemented in 2018. We will conduct an analysis and research and make a judgment on these policies, so as to grasp the opportunities arising from the trend of import substitution brought by these policies, and continuously introduce new competitive products to cope with the price pressure.

5. *Actively explore suitable opportunities for strategic acquisitions and alliance*

We continue to explore suitable opportunities in the orthopedic product market which is in line with the strategic positioning of the Group for strategic acquisitions and alliance to grow our business, expand our product and service offerings. Currently, we are negotiating with an orthopedic company in Europe and have signed a non-legally binding letter of intent.

Financial Review

Overview

	2017 RMB'000	2016 RMB'000	Variance %
Revenue	372,700	270,777	37.6%
Gross Profit	263,790	187,311	40.8%
Profit for the year attributable to equity shareholders of the Company	105,376	77,326	36.3%
Earnings per share			
Basic	RMB0.14	RMB0.10	40.0%
Diluted	RMB0.14	RMB0.10	40.0%

Benefiting from the trend of import substitution and the lead of 3D-printed products, we achieved income growth of 37.6% for the year ended 31 December 2017 and continued to maintain its standing as the best-selling brand of joint implants in the PRC market in terms of sales. We dedicated ourselves to change the perception of domestic brands and became an honorable world-class medical enterprise and continued to make unremitting efforts to improve the quality of life for hundreds of millions of patients.

The following discussions are on the basis of the financial information and its notes as set out in other sections in this announcement and shall be reviewed together with those financial information and its notes.

Revenue

	Year ended 31 December		
	2017	2016	Change
	RMB'000	RMB'000	%
Off-the-shelf products ⁽¹⁾	316,972	241,879	31.0%
3D-printed products ⁽²⁾	33,444	12,131	175.7%
Others ⁽³⁾	22,284	16,767	32.9%
Total	372,700	270,777	37.6%

Notes:

- (1) Excluding 3D-printed hip replacement implants;
- (2) Including our 3D-printed hip replacement implants, spinal interbody cages and artificial vertebral bodies;
- (3) Others primarily include third party orthopedic products, surgical instruments and medical irrigators.

Our revenue for the year ended 31 December 2017 was RMB372.7 million, increased by 37.6% compared to RMB270.8 million for the year ended 31 December 2016. Such increase was mainly driven by the strong sales performance of hip replacement implants including 3D-printed products, and the increase in the sales of knee replacement implants.

Off-the-shelf products

Our off-the-shelf products include knee replacement implants and hip replacement implants.

The increase of revenue from knee replacement implants was mainly attributed to the increase of sales driven by the Group's offering of knee products with relatively higher price-performance ratio to the market.

The increase of revenue from off-the-shelf hip replacement implants was partly attributed by the Group tapping into more hospitals by virtue of 3D printing products, and the Group's product performance has been recognized by more hospitals and distributors, so that there was a sales growth in the off-the-shelf hip replacement implants. Meanwhile, due to the increased sales proportion of new products we launched in the product portfolio, the average selling unit price of off-the-shelf hip replacement implants in 2017 also increased correspondingly, which also promoted the revenue growth of off-the-shelf hip replacement implants.

3D-Printed Products

Our 3D-Printed Products include 3D-printed hip replacement implants, 3D-printed artificial vertebral bodies and spinal interbody cages. 3D-Printed Products achieved revenue of RMB33.4 million for the year ended 31 December 2017, representing an increase of 175.7% as compared with that of RMB12.1 million for the year ended 31 December 2016. Such increase was mainly due to the fact that our 3D printing products were the only 3D printing orthopedic products in China that received registration certificate. The products were highly recognized by the market as soon as it was launched, so as to gain a rapid growth in their sales.

Third Party Orthopedic Products

In order to complement our own product portfolio, we also distribute orthopedic products produced by third parties. In 2017 and 2016, our revenue from distributing third party orthopedic products were RMB14.9 million and RMB10.8 million, representing 4.0% and 4.0% of our revenue, respectively.

Cost of Sales

For the year ended 31 December 2017, our cost of sales was RMB108.9 million, representing an increase of 30.5% as compared with RMB83.5 million for the year ended 31 December 2016. The increase in cost of sales was primarily due to the growth of our sales of off-the-shell products and 3D-printed products.

Gross Profit and Gross Margin

Gross profit increased by 40.8% to RMB263.8 million for the year ended 31 December 2017 from RMB187.3 million for the year ended 31 December 2016. The increase in gross profit was primarily driven by the growth of our overall business scale.

Our gross margin was 70.8% for the year ended 31 December 2017, up from 69.2% for the year ended December 2016, which was primarily due to increasing proportion of products with a relatively higher gross margin in the product portfolio, such as the total knee replacement products and 3D-printed products.

Gross margin of our knee replacement implants increased due to an increase in the sales of our A3 total knee replacement products, which was a relatively high selling price and gross margin than the other knee products for primary surgeries.

Further, the 3D-printed products had a much higher gross margin as compared to our other products. As the proportion of 3D-printed products in our sales had increased in year 2017, the overall gross margin had consequently increased.

Other Income

Other income increased by 238.0% from RMB0.8 million for the year ended 31 December 2016 to RMB2.7 million for the year ended 31 December 2017, which was primarily due to increase in both government grants and IIT concession.

Selling and Distribution Expenses

Selling and distribution expenses was RMB50.4 million for the year ended 31 December 2017, representing an increase of 39.1% as compared with RMB36.2 million for the year ended 31 December 2016. Such increase was primarily a result of an increase in compensation, benefits and travel expenses due to an increase in the number of sales personnel, an increase in rental fees due to the newly leased office, and an increase in the costs incurred by an external service fees, academic promotion and industry conferences.

General and Administrative Expenses

General and administrative expenses amounted to RMB56.2 million for the year ended 31 December 2017, representing an increase of 47.5% as compared with RMB38.1 million for the year ended 31 December 2016. Such increase was primarily a result of an increase in IPO listing expenses, compensation, benefits and travel expenses of our administrative personnel and an increase in provision for bad debts resulted from an increase in the balance of accounts receivable. The Company incurred IPO Listing expenses of RMB17.7 million and RMB22.0 million respectively in year 2016 and 2017.

Research and Development Expenses

Research and development expenses amounted to RMB35.0 million for the year ended 31 December 2017, representing an increase of 71.5% as compared with RMB20.4 million for the year ended 31 December 2016. Such increase was primarily a result of an increase in research and development expenses resulted from our strategic research and development cooperation with Peking University Third Hospital in 2017, an increase in testing fees for registration of new product, our subsidiary, and an increase in depreciation expenses of devices resulted from our five 3D-printing devices that put into research and development after commissioning in 2017.

Net Finance Income

Net finance income was RMB0.5 million for the year ended 31 December 2017, representing a decrease of 70.1% as compared with RMB1.7 million for the year ended 31 December 2016. Such decrease was primarily due to reduction in foreign exchange gains.

Income Tax Expense

Income tax expense was RMB20.0 million for the year ended 31 December 2017, representing an increase of 13.0% as compared with RMB17.7 million for the year ended 31 December 2016. Such increase was primarily due to an increase in our profit before taxation and corresponding increase in income tax resulted from our expansion of operations.

Net Profit for the Year

As a result of above, our net profit for the year increased by 36.3%, from RMB77.3 million in 2016 to RMB105.4 million in 2017.

Liquidity and Financial Resources

As of 31 December 2017, we had cash and cash equivalents of RMB517.5 million, as compared to RMB160.6 million as of 31 December 2016. The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Groups reputation.

Net Current Asset

We had net current asset of RMB552.2 million as of 31 December 2017, representing an increase of 147.2% as compared with RMB223.4 million as of 31 December 2016. Such increase was primarily from the proceeds from the initial public offering of the Company.

Foreign Exchange Exposure

We mainly operate in the PRC and are exposed to foreign currency risk, primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transaction relate. The currencies giving rise to this risk is primarily HK\$ and US\$. For the year ended 31 December 2017, the Group recorded a net exchange loss of RMB0.6 million, as compared to an exchange gain of RMB 1.2 million for the year ended 31 December 2016. The Group did not have any significant hedging arrangements to manage foreign exchange risk but has been actively monitoring and overseeing its foreign exchange risk.

Capital Expenditure

For the year ended 31 December 2017, the Group's total capital expenditure amounted to approximately RMB 45.8 million, which was used in (i) construction of buildings; (ii) acquiring equipment and machineries; (iii) prepayment for leasehold land; and (iv) expenditures for R&D projects under development stage.

Use of Proceeds from Initial Public Offering

The shares of the Company listed on the Main Board of the Stock Exchange on 20 December 2017, and the net proceeds from this initial public offering (including the exercise of the overallotment option on 4 January 2017), after deducting the underwriting commission and other expenses in connection with the global offering which the Company received amounted to approximately HKD477 million, comprising HKD415 million raised from global offering and HKD62 million from issue of share pursuant to the exercise of the overallotment option respectively. As of 31 December 2017, such proceeds have not yet been utilized by the Company. The Company has and will utilize the net proceeds in such manners and proportions as disclosed in the prospectus issued by the Company on 7 December 2017.

Subsequent Events

On January 4, 2018, the listing and dealings of 37,500,000 ordinary shares issued and allotted by the Company pursuant to the exercise of the over-allotment option granted by the Company in connection with its initial public offering commenced on the main board of The Stock Exchange of Hong Kong Limited.

Save for the above, no material events have occurred since 31 December 2017.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and management are committed to achieving high corporate governance standards. The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with the code provisions set out in the Corporate Governance Code ("**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") since 20 December 2017, the date on which the shares of the Company were listed on the Stock Exchange (the "**Listing Date**") and up to the date of this announcement, with the exception of code provision A.2.1.

According to code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviates from this code provision because the chairman and chief executive officer of the Company are held by Mr. Li Zhijiang who is the founder 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 also considers that the current structure of vesting the roles of chairman and chief executive officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board shall review this structure from time to time to ensure appropriate and timely action to meet changing circumstances.

SCOPE OF WORK OF KPMG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

REVIEW BY THE AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's annual results for the year ended 31 December 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for transactions in the Company’s securities since the Listing Date and up to the date of this announcement.

The Company has also established written guidelines on no less stringent terms than the Model Code (the “**Employees Written Guidelines**”) for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company since the Listing Date 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 year ended 31 December 2017.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year, there was no material acquisition or disposal of subsidiaries and associated companies by the Company.

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company’s total issued share capital was held by the public at all times during the financial year ended 31 December 2017 as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s Articles of Association and the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to the existing shareholders.

ANNUAL GENERAL MEETING

The Annual General Meeting (“**AGM**”) of the Company will be held on 11 June 2018. The notice of AGM will be sent to shareholders at least 20 clear business days before AGM.

FINAL DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HKD3.5 cent per share for the year ended 31 December 2017 to the shareholders whose names appear on the register of members of the Company on Wednesday, 27 June 2018. The final dividend, if approved by the shareholders of the Company at the AGM, will be payable on or around 9 July 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:

- (a) For the purpose of determining shareholders who are entitled to attend and vote at the AGM to be held on Monday, 11 June 2018, the register of members of the Company will be closed from Wednesday, 6 June 2018 to Monday, 11 June 2018, both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 5 June 2018.
- (b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Monday, 25 June 2018 to Wednesday, 27 June 2018, both days inclusive. In order to qualify for the final dividend, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 22 June 2018.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company at <http://ak-medical.net/> and the Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk>. The 2017 annual report containing all the information required by Appendix 16 of the Listing Rules will be dispatched to shareholders of the Company and published on the above websites in due course.

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

Hong Kong, 19 March 2018

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, Mr. Li Wenming and Dr. Wang David Guowei as non-executive directors, and Mr. Dang Gengting, Mr. Kong Chi Mo and Mr. Li Shu Wing David, as independent non-executive directors.