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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 2018

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	Variance
	RMB'000	*RMB'000*	*%*
Revenue	**600,562**	372,700	61.1%
Gross Profit	**408,881**	263,790	55.0%
Profit for the year attributable to equity shareholders of the Company	**144,936**	105,376	37.5%
Earnings per share			
Basic	**RMB0.14**	RMB0.14	
Diluted	**RMB0.14**	RMB0.14	

For the year ended 31 December 2018, the Group kept its rapid growth trend and successfully achieved a revenue of RMB600.6 million, which represented a significant increase of 61.1% as compared to year 2017. After eliminating the impact of consolidation of JRI Orthopaedics Limited ("**JRI**"), the subsidiary acquired in April 2018, the Group still obtained a rapid growth rate of 42.7%. The significant increase of revenue was mainly driven by the Company's leading 3D printing technology and 3D ACT Physician-Technician Interactive Platform ("**PTIP**"), which helped the Group to further develop its brand name and hence improved the sales of knee and hip implant products as well. The net profit of the Group for the year ended 31 December 2018 also achieved a significant increase of 37.5% as compared to year 2017 as a result of the increase of revenue.

The Directors have resolved to recommend the payment of a final dividend of HKD3.5 cents per share for the year ended 31 December 2018.

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 2018 as below.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018
(Expressed in Renminbi)

		Year ended 31 December	
		2018	2017
			(Note)
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**600,562**	372,700
Cost of sales		**(191,681)**	(108,910)
Gross profit		**408,881**	263,790
Other income, net	*4*	**4,943**	2,680
Selling and distribution expenses		**(122,877)**	(50,397)
General and administrative expenses		**(74,125)**	(56,222)
Research and development expenses		**(45,595)**	(34,963)
Operating profit		**171,227**	124,888
Net finance income		**3,273**	496
Profit before taxation	*5*	**174,500**	125,384
Income tax	*6*	**(29,564)**	(20,008)
Profit for the year		**144,936**	105,376
Profit attributable to equity shareholders of the Company		**144,936**	105,376
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		**3,347**	(3,233)
Other comprehensive income, net of tax		**3,347**	(3,233)
Total comprehensive income		**148,283**	102,143
Total comprehensive income attributable to equity shareholders of the Company		**148,283**	102,143
Earnings per share			
Basic	*7(a)*	**RMB0.14**	RMB0.14
Diluted	*7(b)*	**RMB0.14**	RMB0.14

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At 31 December 2018
(Expressed in Renminbi)

	Note	At 31 December 2018 RMB'000	At 31 December 2017 (Note) RMB'000
Non-current assets			
Property, plant and equipment		**165,547**	104,670
Intangible assets		**38,148**	10,458
Goodwill		**27,826**	–
Deferred tax assets		**12,908**	10,366
Prepayments for property, plant and equipment		**23,382**	545
		267,811	126,039
Current assets			
Inventories		**166,401**	86,817
Trade receivables	*9*	**184,204**	121,198
Deposits, prepayments and other receivables		**17,668**	6,071
Other financial assets		**35,662**	–
Cash and cash equivalents		**421,054**	517,482
		824,989	731,568
Current liabilities			
Trade payables	*10*	**55,869**	43,048
Contract liabilities		**52,895**	–
Accruals and other payables		**103,851**	95,389
Obligations under finance leases		**599**	–
Current tax		**15,272**	13,281
Deferred revenue		**–**	22,668
Provisions		**–**	4,976
		228,486	179,362
Net current assets		**596,503**	552,206
Total assets less current liabilities		**864,314**	678,245

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(continued)*
At 31 December 2018
(Expressed in Renminbi)

	Note	At 31 December 2018 RMB'000	At 31 December 2017 (Note) RMB'000
Non-current liability			
Deferred income		**10,522**	7,903
Obligations under finance leases		**347**	–
Deferred tax liabilities		**11,687**	2,359
		22,556	10,262
NET ASSETS		**841,758**	667,983
Capital and reserves			
Share capital	*11*	**8,779**	8,450
Reserves		**832,979**	659,533
Total equity attributable to equity shareholders of the Company		**841,758**	667,983
Total equity		**841,758**	667,983

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000 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 is an investment holding company. The Company and its subsidiaries (together, "**the Group**") are principally engaged in design, develop, produce and market orthopedic joint implants and related products.

The Company's shares were listed on the Stock Exchange on 20 December 2017 (the "**Listing**").

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 disclosure 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 ("**Stock Exchange**"). 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 Hong Kong dollars (HK$). 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. The Group determined to present these financial statements in RMB, unless otherwise stated.

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries.

The financial statements are prepared on the historical cost basis, except that other financial assets - investment in structured deposit are stated at their fair value.

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, Financial instruments

(ii) IFRS 15, Revenue from contracts with customers

(iii) IFRIC 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, Prepayment features with negative compensation which have been adopted at the same time as IFRS 9.

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB'000
Retained earnings	
Recognition of additional expected credit losses on:	
– trade receivables	**(733)**
Related tax	**110**
Net decrease in retained earnings at 1 January 2018	**(623)**

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under IAS 39	**(5,813)**
Additional credit loss recognised at 1 January 2018 on:	
– Trade receivables	**(733)**
Loss allowance at 1 January 2018 under IFRS 9	**(6,546)**

b. *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IFRS 9 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held.

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to contracts in progress were presented in the statement of financial position under "deferred revenue", "accruals and other payables" or "provisions", respectively.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

a. Refund assets and refund liabilities related to sales return amounting to RMB2,240,000 and RMB7,216,000, which were previously included in "provisions" are now reclassified to "Deposits, prepayments and other receivables" and "accruals and other payables" respectively; and

b. Deferred revenue amounting to RMB22,668,000 and advance and deposit from customers amounting to RMB18,715,000 are now included in the "contract liabilities", respectively.

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018.

The following tables summarise the estimated impact of adoption of IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under IFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under IAS 18 and IAS 11 if those superseded standards had continued to apply to 2018 instead of IFRS 15. These tables show only those line items impacted by the adoption of IFRS 15:

	Amounts reported in accordance with IFRS 15 (A) *RMB'000*	Hypothetical amounts under IASs18 and 11 (B) *RMB'000*	Difference: Estimated impact of adoption of IFRS 15 on 2018 (A)-(B) *RMB'000*
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of IFRS 15:			
Deposits, prepayments and other receivables	3,256	–	3,256
Total current assets	3,256	–	3,256
Accruals and other payables	103,851	125,267	(21,416)
Provisions	–	7,235	(7,235)
Contract liabilities	52,895	–	52,895
Deferred revenue	–	20,988	(20,988)
Total current liabilities	156,746	153,490	3,256
Line items in the consolidated cash flow statements for year ended 31 December 2018 impacted by the adoption of IFRS 15:			
Changes in operating activities			
Deposits, prepayments and other receivables	(3,661)	(405)	(3,256)
Contract liabilities	52,895	–	52,895
Accruals and other payables	7,799	29,215	(21,416)
Deferred revenue	(22,668)	(1,680)	(20,988)
Provisions	(4,976)	2,259	(7,235)

(iii) IFRIC 22, "Foreign currency transactions and advance consideration"

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

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.

Disaggregation of revenue from contracts with customers by major products is as follows:

	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Knee replacement implants	**145,098**	101,667
– Hip replacement implants	**351,958**	215,305
– 3D-printed product	**69,945**	33,444
– Third party orthopedic products	**11,866**	14,913
– Others	**21,695**	7,371
	600,562	372,700

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue in 2018 (2017: nil).

(b) Segment reporting

The Group acquired JRI, a private company limited by shares incorporated in England and Wales on 10 April 2018. JRI's operation and assets are mainly based in the United Kingdom (the "**UK**"). After the acquisition, 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 presented the two reportable segment based on geographical location: China and the United Kingdom. No operating segments have been aggregated to form the reportable segments.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception investments in financial assets and deferred tax assets. Segment liabilities include trade creditors and accruals attributable to the manufacturing and sales activities of the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Corporate expenses are allocated to the segment in China as all management are based in China

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

In addition to receiving segment information concerning reporting segment profit, management is provided with segment information concerning inter segment sales, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Disaggregation of revenue from contracts with customers, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**531,738**	372,700	**68,824**	–	**600,562**	372,700
Inter-segment revenue	**–**	–	**33,760**	–	**33,760**	–
Reportable segment revenue	**531,738**	372,700	**102,584**	–	**634,322**	372,700
Reportable segment profit	**177,836**	125,384	**230**	–	**178,066**	125,384
Interest income from bank deposits	**5,148**	1,118	**–**	–	**5,148**	1,118
Depreciation and amortisation for the year	**12,505**	12,241	**8,235**	–	**20,740**	12,241
Reportable segment assets	**889,830**	847,241	**161,956**	–	**1,051,786**	847,241
Additions to non-current assets during the year	**77,972**	30,986	**8,268**	–	**86,240**	30,986
Reportable segment liabilities	**216,033**	173,984	**15,606**	–	**231,639**	173,984

(ii) ***Reconciliations of reportable segment revenues, profit or loss, assets and liabilities***

	2018	2017
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**634,322**	372,700
Elimination of inter-segment revenue	**(33,760)**	–
Consolidated revenue	**600,562**	372,700
Profit		
Reportable segment profit	**178,066**	125,384
Elimination of inter-segment profits	**(3,566)**	–
Consolidated profit before taxation	**174,500**	125,384
Assets		
Reportable segment assets	**1,051,786**	847,241
Elimination of inter-segment receivables	**(7,556)**	–
	1,044,230	847,241
Other financial assets	**35,662**	–
Deferred tax assets	**12,908**	10,366
Consolidated total assets	**1,092,800**	857,607
Liabilities		
Reportable segment liabilities	**231,639**	173,984
Elimination of inter-segment payables	**(7,556)**	–
	224,083	173,984
Current tax liabilities	**15,272**	13,281
Deferred tax liabilities	**11,687**	2,359
Consolidated total liabilities	**251,042**	189,624

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and goodwill ("**specified non-current assets**"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets and goodwill.

	Revenues from external customers		**Specified non-current assets**	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
– China	**513,130**	363,426	**181,491**	115,673
– United Kingdom	**43,944**	–	**73,412**	–
– Other countries	**43,488**	9,274	**–**	–
	600,562	372,700	**254,903**	115,673

4 OTHER INCOME, NET

	2018	2017
	RMB'000	*RMB'000*
Government grants	**5,500**	1,625
Others	**(557)**	1,055
	4,943	2,680

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs:

	2018	2017
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**94,272**	49,156
Contribution to defined contribution retirement scheme	**4,189**	2,140
Equity settled share-based transactions	**4,981**	742
	103,442	52,038

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

(b) Other items

	2018 *RMB'000*	2017 *RMB'000*
Cost of Inventories*	**199,000**	113,991
Amortisation of intangible assets	**5,230**	1,304
Depreciation of property, plant and equipment	**15,510**	10,937
Credit losses from trade and other receivables	**443**	3,760
Operating lease charges	**6,460**	6,058
Auditors' remuneration		
– Audit services	**3,176**	2,200
– Audit related services	**1,600**	–
	4,776	2,200

* Cost of inventories includes RMB43,210,000 in 2018 (2017:RMB17,501,000) 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 EXPENSES

(a) Amounts recognised in profit or loss

	2018 *RMB'000*	2017 *RMB'000*
Current tax		
Provision for the year	**26,974**	25,268
Over-provision in respect of prior years	**(1,474)**	(23)
Deferred tax		
Origination and reversal of temporary differences	**4,064**	(5,237)
	29,564	20,008

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

The Group has no assessable profit in Hong Kong for 2018 (2017: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2018 is 16.5% (2017: 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 2018 at the rates of taxation prevailing in the countries in which the Group operates.

Applicable statutory enterprise income tax rate of PRC subsidiaries of the Company for 2018 are 25% (2017: 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.

Taxation for subsidiaries operating mainly in the England and Wales were calculated at statutory enterprise income tax rate of 19% for 2018.

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, subsidiaries of the Group are subject to PRC dividend withholding tax at 10% on dividends receivables from their PRC subsidiaries.

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

	2018	2017
	RMB'000	*RMB'000*
Profit before taxation	**174,500**	125,384
Notional tax of PRC statutory tax rate of 25%	**43,625**	31,346
Effect of PRC preferential tax rate	**(18,887)**	(11,431)
Effect of lower tax rates in other countries	**(92)**	(1,336)
Effect of non-deductible expenses	**558**	112
Effect of unused tax losses not recognised	**3,163**	–
Effect of additional deduction on research and development expenses *(note)*	**(2,374)**	(1,019)
PRC dividend withholding tax	**5,045**	2,359
Over-provision in respect of prior years	**(1,474)**	(23)
Actual tax expenses	**29,564**	20,008

Note: According to the relevant PRC income tax law, certain research and development costs of PRC subsidiaries are qualified for 75% (2017: 50%) additional deduction for tax purpose.

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 RMB144,936,000 (2017: RMB105,376,000) and the weighted average number of issued ordinary shares of 1,037,191,781 (2017: 758,219,178 shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2018	2017
Issued ordinary shares at 1 January	**1,000,000,000**	100,000
Effect of capitalisation issue	**–**	749,900,000
Effect of issue of shares upon initial public offering	**–**	8,219,178
Effect of issue of shares under the over-allotment option	**37,191,781**	–
Weighted average number of ordinary shares at 31 December	**1,037,191,781**	758,219,178

(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 RMB144,936,000 (2017: RMB105,376,000) and the weighted average number of issued ordinary shares of 1,047,691,162 (2017: 758,931,913 shares) after adjusting the effects of dilutive potential ordinary shares during the year, as follows:

Weighted average number of ordinary shares (diluted)

	2018	2017
Weighted average number of ordinary shares at 31 December	**1,037,191,781**	758,219,178
Effect of deemed issue of shares under the Company's share option scheme	**10,499,381**	45,630
Effect of issue of shares under the over-allotment option	**–**	667,105
Weighted average number of ordinary shares (diluted) at 31 December	**1,047,691,162**	758,931,913

8 DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year

	2018	2017
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period of HK$3.5 cents per ordinary share (2017: HK$3.5 cents per ordinary share)	**31,908**	32,014

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

9 TRADE RECEIVABLES

	31 December 2018 *RMB'000*	1 January 2018 *RMB'000*	31 December 2017 *RMB'000*
Bills receivable	**44,002**	23,205	23,205
Trade debtors	**146,303**	103,806	103,806
Less: allowance for credit loss *(note)*	**(6,101)**	(6,546)	(5,813)
	140,202	97,260	97,993
	184,204	120,465	121,198

Note: Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on bills and trade receivables (see note 2(c)(i)).

Ageing analysis

Bills receivable are bank acceptance bill received from customers, with expiration dates within 6 months.

As at 31 December 2018, the ageing analysis of trade debtors based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for credit loss, is as follows:

	As at 31 December	
	2018 *RMB'000*	2017 *RMB'000*
Current to 3 months	**105,243**	67,504
3 to 6 months	**14,274**	14,638
6 to 12 months	**14,906**	12,010
Over 12 months	**5,779**	3,841
	140,202	97,993

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

10 TRADE PAYABLES

As at 31 December 2018, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**48,301**	34,791
3 to 6 months	**4,238**	6,757
6 to 12 months	**1,434**	597
1 year to 2 years	**922**	604
Over 2 years	**974**	299
	55,869	43,048

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

11 SHARE CAPITAL

	2018		2017	
	No. of shares	***Amount***	*No. of shares*	*Amount*
		RMB'000		*RMB'000*
Authorised-ordinary shares of HK$0.01 each:				
At 1 January	**20,000,000,000**	**168,981**	38,000,000	300
Increase	**–**	**–**	19,962,000,000	168,681
At 31 December	**20,000,000,000**	**168,981**	20,000,000,000	168,981
Ordinary shares, issued and fully paid:				
At 1 January	**1,000,000,000**	**8,450**	100,000	1
Capitalisation issue	**–**	**–**	749,900,000	6,336
Initial public offering	**–**	**–**	250,000,000	2,113
Shares issued under over-allotment option	**37,500,000**	**304**	–	–
Shares issued under share option scheme	**2,975,000**	**25**	–	–
At 31 December	**1,040,475,000**	**8,779**	1,000,000,000	8,450

The holders of ordinary shares as at 31 December 2018 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

In 2018, China's medical reform has entered a new stage. In March 2018, the State Council rolled out the "Reform Plan of State Institutions (國家機構改革方案)", setting out the establishment of the National Health Commission, the State Administration for Market Regulation and the National Healthcare Security Administration. The institutional reform in the medical and healthcare sector has had a profound impact on the future of medical reform and policy implementation. China is committed to linking activities in the medical care, medical insurance and pharmaceutical areas and implementing regulatory control over processes of production, circulation and end-use. Medical insurance cost control was the keynote of the annual pharmaceutical policy. The implementation of the policy regarding the centralized procurement of drugs in "4+7" cities has created the most significant impact during the year, which caused a huge shock to the entire healthcare industry. It will also have a far-reaching influence on the future of the whole industry.

The rolling out of the medical insurance cost control policy has also expedited the import substitution rate of related industries in certain extent. Leveraging on the opportunities brought about by the trend of import substitution, the Group promoted its business growth on a steady pace. As at 31 December 2018, we obtained 30 product registration certificates for Class III medical devices and three product registration certificates for Class II medical devices approved by the National Medical Products Administration ("**NMPA**"). We are the orthopedic company with the largest number of registration certificates for Class III medical devices for orthopedic joint products in China and our products can meet the needs of all kinds of orthopedic joint surgeries.

For the year ended 31 December 2018, the Group achieved annual revenue of RMB600.6 million, representing an increase of 61.1% as compared to 2017; the Group achieved profit of RMB144.9 million, representing a growth of 37.5% as compared to 2017.

3D-printed Products Business

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

For the year ended 31 December 2018, we had a total of three 3D-printed products registration certificates approved by the NMPA, namely 3D-printed acetabular cup and augment, 3D-printed spinal interbody cages and 3D-printed artificial vertebral bodies, respectively. We are the only orthopedic company which launched 3D-printed metal implants approved by NMPA in the PRC market.

In 2018, our 3D-printed products achieved sales revenue of RMB69.9 million, with the increase rate of 109.1% compared with year 2017. The rapid growth of 3D-printed products was primarily due to the fact that we remained the only company which could provide 3D-printed orthopedic implant products in the PRC market. After more than 3 years of market nurturing, the technical advantages of our 3D-printed products are being recognized by an increasing number of orthopedists. In 2018, we conducted an upgrade to the original 3D-printed products and introduced 3D-printed metal augments and buttress for revision surgeries, and 3D-printed lumbar interbody fusion cage for decompression fusion surgery. The launch of new products also contributed to the sales revenue of 3D-printed products.

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 and accomplish the purpose of precision surgeries. For the year ended 31 December 2018, such platform has covered 822 hospitals, an increase of 276 cases compared to the figure in 2017. The platform has assisted doctors in designing 3,678 surgical solutions, recording an increase of 1,062 cases compared to the figure in 2017. The accumulation of surgical solutions on this platform will help us better understand the characteristics of orthopedic diseases in Chinese patients and help us better develop prosthesis suitable for Chinese patients. Meanwhile, as an aid to marketing, this platform played an important role in helping us to enter into high-end medical market and especially in the Class III hospitals in the first– and second-tier cities in the PRC.

Hip and Knee Products Business

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

In 2018, we continued to provide our 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.

In 2018, our hip and knee products delivered RMB497.1 million in revenue, representing a year-on-year increase of 56.8%. Such rapid growth in the sales revenue from hip and knee products was attributable to our superior product quality and extensive sales channels, and at the same time, JRI's hip products also contributed to the sales revenue. The growth in hip and knee products has been driven by the rapid growth of 3D-printed products, and has also benefited from the trend of import substitution.

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 talents to enhance the strength of the Group's internal R&D team. In April 2018, the first post-doctor successfully completed study in AK Medical postdoctoral workstation. Secondly, we step up cooperation with external experts to explore the R&D of innovative products. In addition to the ongoing strategic cooperation with Peking University Third Hospital in the 3D-printing area, we are also cooperating with a number of experts from Beijing Jishuitan Hospital to develop new products. Thirdly, we develop good interaction with surgeons through the 3D ACT platform, thus accumulating data to enhance R&D capabilities.

In 2018, our R&D and registrations have achieved fruitful results, where we have obtained four product registration certificates for Class III medical devices approved by NMPA. Our A3 Total Knee System gained the United States FDA pre-market notification clearance, making the system the first FDA-approved Chinese manufactured joint prosthesis. This shows that our products have been recognized by the United States FDA in terms of technology and quality.

In 2018, AK Medical also obtained China National Accreditation Service for Conformity Assessment ("**CNAS**") certification. This demonstrated that the testing capability of and reports from testing centers of AK Medical could gain recognition from the member countries and regions of the international group under the Mutual Recognition Agreement, and the testing centers have the ability to conduct conformity assessment activities according to relevant requirements and to issue conformity assessment certificates and reports. In 2018, we won the First Prize of Beijing Science and Technology Award.

Our R&D capabilities are also exhibited on the number of patents we have obtained. As of 31 December 2018, we have obtained a total of 52 invention patents, 148 utility patents, two patents under Patent Cooperation Treaty ("**PCT**"), and two appearance patents, with 146 invention patents, 86 utility patents and six patents under PCT pending for approval.

ITI Medical (Changzhou Facilities)

Established in March 2016, ITI Medical Co., Ltd. is a wholly-owned subsidiary of AK Medical, with the registered capital of USD13,200,000, total investment scale of USD37,500,000 and total construction volume of 35,000m^2. The annum production capacity of artificial joints will reach 300,000 sets after the completion of the construction project.

The construction of ITI Medical planned to last for three years and will be completed in two phases. As of the end of 2018, the first phase is still under construction. It is expected to commence operation in 2019. For the R&D aspect, ITI Medical has obtained two registration certificates for Class III medical devices, and has acquired the production license.

Sales and Marketing

In 2018, we continued to strengthen the management of the sales system, expand our internal sales team, broaden the sales network and put greater effort in marketing. As of 31 December 2018, we have established a wide and 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 over 5,000 hospitals, one-third of which are Class III hospitals, with an increase of over 1,000 hospitals from 2017.

The success acquisition of JRI helped the Group gradually establish an international resources coordination platform. Taking advantages of the international resources of JRI, we have organized a series of education and training activities for surgeons. By ways of academic training and practice, we facilitated the information exchange and concept promotion of the orthopedic field between China and Europe. The brand building of AK Medical was also strengthened.

Acquisition of JRI

In April 2018, the Group completed the acquisition of the entire shares in JRI at a consideration of Great Britain Pound 16,732,000. JRI is a private company limited by shares incorporated with in England and Wales and is principally engaged in designing, developing and manufacturing orthopedic implants and surgical instruments. It is one of the earliest orthopedic companies in the world to develop and produce hip implants with hydroxyapatite coating which enable the biological fixation with the patients' bone and improve the longevity of such hip implants. Apart from hip implants, it also develops and distributes full shoulder replacement implants and offers a series of orthobiologics.

After the completion of the acquisition, JRI has established a new board of directors and the board of directors appointed new executive management team who oversee the daily business operations of JRI within the scope of authority. In the meantime, we have also promoted the coordination and integration of the onshore and offshore resources of the Group from the following aspects. Firstly, we stabilized the production capacity of JRI and ensured the supply for AK Medical brand of high-end hip implant product lines. Secondly, we built an academic platform leveraging on JRI's resources on overseas experts and hospitals to organize a series of high-end market academic activities and increase customer retention. Thirdly, through cooperation in the R&D and registration projects, the R&D and registration teams of the two countries collaborate to prompt the products under the AK Medical brand to obtain CE mark and expand the overseas sales channels in the future.

Prospects

Against the backdrop of the development of medical device industry in the PRC, as a leader in orthopedic joint industry in the PRC, we will continue to strengthen our leading position in the industry and adopt proactive development strategies, including but not limited to the following:

1. ***Consolidating the leading position of the Group in the field of orthopedic joint and forging an influential orthopedic brand***

   We will continue to maintain our leading position in the field of orthopedic joint and further expand the market share of our brand. At the same time, we will gradually penetrate into other segments of orthopedics and gradually build the Group into a well-established orthopedic platform step by step.

2. ***Persistently developing 3D-printed orthopedic products and boosting the Group's business growth with 3D-printing technology***

   In 2019, we will continuously deepen the research and development of 3D-printing technology, which is regarded as one of the most important development strategies of the Group and conduct further research and development of 3D-printed standardized and customized products to increase the proportion of sales income in 3D-printed products to the Group's sales income. At the same time, we will also continuously promote our 3D ACT PTIP among hospitals and orthopedic surgeons to accumulate more case data for future product development. We will maintain a high speed growth for the Group's business with the leading technology of 3D-printing.

3. ***Commitment to research and development as the core of the Group's development and establish a R&D system driven by technology and market***

   We always believe that the R&D capability is the core competitiveness of the Group's development. In the coming year, we will continue to increase the investment in the R&D, and will establish a better R&D system through the dual-drive of market and technology.

4. ***Actively responding to policies initiated by government and grasping the opportunities arising from the trend of import substitution***

   In 2018, the instructional reform of the PRC government and the implementation of new policies and regulations have brought material impact on the healthcare industry. While the "two invoice policy" is still in use in some regions, the centralized procurement reform has caused shocks in the drug field. It will bring uncertainties to the development of the medical device industry in the coming year. We will conduct analysis and research on these policies, capture 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.

FINANCIAL REVIEW

Overview

	Year ended 31 December		
	2018	2017	Variance
	RMB'000	*RMB'000*	*%*
Revenue	**600,562**	372,700	61.1%
Gross Profit	**408,881**	263,790	55.0%
Profit for the year attributable to Equity shareholders of the Company	**144,936**	105,376	37.5%
Earnings per share			
Basic	**RMB0.14**	RMB0.14	
Diluted	**RMB0.14**	RMB0.14	

Faced with a challenging market for medical devices, the Group has benefited from its leading 3D-printed technology and continuous diversification of product lines, and have leveraged on opportunities brought by import substitution. Hence, for the year ended 31 December 2018, the Group kept its rapid growth and achieved revenue of RMB600.6 million, which represented an increase of 61.1% as compared with 2017. After eliminating the impact of consolidation of JRI, the subsidiary acquired in April 2018, the Group still achieved a rapid growth rate of 42.7%. The Group maintained its leading position in the Chinese joint implants market with a further increase in market share. We consider that we will grow our business even further and continue to improve the quality of life for hundreds of millions of patients, with our subsequent R&D of more new products, implementation of the dual-brand global strategy and our advantageous 3D ACT platform.

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

Revenue

	Year ended 31 December		
	2018	2017	Variance
	RMB'000	*RMB'000*	*%*
Knee replacement implants	**145,098**	101,667	42.7%
Hip replacement implants[1]	**351,958**	215,305	63.5%
3D-printed products[2]	**69,945**	33,444	109.1%
Third party orthopedic products	**11,866**	14,913	(20.4%)
Others[3]	**21,695**	7,371	194.3%
Total	**600,562**	372,700	61.1%

Notes:

(1) Excluding 3D-printed hip replacement implants;

(2) Including 3D-printed hip replacement implants, spinal interbody cages and artificial vertebral bodies;

(3) Others primarily include surgical instruments and medical irrigators.

Our revenue amounted to RMB600.6 million for the year ended 31 December 2018, representing an increase of 61.1% as compared with RMB372.7 million for the year ended 31 December 2017. After eliminating the impact of revenue consolidation from JRI, the Group still achieved a growth rate of 42.7%. The significant increase of revenue was mainly driven by the increase of the sales of 3D-printed products which helped the Group to further develop its brand name and hence improved the sales of hip and knee products as well.

Hip and knee replacement implants products

Our hip and knee replacement implants products include knee replacement implants and hip replacement implants. The knee replacement implants recorded revenue of RMB145.1 million for the year ended 31 December 2018, representing an increase of 42.7% as compared with RMB101.7 million for the year ended 31 December 2017. Such increase was mainly attributable to the increase of sales driven by the Group's provision of knee implant products with a relatively high price-performance ratio to the market.

Our hip replacement implants recorded revenue of RMB352.0 million for the year ended 31 December 2018, representing an increase of 63.5% as compared with RMB215.3 million for the year ended 31 December 2017. In addition to the attribution of hip implants revenue consolidation of RMB55.5 million from JRI (a wholly-owned subsidiary acquired in April 2018), such increase was partly attributable to the fact that the Group tapped into more hospitals by virtue of 3D printing technology and its product performance was recognized by more hospitals and distributors, which enabled the sales growth of hip replacement implants. Meanwhile, as a higher sales proportion in the product portfolio came from the new products we launched during the previous period, the average selling unit price of hip replacement implants grew accordingly in 2018, which also boosted the revenue growth of hip replacement implants.

3D-printed products

Our 3D-Printed Products mainly include 3D-printed hip replacement implants, 3D-printed artificial vertebral bodies and spinal interbody cages. Our 3D-Printed Products recorded revenue of RMB69.9 million for the year ended 31 December 2018, representing an increase of 109.1% as compared with RMB33.4 million for the year ended 31 December 2017. Such increase was mainly due to the fact that our 3D-printed products were the only 3D-printed orthopedic products commercialized in China with relevant registration certificates. Upon their launch, such products have been highly recognized by the market and hence delivered such sales growth.

Third party orthopedic products

To enrich our product portfolio, we also distribute the orthopedic products produced by third parties. In 2018 and 2017, our revenue from distributing third party orthopedic products amounted to RMB11.9 million and RMB14.9 million, representing 2.0% and 4.0% of our revenue, respectively.

Domestic and Overseas Sales

Most of our revenue came from China with 14.6% of the revenue from overseas sales. A breakdown of our sales revenue from China and overseas is as follows:

	Year ended 31 December		
	2018	2017	Variance
	RMB'000	*RMB'000*	%
China	**513,130**	363,426	41.2%
United Kingdom	**43,944**	–	N/A
Other countries	**43,488**	9,274	368.9%
Total	**600,562**	372,700	61.1%

Cost of Sales

For the year ended 31 December 2018, our cost of sales was RMB191.7 million, representing an increase of 76.0% as compared with RMB108.9 million for the year ended 31 December 2017. The increase in cost of sales is in part due to the consolidation of financial statements of JRI, and in part due to the increase in our sales of hip and knee products and 3D-printed products.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. Our gross profit grew by 55.0% to RMB408.9 million for the year ended 31 December 2018 from RMB263.8 million for the year ended 31 December 2017. The increase in gross profit was primarily driven by the increase in our overall business scale.

Gross margin is calculated as gross profit divided by revenue. Our gross margin was 68.1% for the year ended 31 December 2018, down from 70.8% for the year ended 31 December 2017, which was primarily owing to the lower gross profit margin of JRI, the wholly-owned company acquired in this year.

Other Income, net

Other income, net for the year ended 31 December 2018 was RMB4.9 million, representing an increase of RMB2.2 million as compared with RMB2.7 million for the year ended 31 December 2017. The increase was mainly attributable to the increase in government grants.

Selling and Distribution Expenses

Selling and distribution expenses were RMB122.9 million for the year ended 31 December 2018, representing an increase of RMB72.5 million as compared with RMB50.4 million for the year ended 31 December 2017. On top of the sales expenses of RMB19.8 million caused by the merger of JRI, the increase was primarily due to (i) an increase in expenses incurred by external services, academic promotion and industry conferences; (ii) an increase in salary, benefits, transportation fees and travel expense as a result of an increasing number of sales personnel and (iii) an increase of various expenses such as the corresponding logistic expenses alongside with the expansion of business scale.

General and Administrative Expenses

General and administrative expenses amounted to RMB74.1 million for the year ended 31 December 2018, representing an increase of 31.8% as compared with RMB56.2 million for the year ended 31 December 2017, which was mainly due to the general and administrative expenses of RMB18.7 million incurred from the merger of JRI.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2018 was RMB45.6 million, representing an increase of 30.4% from RMB35.0 million for the year ended 31 December 2017. Such increase was mainly due to our on-going R&D of new products in 2018, and the increase in testing fees for registration of new products by ITI, our subsidiary.

Net Finance Income

Net finance income was RMB3.3 million for the year ended 31 December 2018, representing an increase of RMB2.8 million from RMB0.5 million for the year ended 31 December 2017. Such increase was primarily attributable to the increase in capital held by the Company in 2018 as compared with 2017, which generated extra interest income.

Income Tax Expenses

Income tax expense was RMB29.6 million for the year ended 31 December 2018, representing an increase of 47.8% as compared with RMB20.0 million for the year ended 31 December 2017. Such increase was primarily due to an increase in our profit before tax resulting from our 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 year ended 31 December 2018 also led to the increase in income tax.

Liquidity and Financial Resources

As of 31 December 2018, we had cash and cash equivalents of RMB421.1 million, as compared with RMB517.5 million as of 31 December 2017. 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

We had net current assets of RMB596.5 million as at 31 December 2018, representing an increase of RMB44.3 million as compared with RMB552.2 million as of 31 December 2017. Such increase primarily represents the proceeds from the operations of the Group.

Foreign Exchange Exposure

We are exposed to foreign currency risks, primarily through overseas 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 are primarily USD and Euro. For the year ended 31 December 2018, the Group recorded a net exchange loss of RMB1.9 million, as compared to an exchange loss of RMB0.6 million for the year ended 31 December 2017. So far, the Group has not had any significant hedging arrangements to manage foreign exchange risks but has been actively monitoring and overseeing its foreign exchange risks.

Capital Expenditure

For the year ended 31 December 2018, the Group's total capital expenditure amounted to approximately RMB86.2 million, which was primarily used in (i) construction of buildings; (ii) acquiring equipment and machinery; and (iii) the expenditure for R&D projects under the development stage.

Charge/Pledge of Assets

As of 31 December 2018, we did not have any charge of assets or pledge of assets.

Borrowings and Gearing Ratio

As of 31 December 2018, we did not have any outstanding bank loans or other borrowings. Accordingly, no gearing ratio is presented.

Contingent Liabilities

As of 31 December 2018, we did not have any material contingent liabilities (as of 31 December 2017: Nil).

Significant Investments

As of 31 December 2018, we did not hold any other significant investments in the equity interests of any other companies, except for the acquisition of JRI.

Future Plans for Material Investments and Capital Assets

As of 31 December 2018, we did not have other plans for material investments and capital assets, except for the construction of Changzhou Facilities as disclosed in the prospectus of the Company dated 7 December 2017 (the "**Prospectus**").

Employee and Remuneration Policy

As of 31 December 2018, the Group had 575 employees (31 December 2017: 345 employees). Total staff remuneration expenses including Directors' remuneration for the year ended 31 December 2018 amounted to RMB103.4 million (for the year ended 31 December 2017: RMB52.0 million). The increase of staff remuneration is mainly from the consolidation of JRI's expenses of RMB33.4 million. The addition of head count and cost of option plan also contributed to the increase.

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 HKD477.0 million. The net proceeds have been utilized in the manner consistent with that disclosed in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

The net proceeds from the initial public offering of the Company will be utilized in accordance with the purposes set out in the Prospectus. As of 31 December 2018, the Group applied the net proceeds for the following purposes.

	Percentage of total amount	**Use of proceeds in the same manner and proportion as stated in the Prospectus**	**Actual use of proceeds up to 31 December 2018**	**Balance as at 31 December 2018**
		(in millions of Hong Kong dollars)		
Construction of Changzhou Facilities and upgrade of our existing facilities	41%	195	92	103
Development and upgrade of our 3D-printed products and PTIP, funding the R&D of 3D-printed products	21%	100	32	68
For other R&D activities	15%	73	27	46
Funding potential acquisitions and developing strategic alliances	15%	73	73	–
For general corporate purposes	8%	36	36	–
Total	**100%**	**477**	260	217

Subsequent Event

As of the date of this announcement, the Group had no material events since 31 December 2018.

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 contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the year ended 31 December 2018 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 2018 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 2018.

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 during the year ended 31 December 2018 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 during the year ended 31 December 2018 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 2018.

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 2018 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 Monday, 17 June 2019. 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 cents per ordinary share for the year ended 31 December 2018 (2017: HKD3.5 cents) to the shareholders whose names appear on the register of members of the Company on Thursday, 4 July 2019. The final dividend, if approved by the shareholders of the Company at the AGM, will be payable on or around Monday, 15 July 2019.

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, 17 June 2019, the register of members of the Company will be closed from Wednesday, 12 June 2019 to Monday, 17 June 2019, 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, 11 June 2019.

(b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Tuesday, 2 July 2019 to Thursday, 4 July 2019, 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, 28 June 2019.

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 2018 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, 25 March 2019

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.