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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 2021**

The board (the “**Board**”) of directors (the “**Directors**”) of AK Medical Holdings Limited (the “**Company**”) announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2021, together with the comparative figures for the last year.

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2021	2020	Variance
	RMB'000	RMB'000	%
Revenue	761,441	1,035,386	-26.5%
Gross profit	499,189	714,532	-30.1%
Profit for the year	92,619	314,007	-70.5%
Profit for the year attributable to equity shareholders of the Company	92,619	314,007	-70.5%
Earnings per share			
Basic	RMB0.08	RMB0.28	
Diluted	RMB0.08	RMB0.28	

For the year ended 31 December 2021, the Group achieved revenue of RMB761.4 million, representing a decrease of 26.5% as compared to 2020. The decline in revenue was mainly attributable to the less purchase of joint implants by distributors (being the customers of the Group) for stock reduction and the provision of RMB103.8 million for the price discount of future sales in relation to certain specific joint implants due to the price decrease under the prevailing national joint implant volume-based procurement policy. Along with the decreasing revenue, profit of the Group for the year ended 31 December 2021 decreased significantly by 70.5% as compared to the year of 2020, which was primarily due to the decrease in revenue stated above, the increase in R&D and marketing expenses, and incurrance of or a one-off expenses due to the relocation of a wholly-owned subsidiary of the Group located in Beijing, China.

The Directors have resolved to recommend the payment of a final dividend of HK\$2.5 cents per share for the year ended 31 December 2021 (2020: HK\$4.0 cents per share).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2021

(Expressed in Renminbi)

	Note	Year ended 31 December	
		2021 RMB'000	2020 RMB'000
Revenue	3	761,441	1,035,386
Cost of sales		<u>(262,252)</u>	<u>(320,854)</u>
Gross profit		499,189	714,532
Other income, net	4	5,979	5,333
Selling and distribution expenses		(187,347)	(154,101)
General and administrative expenses		(105,316)	(83,016)
Impairment loss on goodwill		–	(8,848)
Research and development expenses		<u>(113,069)</u>	<u>(104,974)</u>
Operating profit		99,436	368,926
Net finance income		<u>9,123</u>	<u>7,681</u>
Profit before taxation	5	108,559	376,607
Income tax	6	<u>(15,940)</u>	<u>(62,600)</u>
Profit for the year		<u>92,619</u>	<u>314,007</u>
Profit attributable to equity shareholders of the Company		<u>92,619</u>	<u>314,007</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>(18,453)</u>	<u>(25,553)</u>
Other comprehensive income, net of tax		<u>(18,453)</u>	<u>(25,553)</u>
Total comprehensive income		<u>74,166</u>	<u>288,454</u>
Total comprehensive income attributable to equity shareholders of the Company		<u>74,166</u>	<u>288,454</u>
Earnings per share			
Basic	7(a)	RMB0.08	RMB0.28
Diluted	7(b)	RMB0.08	RMB0.28

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2021

(Expressed in Renminbi)

	<i>Note</i>	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment		382,401	364,339
Intangible assets		79,989	76,045
Goodwill		132,449	133,076
Deferred tax assets		76,074	50,625
		670,913	624,085
Current assets			
Inventories		423,068	360,711
Trade receivables	<i>9</i>	387,990	450,599
Bills receivable	<i>9</i>	142,458	101,892
Deposits, prepayments and other receivables		28,213	33,551
Other financial assets		365,528	188,402
Pledged deposits and time deposits		111,508	54,575
Cash and cash equivalents		475,606	713,091
		1,934,371	1,902,821
Current liabilities			
Trade payables	<i>10</i>	92,769	145,766
Contract liabilities		167,413	46,400
Accruals and other payables		166,779	172,177
Lease liabilities		10,952	11,413
Current taxation		51,522	42,082
		489,435	417,838
Net current assets		1,444,936	1,484,983
Total assets less current liabilities		2,115,849	2,109,068

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*at 31 December 2021**(Expressed in Renminbi)*

	<i>Note</i>	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Non-current liabilities			
Deferred income		12,351	12,026
Lease liabilities		30,607	15,435
Deferred tax liabilities		41,340	38,831
		<u>84,298</u>	<u>66,292</u>
NET ASSETS		<u>2,031,551</u>	<u>2,042,776</u>
CAPITAL AND RESERVES			
Share capital	<i>11</i>	9,453	9,451
Reserves		2,022,098	2,033,325
Total equity attributable to equity shareholders of the Company		<u>2,031,551</u>	<u>2,042,776</u>
TOTAL EQUITY		<u>2,031,551</u>	<u>2,042,776</u>

NOTES

(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 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 announcement 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”).

The IASB has issued certain amendments to 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 accounting periods reflected in these financial statements.

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

The consolidated 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 2021 comprise the Company and its subsidiaries.

The financial statements are prepared on the historical cost basis, except that other financial assets – investment in structured deposits and investments in unlisted equity instrument are stated at their fair value.

(c) Changes in accounting policies

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

- Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16, *Interest rate benchmark reform – phase 2*
- Amendments to IFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. In particular, the Group does not take advantage of the practice expedient available under the amendments to IFRS 16, *Covid-19-related rent concessions beyond 30 June 2021* on lease modifications.

3 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Hip replacement implants	469,493	676,806
– Knee replacement implants	167,385	258,068
– Spinal and trauma implants	79,320	69,295
– Customised products and services*	23,319	5,785
– Third party orthopedic products	1,536	8,556
– Others	20,388	16,876
	<u>761,441</u>	<u>1,035,386</u>

- * The Group reclassified the disaggregation by major products of service lines in 2021. The 3D-printed products disaggregated in 2020 has been reclassified into respective products and the customised products and services are disaggregated from 2021.

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

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue in 2021 (2020: nil).

(b) Segment reporting

The Group acquired JRI Orthopaedics Limited("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 segments based on geographical location: China and the UK. 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 of 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 members of the senior 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 2021 and 2020 is set out below.

	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2021	2020	2021	2020	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers	686,110	974,290	75,331	61,096	761,441	1,035,386
Inter-segment revenue	<u>1,296</u>	–	<u>50,285</u>	82,369	<u>51,581</u>	82,369
Reportable segment revenue	<u>687,406</u>	<u>974,290</u>	<u>125,616</u>	<u>143,465</u>	<u>813,022</u>	<u>1,117,755</u>
Reportable segment profit/(loss)	114,129	390,575	(3,875)	(11,149)	110,254	379,426
Interest income	8,992	12,959	–	–	8,992	12,959
Depreciation and amortisation for the year	61,354	47,088	12,804	13,433	74,158	60,521
Impairment loss on goodwill	–	–	–	8,848	–	8,848
Reportable segment assets	2,003,739	2,127,918	174,454	186,095	2,178,193	2,314,013
Additions to non-current assets during the year	102,676	179,027	3,429	4,155	106,105	183,182
Reportable segment liabilities	473,582	404,342	21,800	25,009	495,382	429,351

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue		
Reportable segment revenue	813,022	1,117,755
Elimination of inter-segment revenue	<u>(51,581)</u>	<u>(82,369)</u>
Consolidated revenue	<u>761,441</u>	<u>1,035,386</u>
Profit		
Reportable segment profit	110,254	379,426
Elimination of inter-segment profits	<u>(1,695)</u>	<u>(2,819)</u>
Consolidated profit before taxation	<u>108,559</u>	<u>376,607</u>
Assets		
Reportable segment assets	2,178,193	2,314,013
Elimination of inter-segment receivables	<u>(13,814)</u>	<u>(26,134)</u>
	2,164,379	2,287,879
Other financial assets	365,528	188,402
Deferred tax assets	<u>76,074</u>	<u>50,625</u>
Consolidated total assets	<u>2,605,981</u>	<u>2,526,906</u>
Liabilities		
Reportable segment liabilities	495,382	429,351
Elimination of inter-segment payables	<u>(13,814)</u>	<u>(26,134)</u>
	481,568	403,217
Current tax liabilities	51,522	42,082
Deferred tax liabilities	<u>41,340</u>	<u>38,831</u>
Consolidated total liabilities	<u>574,430</u>	<u>484,130</u>

(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.

	Revenue from external customers		Specified non-current assets	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
– China	631,131	932,256	539,275	506,523
– Other countries	130,310	103,130	55,564	66,937
	<u>761,441</u>	<u>1,035,386</u>	<u>594,839</u>	<u>573,460</u>

4 OTHER INCOME, NET

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Government grants	4,867	5,139
Others	1,112	194
	<u>5,979</u>	<u>5,333</u>

5 PROFIT BEFORE TAXATION

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

(a) Staff costs:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Salaries, wages and other benefits	189,134	162,850
Contribution to defined contribution retirement scheme	15,382	1,936
Equity settled share-based transactions	1,050	1,995
	<u>205,566</u>	<u>166,781</u>

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

(b) Other items

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost of Inventories*	276,214	334,791
Amortisation cost of intangible assets	12,512	10,626
Depreciation charge		
– owned property, plant and equipment	47,526	35,674
– right-of-use assets	14,120	14,221
	<u>61,646</u>	<u>49,895</u>
Credit losses (reversed)/recognised from trade and other receivables	(1,109)	2,528
Auditors' remuneration		
– Audit services	3,955	4,022

* Cost of inventories includes RMB94,174,000 in 2021 (2020: RMB75,722,000) relating to staff costs, depreciation and amortisation expenses, which are also included in the respective total amounts disclosed separately above.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current tax		
Provision for the year	38,203	57,279
Under/(over)-provision in respect of prior years	296	(1,548)
Deferred tax		
Origination and reversal of temporary differences	<u>(22,559)</u>	<u>6,869</u>
	<u>15,940</u>	<u>62,600</u>

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 2021 (2020: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2021 is 16.5% (2020: 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 2021 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 2021 are 25% (2020: 25%). According to the relevant PRC income tax law, the Company's subsidiaries, Beijing AKEC Medical Co., Ltd. ("AK Medical Beijing") and ITI Medical Co., Ltd. ("AK Medical Changzhou") were certified as New and High Technology Enterprises, and are entitled to a preferential income tax rate of 15%. The current certification of New and High Technology Enterprise held by AK Medical Beijing and AK Medical Changzhou will be expired on 21 October 2023 and 2 December 2023, respectively.

Taxation for subsidiaries operating mainly in the England and Wales were calculated at statutory enterprise income tax rate of 19% for 2021 (2020: 19%).

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 International Limited and Bright AK Limited, subsidiaries of the Company are subject to PRC dividend withholding tax at 10% on dividends receivables from their PRC subsidiaries.

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

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	108,559	376,607
Notional tax of PRC statutory tax rate of 25%	27,140	94,152
Effect of PRC preferential tax rate	(13,850)	(37,922)
Effect of lower tax rates in other countries	232	(1,267)
Effect of non-deductible expenses	3,555	3,789
Effect of unused tax losses not recognised	5,122	2,537
Effect of additional deduction on research and development expenses *	(10,613)	(7,108)
PRC dividend withholding tax	4,058	9,967
Under/(over)-provision in respect of prior years	296	(1,548)
Actual tax expenses	<u>15,940</u>	<u>62,600</u>

* According to the relevant PRC income tax law, certain research and development costs of PRC subsidiaries are qualified for 100% (2020: 75%) 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 RMB92,619,000 (2020: RMB314,007,000) and the weighted average number of issued ordinary shares of 1,112,820,000 (2020: 1,102,187,000 shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2021	2020
Issued ordinary shares at 1 January	1,115,500,000	1,052,700,000
Effect of issuance of new shares	–	44,290,984
Effect of issue of shares under the Company's share option scheme	29,589	5,196,107
Effect of shares held for share award scheme	(2,709,112)	–
Weighted average number of ordinary shares at 31 December	<u>1,112,820,477</u>	<u>1,102,187,091</u>

(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 RMB92,619,000 (2020: RMB314,007,000) and the weighted average number of issued ordinary shares of 1,120,594,000 (2020: 1,107,166,000 shares) after adjusting the effects of dilutive potential ordinary shares during the year, as follows:

Weighted average number of ordinary shares (diluted)

	2021	2020
Weighted average number of ordinary shares at 31 December	1,112,820,477	1,102,187,091
Effect of deemed issue of shares under the Company's share option scheme	<u>7,773,657</u>	<u>4,978,744</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>1,120,594,134</u></u>	<u><u>1,107,165,835</u></u>

8 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Final dividend proposed after the end of the reporting period of HK\$2.5 cents per ordinary share (2020: HK\$4.0 cents per ordinary share)	<u><u>22,805</u></u>	<u><u>37,552</u></u>

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.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$4.0 cents per ordinary share (2020: HK\$7.5 cents per ordinary share)	<u><u>36,694</u></u>	<u><u>75,382</u></u>

9 BILLS RECEIVABLE/TRADE RECEIVABLES

	31 December 2021 RMB'000	31 December 2020 RMB'000
Bills receivable	<u>142,458</u>	<u>101,892</u>
Trade receivables	408,793	472,511
Less: allowance for credit loss	<u>(20,803)</u>	<u>(21,912)</u>
	<u>387,990</u>	<u>450,599</u>

Ageing analysis

Bills receivable are bank acceptance bill received from customers, with expiration dates within 12 months.

As at 31 December 2021, the ageing analysis of trade receivables 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	
	2021 RMB'000	2020 RMB'000
Current to 3 months	239,330	337,945
3 to 6 months	10,877	42,232
6 to 12 months	90,666	41,736
Over 12 months	<u>47,117</u>	<u>28,686</u>
	<u>387,990</u>	<u>450,599</u>

The credit terms agreed with customers were normally ranged from 1 month to 1 year (2020: 1 month to 1 year) from the date of billing. No interest is charged on the trade receivables.

10 TRADE PAYABLES

As at 31 December 2021, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	72,240	127,532
3 to 6 months	13,253	15,689
6 to 12 months	1,709	857
1 year to 2 years	4,377	20
Over 2 years	1,190	1,668
	92,769	145,766

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

11 SHARE CAPITAL

	2021		2020	
	No. of shares	Amount <i>RMB'000</i>	No. of shares	Amount <i>RMB'000</i>
Authorised-ordinary shares of HK\$0.01 each:				
At 1 January and 31 December	20,000,000,000	168,981	20,000,000,000	168,981
Ordinary shares, issued and fully paid:				
At 1 January	1,115,500,000	9,451	1,052,700,000	8,888
Issuance of new shares	–	–	53,500,000	479
Shares issued under share option scheme	200,000	2	9,300,000	84
At 31 December	1,115,700,000	9,453	1,115,500,000	9,451

The holders of ordinary shares as at 31 December 2021 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

Business Overview

2021 was a year full of changes and challenges for us. The macroeconomic environment and industry policies posed great difficulties and challenges to the whole orthopedics industry.

The COVID-19 pandemic continued its adverse impact on the industry. Despite a little improvement in the pandemic situation and most hospitals therefore resumed performing operations, COVID-19 came back in many places occasionally, with the control policy further tightened. As a result, the volume of surgeries in hospitals was once again negatively affected.

In terms of industry policies, the reform of medical system was further deepened, and volume-based procurement (“VBP”) became a norm in the medical device industry. In 2021, the National Healthcare Security Administration (“NHSA”) conducted VBP on joint implants nationwide. As a result, the retail price for products covered by VBP dropped sharply, exerting a significant impact on the industry.

However, after the introduction of VBP on joint implants nationwide, the industry is developing in a gradually clear direction, and the competition landscape will be reshaped in the next few years. The R&D and innovation ability, as well as the ability to develop new products and technologies in a sustained way, will play a more important role in the future competition. The Group keeps improving its R&D capabilities. In 2021, we have successfully launched three new products based on 3D printing technology and were awarded the First Prize for Beijing Science and Technology Progress.

Despite the uncertainty of the external environment, the Group still responded in an active and flexible manner with its abundant product lines and strong R&D ability. All its three brands of products won the bid in the nationwide VBP and obtained the largest volume of operations, which helps the Group maintain its leading position in the orthopedics industry. Although the number of surgeries was still stable, as of December 31, 2021, the Group recorded sales revenue of RMB761.4 million, and net profit of RMB92.6 million, representing a decrease of 26.5% and 70.5% respectively compared to the previous year due to the less purchase from distributors and making provision of RMB103.8 million for the price discount under the expectation of price drop.

Industry Policies

In recent years, the ever-changing industry policies have been attracting the attention of all stakeholders in the industry, and have also brought uncertainties and challenges to the operation and business development of the Group. The Group will conduct thorough analysis on the industry policies promulgated by the Chinese government for the purpose of getting a better understanding of the national planning in respect of the industry. The Group will closely monitor the industry development and new policies promulgated so as to formulate appropriate business development strategies to maintain its leading position in the industry.

In November 2020, the NHSA conducted the first nationwide VBP on high-value medical consumables, namely the coronary stents. At the same time, the NHSA conducted the pilot VBP on joint implants at the provincial level. In June 2021, on the basis of the pilot VBP on joint implants at the provincial level and the rules of coronary stents, the NHSA announced nationwide VBP on joint implants, and completed the bidding process for VBP in September 2021. The retail price of all selected products decreased by 82%, averagely.

This round of nationwide VBP on joint implants mainly involved primary artificial total hip system and primary artificial total knee system. In 2022, approximately 306,000 pieces of the three product lines of primary hip system will be purchased according to the procurement contract while approximately 232,000 pieces of knee system will be purchased, totaled 538,000. The procurement cycle will last for two years, and the purchase volume for the second year will not be less than that for the first year in principle.

During the process of VBP, all the three brands and four product lines owned by the Group won the bidding, and ranked first among all brands involved in terms of the volume of operations demanded by hospitals. The products of our Group covered by the VBP will be procured by more than 90% of key provincial and municipal hospitals participating in VBP, further increasing the number of hospitals the Group covered. In the past, key provincial and municipal hospitals mainly purchased imported products. These hospitals operate a large number of surgeries and require high technical standard for products. The Group will expand the market share of joint implants leveraging on its products and technical advantages through cooperating with these hospitals under nationwide VBP.

With the orderly centralized purchasing of joint implants, the market scale may fluctuate in the short term, but in the long run, it will promote the steady development of the whole industry. On the one hand, small brands without scale of economy will gradually phase out which will accelerate the industrial consolidation, so that the leading brands will further expand their market share; on the other hand, price drop will reduce the burden on patients and promote their demand for surgery, thereby increasing the market scale throughout the industry. Import substitution will also speed up as the imported brands will no longer enjoy favourable prices.

In July 2021, Henan Province organized alliance purchasing of medical consumables for orthopedic trauma treatment among twelve provinces/autonomous regions/municipalities, and the price of the selected products dropped by 88.7%, averagely. With the increasingly normalized VBP of drugs and high-value consumables, the VBP on products for spinal surgery and trauma treatment is also expected to be carried out nationwide in 2022.

Hip and Knee Impants Business

In 2021, the Group reclassified its product lines. The hip and knee implants under this section include those manufactured by regular technology and those by 3D printing technology. The Group provides customers and patients with a full line of joint implants manufactured by different technologies, including hip and knee implants and instruments suitable for primary, complicated, revision, and reconstructive surgeries.

Considering the expectation that nationwide VBP might lead to a decline in the retail price, the distributors, the main customers of the Group, mainly consumed their own inventory and therefore reducing the purchase. In 2021, the Group made a provision of RMB103.8 million for the price discount of future sales in relation to certain specific primary hip and knee systems, which further resulted in the decrease of revenue. In 2021, the Group's income from hip and knee implants was RMB636.9 million, a year-on-year decrease of 31.9%.

Spinal and Trauma Implants Business

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

In 2021, the combination of regular spine products with 3D printing products helped surgeons solve clinical problems, which facilitated the Group's products to penetrate into many well-known Class III A hospitals.

In 2021, the Group's income from spinal and trauma implant reached RMB79.3 million, a year-on-year increase of 14.5%.

Customised Products and Services

The customised product is an orthopedic implant manufactured by patient matching design and 3D printing technology based on different patients' differentiated lesions and pathological characteristics. At present, the Group has two Class-III 3D-printed customised products registration certificates approved by the China National Medical Products Administration ("NMPA"), as well as 28 customised products filings with cooperating hospitals.

With the aid of Innovative Customised Orthopedic Solution ("ICOS"), as well as its advantages in 3D printing and image processing, the Group is committed to building an innovative orthopedic customization platform. On the platform, the Group will offer both services and products including preoperative planning, bone model printing, customised vetting guide, 3D-printed customised implants, etc., covering joint, spine, trauma, bone tumor, etc. Moreover, relying on this platform, the Group will cooperate with hospitals nationwide to develop and establish 3D-printed customised orthopedics workstations to promote the R&D, registration and popularisation of relevant customised products. At present, the Group has established cooperation with top Class III A hospitals, such as Beijing Jishuitan Hospital, Peking University Third Hospital and Peking University People's Hospital.

In 2021, the Group's income from customised product and services reached RMB23.3 million, a year-on-year increase of 303.1%.

Research and Development

As a company with research and development (“R&D”) as its core driving force, despite the uncertainty of the external environment, the Group still continuously increases its investment in R&D and improves its R&D capabilities.

In 2021, AK Medical Beijing, a subsidiary of the Group, obtained three Class-III medical devices registration certificate approved by the NMPA, including 3D-printed artificial total knee system, 3D-printed porous interbody cage, and 3D-printed porous artificial vertebral body. As of December 31, 2021, AK Medical Beijing had 39 registration certificates for Class-III medical devices approved by NMPA, 4 CE certificates approved by European regulatory agencies, and one certificate approved by FDA. The Group’s affiliate, Changzhou ITI Medical Co. Ltd., had 7 registration certificates for Class-III medical devices approved by NMPA, while Libeier had 15 registration certificates for Class-III medical devices approved by NMPA. JRI had 9 CE certificates approved by European regulatory agencies and 2 registration certificates for Class-III medical devices approved by NMPA.

Our R&D strategy has also been adjusted according to the industry policies. With our advantages in 3D printing technology, we are more focusing on innovative technologies and products that meet clinical needs.

In 2021, we launched a new product specially suitable for the treatment of early-stage femoral head necrosis. The bone trabecula-like porous structure of the prosthesis formed by 3D printing technology can induce new bone ingrowth, thus achieving self-hip reservation. We also launched TMK knee prosthesis system, which can provide different solutions for knee replacement with the help of 3D technology, such as primary, complicated and revision surgery. Especially, it can be used to treat different degrees of bone defects during surgery, thus strengthening our technical advantages in revision cases and cases with bone defects. We have also made arrangements in the field of digital orthopedic technology.

As of December 31, 2021, the Group had 100 invention patents, 313 utility patents and 10 authorized PCT patents. Our project “establishment, popularization and application of new diagnosis and treatment technology for hip and knee replacement” was awarded the First Prize for Beijing Science and Technology Progress, reflecting the Group’s ability of continuous innovation in R&D.

Sales and Marketing

Joint products

In 2021, the Group continued to implement the “Master Plan” with the aim of building a 3D platform composed of an innovative product platform, a superior technology platform and a customer platform. We promoted surgeon education programs around new products, new technologies and new surgical operations, built academic exchange platforms at different levels in different training directions, and have systematically published a series of academic articles based on this platform to build an academic highland.

At the product level, the Group, as a leader in the 3D printing orthopedic industry, launched:

- 1) 3D customization platform. 3D-printed implant customization was filed with national top hospitals such as the Beijing Jishuitan Hospital, Peking University Third Hospital, Peking University People's Hospital, and Shandong Provincial Hospital. Meanwhile, the corresponding products were introduced into these hospitals. Customised products cover joints, spine, trauma, bone tumors, extremities and other parts of the body, which helps the surgeons treat patients with higher level of precision. Also, personalized solutions are provided for patients to improve the clinical efficacy.
- 2) 3D metal printing Ring - fix acetabular component system. Leveraging on the expertise of the Group in overall hip treatment, the creative restrictive lining design has remarkable effects on patients with high risk of dislocation due to neuromuscular disorders, past dislocation history or myasthenia gravis.
- 3) Orthopedic hip reservation product – 3D-printed AVN Cage product, filling the gap of 3D-printed metal hip reservation products worldwide. The launch of this product means that the Group has further expanded its overall solution, providing an active treatment scheme and prosthesis for patients with early stage of Avascular Necrosis. Before the product was officially launched nationwide, we made a single-center follow-up study in Beijing Jishuitan Hospital, where more than 100 patients were successfully implanted with the product, with a three-year survival rate of 99%.
- 4) China's first 3D-printed biological knee system registration certificate, 3D ACT – NewBone™ System (“NBS”), a knee revision system with segments to solve various problems of bone defects more conveniently. At present, the Group is the only company in China providing all kinds of knee products including primary, complex, regular revision, 3D-printed revision, and bone tumor products, further expanding its advantages in knee products.

Academic Platform:

- 1) An academic platform for surgeons has been built for cooperating with top experts in China. As for the Group products, a number of high-quality articles have been published in core journals both domestically and abroad, including The Journal of Bone and Joint Surgery, Clinical Orthopaedics and Related Research, Journal of the Chinese Medical Association, and Orthopedic Journal of China, further enhancing the academic high ground of the Company.
- 2) Relying on the 3D ACT platform, the Group has established 3D printing customization centers nationwide. Six national customization centers have been built to actively cooperate with key experts in promoting the establishment of “3D Printing Technology Expert Consensus” and “Technical Guidelines for 3D Printing”;

- 3) In 2021, leveraging on the “Master Plan” platform, the Group has launched a number of online and offline academic activities surrounding the promotion of hip and knee revision products and training on the minimally invasive technology platform with the focus on the professional upgrading needs of doctors, and has established eight provincial level training centres, accumulatively covering approximately 1,300 key hospitals and 100,000 trainees.

Spinal and trauma products:

The implementation of the 3D spinal fusion centre programme is an important strategy for AK-Libeier brand and has far-reaching strategic significance in promoting the market expansion and exploration of 3D spinal and Libeier internal fixation technology. Such programme consists of the establishment of a series of fusion centres. Five Class III A hospitals have been established nationwide as customisation Centre for in-depth collaboration with clinical experts to promote the development of 3D printing customised products and technology, which is expected to drive the volume of customised implantations, leveraging the leading edge of 3D printing customisation to solve clinical challenges.

Outlook

Despite the change of industry policies, the Group, a leader in China’s orthopedics industry, will make strategic adjustments in due course to actively respond to the changing external environment, including but not limited to:

1. With its advantages in 3D printing customization technology, the Group can expand its market share in the middle and high-end markets and strengthen its image as an orthopedic innovation practitioner

3D printing technology has always been one of the core advantages of the Group, and we are also the only Chinese enterprise with registration certificates for 3D-printed customised products. As surgeons and patients have increasingly higher requirements and growing specific needs, customised products will have wider applications. The nationwide VBP held in 2021 helped domestic brands penetrate into more hospitals, especially middle and high-end Class III A hospitals. We will seize this opportunity to take advantage of 3D printing technology to strengthen our cooperation with hospitals and further expand our market share in the middle and high-end markets.

2. The Group will consolidate the distribution channel advantages and its leading position in the mass market

As a Chinese brand with a long history, we have formed a wide-ranging sales network. In the nationwide VBP, relying on the advantages of our products and network, we ranked first among all brands in terms of volume of operations demanded by hospitals. As VBP is carried out, the retail prices of some joint products will drop sharply, thereby increasing the surgical needs of patients and promoting the popularization of primary joint replacement surgery. We will further consolidate our leading position in the mass market by virtue of our own channel advantage.

- The Group will strengthen its R&D capabilities to continuously launch innovative technologies and products

In the context of VBP, traditional products will be under strict price control, while only real innovative technologies and products will enjoy a price premium. As a company with R&D as its core driving force, we will further strengthen our R&D capabilities, leveraging on the advantage of localized R&D capability to continuously launch real innovative products that can be used to solve clinical problems. In the future, we will gradually increase the proportion of innovative products in our overall product portfolio to help the Group improve its profitability.

- The Group will improve its corporate governance and strengthen internal control to cope with the ever-changing external environment

Some challenges have been posed to the corporate governance over the past few years owing to fluctuation of industry policies. The external regulators are gradually increasing their requirements for corporate governance and compliance. The Group will actively communicate with all stakeholders, recruit talented personnel, improve its internal control level so as to maintain stable business operation and sustainable growth in the ever-changing external environment.

FINANCIAL REVIEW

Overview

	Year ended 31 December		Variance %
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	
Revenue	761,441	1,035,386	-26.5%
Gross profit	499,189	714,532	-30.1%
Profit for the year	92,619	314,007	-70.5%
Profit for the year attributable to equity shareholders of the Company	92,619	314,007	-70.5%
Earnings per share			
Basic	RMB0.08	RMB0.28	
Diluted	RMB0.08	RMB0.28	

For the year ended 31 December 2021, the Group achieved revenue of RMB761.4 million, representing a decrease of 26.5% as compared to 2020. The decline in revenue was mainly attributed to the fall in the purchase of joint implants by distributors caused by the expected drop in price under the prevailing nationwide VBP of joint implants as well as making provision of RMB103.8 million for price discount of future sales in relation to certain specific joint implants.

In 2021, due to the impact of VBP on joint implants, distributors reduced their procurement of primary joint implants, thus causing significant negative impact on the revenue derived from primary joint implants. Riding on active marketing initiatives and effective promotion in the hospitals, the Company successfully tapped into more new hospitals in 2021, resulting in a relatively stable implantations for surgery. Meanwhile, the Company established its brand image by making good use of 3D printing technology and 3D ACT platform. The Company also introduced its ICOS products and surgical value-added services to multiple hospitals, which recorded a sharp increase of 303.1% in revenue. By actively exploring and penetrating into overseas markets, the Company's overseas sales business has grown 26.4% as compared to 2020.

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

Revenue

	Year ended 31 December		
	2021	2020	Variance
	<i>RMB'000</i>	<i>RMB'000</i>	%
Hip replacement implants ⁽¹⁾	469,493	676,806	-30.6%
Knee replacement implants ⁽²⁾	167,385	258,068	-35.1%
Spinal and trauma implants ⁽³⁾	79,320	69,295	14.5%
Customised products and services ⁽⁴⁾	23,319	5,785	303.1%
Third party orthopedic products	1,536	8,556	-82.0%
Others ⁽⁵⁾	20,388	16,876	20.8%
	<hr/>	<hr/>	<hr/>
Total	<u>761,441</u>	<u>1,035,386</u>	<u>-26.5%</u>

Notes:

- (1) Including 3D-printed hip replacement implants;
- (2) Including 3D-printed knee replacement implants;
- (3) Including 3D-printed spinal and trauma implants;
- (4) Including customised joint, pelvis and spinal and trauma implants and also customised surgical value-added service;
- (5) Others primarily include surgical instruments and medical irrigators.

The revenue of the Group amounted to RMB761.4 million for the year ended 31 December 2021, representing a decrease of 26.5% as compared with RMB1,035.4 million for the year ended 31 December 2020. The decline in revenue was mainly attributable to the fall in the purchase of joint implants by distributors caused by the expected drop in price under the prevailing nationwide VBP on joint implants as well as making provision for price discount of future sales in relation to certain specific joint implants. In 2021, due to the impact of VBP on joint implants, distributors reduced their procurement of primary joint products, thus causing significant impact to the revenue derived from primary joint products. Apart from the sales of primary joints, which was more affected by VBP, the spinal and trauma products marked growth of 14.5% as compared with 2020. In 2021, the customised products and surgical value-added services recorded a remarkable growth rate of 303.1% thus achieving revenue at RMB23.3 million.

Hip and Knee Implants Products

Our hip and knee replacement implants products include regular knee implants and hip implants as well as 3D-printed standardised hip and knee replacement implants. For the year ended 31 December 2021, hip implants registered a revenue of RMB469.5 million, representing a drop of 30.6% as compared to that of RMB676.8 million for the year ended 31 December 2020. For the year ended 31 December 2021, knee implants registered a revenue of RMB167.4 million, representing a drop of 35.1% as compared to that of RMB258.1 million for the year ended 31 December 2020. The drop in revenue of hip and knee implants was mainly attributable to the fall in the purchase of primary joint implants by distributors caused by the expected drop in price under the aforesaid VBP on joint implants and making a provision of RMB103.8 million for price discount of future sales in relation to primary joint products, in spite of the stable volume of implantations in the hospitals.

Spinal and Trauma Implants Products

Our spinal and trauma implants products include regular spinal implants and trauma implants, which are under the Libeier brand, as well as 3D-printed spinal implants. For the year ended 31 December 2021, our spinal and trauma implants products registered a revenue of RMB79.3 million, representing an increase of 14.5% as compared to that of RMB69.3 million for the year ended 31 December 2020. In 2021, the revenue from trauma products declines due to the VBP of alliance of 12 provinces on trauma products, while the Company's sales of spinal products expanded through the innovation and excellent function of 3D printing technology.

Customised products and services

Customised products and services include customised joint, pelvis, spinal and trauma implants products as well as customised surgical value-added services. In 2021, the Group enhanced the promotion of customised surgery and surgical value-added services, and successfully penetrated into a few Class III A hospitals, recorded significant growth of 303.1% in revenue from customised products and services.

Third Party Orthopedic Products

To enrich the Group's product portfolio, the Group also distributes orthopedic products produced by third parties. In 2021 and 2020, the Group's revenue from distributing third party orthopedic products amounted to RMB1.5 million and RMB8.6 million, representing 0.2% and 0.8% of its revenue, respectively. As the Group's own-brand product lines become more extensive, the proportion of the Group's revenue deriving from distributing third party orthopedic products has continued to decline.

Domestic and Overseas Sales

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

	Year ended 31 December		
	2021	2020	Variance
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
China	631,131	932,256	-32.3%
Other Countries	130,310	103,130	26.4%
Total	761,441	1,035,386	-26.5%

The sales revenue derived from the overseas for the year ended 31 December 2021 was approximately RMB130.3 million, representing an increase of 26.4% as compared with last year; this was mainly due to an increase in the number of surgeries resulted from the active exploration in overseas markets by the Company. The revenue from China for the year ended 31 December 2021 was RMB631.1 million, representing a decrease of 32.3% as compared to last year. This was mainly affected by the fall in the purchase of joint implants by distributors caused by the expected drop in price under the prevailing VBP on joint implants and making provision of RMB103.8 million for price discount of future sales in relation to certain specific joint products.

Cost of Sales

For the year ended 31 December 2021, the Group's cost of sales was RMB262.3 million, representing a decrease of 18.3% as compared with RMB320.9 million for the year ended 31 December 2020. The decrease in cost of sales was primarily due to a decrease in sales volume of the Group's products.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. The Group's gross profit decreased by 30.1% to RMB499.2 million for the year ended 31 December 2021 from RMB714.5 million for the year ended 31 December 2020. The decrease in gross profit was primarily driven by the decrease in the Group's revenue and the aforesaid provision of RMB103.8 million for price discount. The gross margin for the year ended 31 December 2021 was 65.6%, lower than that of 69.0% for the year ended 31 December 2020 due to the provision for price discount, in spite of the decrease in procurement cost of main raw materials.

Other Income, net

The Group's other income for the year ended 31 December 2021 was RMB6.0 million, representing an increase of RMB0.7 million as compared with RMB5.3 million for the year ended 31 December 2020. Other income in 2021 was primarily from government grants and subsidy for research and development projects.

Selling and Distribution Expenses

Selling and distribution expenses were RMB187.3 million for the year ended 31 December 2021, representing an increase of 21.6% as compared with RMB154.1 million for the year ended 31 December 2020. The increase was primarily due to the suspension of market activities in 2020 as a result of the pandemic and the reduction or waiver of certain social insurance payments to employees by the Chinese government. In 2021, as the pandemic subsidies and market activity resumes, the Company actively carried out marketing activities and promotions for customised and revision products as well as product trainings, thus relevant marketing expenses, travelling cost and the remuneration and social insurance payment for employees increased.

General and Administrative Expenses

General and administrative expenses amounted to RMB105.3 million for the year ended 31 December 2021, representing an increase of 26.9% as compared with RMB83.0 million for the year ended 31 December 2020. The increase was mainly due to the relocation of Libeier and therefore generated a one-off relocation expenses. Meanwhile, the social insurance payment for the management and charity donation increased.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2021 was RMB113.1 million, representing an increase of 7.7% as compared with RMB105.0 million for the year ended 31 December 2020. The increase was mainly due to the increase in labor costs for R&D staff and R&D materials as a result of the carrying out of innovative R&D projects, such as digital orthopaedic technology, and further R&D team building.

Net Finance Income

Net finance income was RMB9.1 million for the year ended 31 December 2021, representing an increase of RMB1.4 million from RMB7.7 million for the year ended 31 December 2020. Such increase was primarily attributable to the increase in the exchange gain in 2021.

Income Tax Expenses

Income tax expense was RMB15.9 million for the year ended 31 December 2021, representing a decrease of 74.5% as compared with RMB62.6 million for the year ended 31 December 2020. Such decrease was primarily attributable to the decline in profit before tax resulted from the combined effect of revenue decrease and expense increase. Meanwhile, in 2021, the additional tax deduction ratio on R&D costs increased from 75% to 100% in accordance with the national policy, and the Company further benefited from income tax incentives.

Liquidity and Financial Resources

As at 31 December 2021, the Group had cash and cash equivalents of RMB475.6 million, structured deposit of RMB361.2 million, time deposits over 3 months of RMB106.5 million and import tariff monthly settlement deposit of RMB5.0 million, amounting to RMB948.3 million in aggregate, as compared with RMB956.1 million as at 31 December 2020. The Board's approach to manage the liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities so as to avoid any unacceptable losses or damage to the Group's reputation.

Net Current Assets

The Group had net current assets of RMB1,444.9 million as at 31 December 2021, representing a decrease of RMB40.1 million as compared with RMB1,485.0 million as of 31 December 2020. Such decrease primarily represents the proceeds from the operations of the Group and comprehensive impact of provision for price discount.

Foreign Exchange Exposure

The Group's principal business is located in China, and it is exposed to foreign currency risks, primarily including account receivables, account payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transaction relates generating from overseas sales and purchases. The currencies giving rise to this risk are primarily US\$ and Euro. For the year ended 31 December 2021, the Group recorded an exchange gain of RMB1.7 million, as compared with an exchange loss of RMB4.0 million for the year ended 31 December 2020. So far, the Group has not had any hedging arrangements to manage foreign exchange risks but has been actively monitoring and overseeing its foreign exchange risks.

Capital Expenditure

For the year ended 31 December 2021, the Group's total capital expenditure amounted to approximately RMB106.1 million (as of 31 December 2020: RMB100.3 million), which was primarily used in (i) procurement of equipment, machinery, and software for manufacturing and R&D activities; (ii) purchase of patents; and (iii) purchase of land.

Charge of Assets/Pledge of Assets

As of 31 December 2021, the Group pledged a deposit of RMB5.0 million in the margin account to obtain the monthly settlement qualification of relevant tax for import and export operations incurred by the PRC Customs. Other than that, the Group did not have any charge of assets or pledge of assets.

Borrowings and Gearing Ratio

As of 31 December 2021, the Group did not have any outstanding bank loans or other borrowings. Gearing ratio represents the percentage of bank borrowings to total equity. As of 31 December 2021, the gearing ratio of the Group was nil (as of 31 December 2020: nil).

Contingent Liabilities

As of 31 December 2021, the Group did not have any material contingent liabilities (as of 31 December 2020: Nil).

Significant Investments

As of 31 December 2021, the Group did not hold any significant investments in any other equity interests.

Future Plans for Material Investments and Capital Assets

As of 31 December 2021, the Group plans to acquire approximately 50 acres of land in Changping New Town East District for the integration of offices in different locations to improve the operational efficiency. The project is expected to start construction in 2022 and be completed in 2025. The project cost is approximately RMB300.0 million. As of the date of this announcement, the land payment had been settled.

Employee and Remuneration Policy

As of 31 December 2021, the Group had 908 employees (31 December 2020: 1,019 employees). Total staff remuneration expenses including Directors' remuneration for the year ended 31 December 2021 amounted to RMB204.5 million (for the year ended 31 December 2020: RMB164.8 million). The increase in staff remuneration was primary due to the increase in social insurance payment for employees. Under the impact of pandemic, in 2020, the Chinese government had reduced or waived some of the social insurance payments for employees. Meanwhile, Libeier, had wholly relocated in 2021 and thus generated a one-off dismissal compensation expenses. 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. The Group also provides trainings to the employees from time to time to enhance their knowledge and skills.

Use of Proceeds from Initial Public Offering

The net proceeds from the initial public offering of the Company were approximately HK\$477.0 million. The net proceeds were used in the manner consistent with that disclosed in the prospectus of the Company dated 7 December 2017 under the section headed "Future Plans and Use of Proceeds" and there was no material change in the use of proceeds. The amount has been totally used as at 31 December 2020.

Use of Proceeds from placement and top-up subscription

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

The Group received total net proceeds of approximately HK\$783.9 million from the top-up subscription, a portion of which was used for the acquisition of Libeier (being approximately HK\$313.6 million) and as general working capital of the Group (being approximately HK\$350.5 million). Up to the date of this announcement, the net proceeds had not been fully utilised by the Group. It is expected that the remaining proceeds (being approximately HK\$119.8 million) will be used for strategic acquisition investment (if any) and/or general working capital of the Group by 31 December 2022. There is no material change in the case of proceeds as previously disclosed.

Subsequent Event

As of date of this announcement, the Group had no material events since 31 December 2021.

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 2021 and up to the date of this announcement, with the exception of code provision A.2.1 (which has been renumbered as code provision C.2.1 since 1 January 2022).

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 Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been compared by the Group'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 2021.

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 had fully complied with the Model Code for transactions in the Company’s securities during the year ended 31 December 2021 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 2021 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 2021.

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 2021 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 Wednesday, 15 June 2022. A notice convening the AGM will be published and despatched to the shareholders in the manner required by the Listing Rules in due course.

FINAL DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK\$2.5 cents per ordinary share for the year ended 31 December 2021 (2020: HK\$4.0 cents) to the shareholders whose names appear on the register of members of the Company on Thursday, 23 June 2022. The final dividend, if approved by the shareholders of the Company at the AGM, will be payable on or around Wednesday, 13 July 2022.

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 Wednesday, 15 June 2022, the register of members of the Company will be closed from Friday, 10 June 2022 to Wednesday, 15 June 2022, 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, Link Market Services (Hong Kong) Pty Ltd. at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Thursday, 9 June 2022.
- (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, 21 June 2022 to Thursday, 23 June 2022, 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, Link Market Services (Hong Kong) Pty Ltd. at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Monday, 20 June 2022.

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 2021 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, 24 March 2022

As at the date of this announcement, the Board comprises Mr. Li Zhijiang, Ms. Zhang Bin, Mr. Zhang Chaoyang and Ms. Zhao Xiaohong as executive Directors, Dr. Wang David Guowei as non-executive Director, and Mr. Kong Chi Mo, Dr. Li Shu Wing David and Mr. Eric Wang as independent non-executive Directors.