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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 2022

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 2022, together with the comparative figures for the last year.

#### FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2022	2021	Variance
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Revenue	<b>1,052,047</b>	761,441	38.2%
Gross profit	<b>636,435</b>	499,189	27.5%
Profit for the year	<b>204,772</b>	92,619	121.1%
Profit for the year attributable to equity shareholders of the Company	<b>204,772</b>	92,619	121.1%
<b>Earnings per share</b>			
Basic	<b>RMB0.18</b>	RMB0.08	
Diluted	<b>RMB0.18</b>	RMB0.08	

For the year ended 31 December 2022, the Group achieved revenue of RMB1,052.0 million, representing an increase of 38.2% as compared to 2021. The growth in revenue was mainly attributable to the accelerated import substitution as a result of the volume-based procurement (“**VBP**”) policy implemented in China since April 2022 and the strong demand for the Group’s products from hospitals. At the same time, the extensive product lines of the Group effectively met the needs of the differentiated market, further contributing to the growth in sales revenue. For the year ended 31 December 2022, the Group achieved a net profit of RMB204.8 million, representing a significant increase of 121.1% as compared to the year of 2021, which was primarily due to the growth in revenue stated above, coupled with relatively stable cost and expenses by taking effective cost control measures.

The Directors have resolved to recommend the payment of a final dividend of HK\$6.0 cents per share for the year ended 31 December 2022.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2022

(Expressed in Renminbi)

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
<b>Revenue</b>	3	1,052,047	761,441
Cost of sales		<u>(415,612)</u>	<u>(262,252)</u>
<b>Gross profit</b>		<b>636,435</b>	499,189
Other income, net	4	11,193	5,979
Selling and distribution expenses		(180,107)	(187,347)
General and administrative expenses		(118,313)	(105,316)
Research and development expenses		(110,865)	(113,069)
Impairment loss on goodwill		<u>(18,360)</u>	<u>–</u>
<b>Operating profit</b>		<b>219,983</b>	99,436
Net finance income		<u>20,307</u>	<u>9,123</u>
<b>Profit before taxation</b>	5	<b>240,290</b>	108,559
Income tax	6	<u>(35,518)</u>	<u>(15,940)</u>
<b>Profit for the year</b>		<u><b>204,772</b></u>	<u>92,619</u>
<b>Profit attributable to equity shareholders of the Company</b>		<u><b>204,772</b></u>	<u>92,619</u>
<b>Other comprehensive income</b>			
<b>Item that is or may be reclassified subsequently to profit or loss</b>			
Exchange differences on translation of financial statements of entities outside mainland China		<u>23,243</u>	<u>(18,453)</u>
<b>Other comprehensive income, net of tax</b>		<u><b>23,243</b></u>	<u>(18,453)</u>
<b>Total comprehensive income</b>		<u><b>228,015</b></u>	<u>74,166</u>
<b>Total comprehensive income attributable to equity shareholders of the Company</b>		<u><b>228,015</b></u>	<u>74,166</u>
<b>Earnings per share</b>			
Basic	7(a)	<b>RMB0.18</b>	RMB0.08
Diluted	7(b)	<b>RMB0.18</b>	RMB0.08

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2022

(Expressed in Renminbi)

	Note	At 31 December 2022 RMB'000	At 31 December 2021 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		435,629	382,401
Intangible assets		85,275	79,989
Goodwill		113,411	132,449
Deferred tax assets		74,820	76,074
		<u>709,135</u>	<u>670,913</u>
<b>Current assets</b>			
Inventories		402,330	423,068
Trade receivables	9	467,079	387,990
Bills receivable	9	78,274	142,458
Deposits, prepayments and other receivables		34,362	28,213
Other financial assets		416,593	365,528
Pledged deposits and time deposits		40,890	111,508
Cash and cash equivalents		625,829	475,606
		<u>2,065,357</u>	<u>1,934,371</u>
<b>Current liabilities</b>			
Trade payables	10	155,167	92,769
Contract liabilities		79,846	167,413
Accruals and other payables		165,098	166,779
Lease liabilities		13,500	10,952
Current taxation		22,773	51,522
		<u>436,384</u>	<u>489,435</u>
<b>Net current assets</b>		<u>1,628,973</u>	<u>1,444,936</u>
<b>Total assets less current liabilities</b>		<u>2,338,108</u>	<u>2,115,849</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)***at 31 December 2022**(Expressed in Renminbi)*

	<i>Note</i>	<b>At 31 December 2022 RMB'000</b>	<b>At 31 December 2021 RMB'000</b>
<b>Non-current liabilities</b>			
Deferred income		13,331	12,351
Other payables		8,324	–
Lease liabilities		25,281	30,607
Deferred tax liabilities		47,411	41,340
		<u>94,347</u>	<u>84,298</u>
<b>NET ASSETS</b>		<b><u>2,243,761</u></b>	<b><u>2,031,551</u></b>
<b>CAPITAL AND RESERVES</b>			
Share capital	11	9,453	9,453
Reserves		2,234,308	2,022,098
<b>Total equity attributable to equity shareholders of the Company</b>		<b><u>2,243,761</u></b>	<b><u>2,031,551</u></b>
<b>TOTAL EQUITY</b>		<b><u>2,243,761</u></b>	<b><u>2,031,551</u></b>

## 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 2022 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 IAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior years 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 year.

**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:

	<b>2022</b>	2021
	<b><i>RMB’000</i></b>	<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	<b>654,999</b>	469,493
– Knee replacement implants	<b>266,415</b>	167,385
– Spinal and trauma implants	<b>60,006</b>	79,320
– Customised products and services	<b>46,952</b>	23,319
– Others (i)	<b>23,675</b>	21,924
	<b>1,052,047</b>	761,441

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

The Group’s customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group’s revenue in 2022 (2021: 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 2022 and 2021 is set out below.

	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2022	2021	2022	2021	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue from external customers</b>	<b>974,203</b>	686,110	<b>77,844</b>	75,331	<b>1,052,047</b>	761,441
Inter-segment revenue	<u>3,463</u>	<u>1,296</u>	<u>38,914</u>	<u>50,285</u>	<u>42,377</u>	<u>51,581</u>
<b>Reportable segment revenue</b>	<b><u>977,666</u></b>	<u>687,406</u>	<b><u>116,758</u></b>	<u>125,616</u>	<b><u>1,094,424</u></b>	<u>813,022</u>
<b>Reportable segment profit/ (loss)</b>	<b>267,066</b>	114,129	<b>(29,666)</b>	(3,875)	<b>237,400</b>	110,254
Interest income	<b>17,752</b>	8,992	–	–	<b>17,752</b>	8,992
Depreciation and amortisation for the year	<b>69,768</b>	61,354	<b>10,633</b>	12,804	<b>80,401</b>	74,158
Impairment loss on goodwill	–	–	<b>18,360</b>	–	<b>18,360</b>	–
<b>Reportable segment assets</b>	<b>2,149,067</b>	2,003,739	<b>156,570</b>	174,454	<b>2,305,637</b>	2,178,193
Additions to non-current assets during the year	<b>129,533</b>	102,676	<b>12,767</b>	3,429	<b>142,300</b>	106,105
<b>Reportable segment liabilities</b>	<b>453,793</b>	473,582	<b>29,312</b>	21,800	<b>483,105</b>	495,382



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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Revenue</b>		
Reportable segment revenue	1,094,424	813,022
Elimination of inter-segment revenue	<u>(42,377)</u>	<u>(51,581)</u>
Consolidated revenue	<u><b>1,052,047</b></u>	<u><b>761,441</b></u>
<b>Profit</b>		
Reportable segment profit	237,400	110,254
Elimination of inter-segment loss/(profit)	<u>2,890</u>	<u>(1,695)</u>
Consolidated profit before taxation	<u><b>240,290</b></u>	<u><b>108,559</b></u>
<b>Assets</b>		
Reportable segment assets	2,305,637	2,178,193
Elimination of inter-segment receivables	<u>(22,558)</u>	<u>(14,511)</u>
	<b>2,283,079</b>	2,163,682
Other financial assets	416,593	365,528
Deferred tax assets	<u>74,820</u>	<u>76,074</u>
Consolidated total assets	<u><b>2,774,492</b></u>	<u><b>2,605,284</b></u>
<b>Liabilities</b>		
Reportable segment liabilities	483,105	495,382
Elimination of inter-segment payables	<u>(22,558)</u>	<u>(14,511)</u>
	<b>460,547</b>	480,871
Current tax liabilities	22,773	51,522
Deferred tax liabilities	<u>47,411</u>	<u>41,340</u>
Consolidated total liabilities	<u><b>530,731</b></u>	<u><b>573,733</b></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.

	<b>Revenue from external customers</b>		<b>Specified non-current assets</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
– China	<b>886,318</b>	631,131	<b>598,914</b>	539,275
– Other countries	<b>165,729</b>	130,310	<b>35,401</b>	55,564
	<b><u>1,052,047</u></b>	<u>761,441</u>	<b><u>634,315</u></b>	<u>594,839</u>

**4 OTHER INCOME, NET**

	<b>2022</b>	<b>2021</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Government grants	<b>9,720</b>	4,867
Others	<b>1,473</b>	1,112
	<b><u>11,193</u></b>	<u>5,979</u>

## 5 PROFIT BEFORE TAXATION

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

### (a) Staff costs:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Salaries, wages and other benefits	189,566	189,134
Contribution to defined contribution retirement scheme	16,483	15,382
Equity settled share-based transactions	8,129	1,050
	<u>214,178</u>	<u>205,566</u>

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

### (b) Other items

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cost of Inventories*	426,461	276,214
Amortisation cost of intangible assets	12,195	12,512
Depreciation charge		
– owned property, plant and equipment	51,719	47,526
– right-of-use assets	16,487	14,120
	<u>68,206</u>	<u>61,646</u>
Credit losses recognised/(reversed) from trade and other receivables	10,491	(1,109)

\* Cost of inventories includes RMB99,949,000 in 2022 (2021: RMB94,174,000) 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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Current tax</b>		
Provision for the year	28,796	38,203
(Over)/under-provision in respect of prior years	(335)	296
<b>Deferred tax</b>		
Reversal and origination of temporary differences	<u>7,057</u>	<u>(22,559)</u>
	<u><b>35,518</b></u>	<u><b>15,940</b></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 2022 (2021: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2022 is 16.5% (2021: 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 2022 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 2022 are 25% (2021: 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 2022 (2021: 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 the PRC subsidiaries.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit before taxation	240,290	108,559
Notional tax of PRC statutory tax rate of 25%	60,073	27,140
Effect of PRC preferential tax rate	(33,504)	(13,850)
Effect of lower tax rates in other countries	678	232
Effect of non-deductible expenses	5,570	3,555
Effect of unused tax losses not recognised	6,175	5,122
Effect of additional deduction on research and development expenses *	(10,888)	(10,613)
PRC dividend withholding tax	7,749	4,058
(Over)/under-provision in respect of prior years	(335)	296
Actual tax expenses	<u>35,518</u>	<u>15,940</u>

\* According to the relevant PRC income tax law, certain research and development costs of PRC subsidiaries are qualified for 100% (2021: 100%) 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 RMB204,772,000 (2021: RMB92,619,000) and the weighted average number of issued ordinary shares of 1,109,201,000 (2021: 1,112,820,000 shares) during the year, calculated as follows:

***Weighted average number of ordinary shares***

	2022	2021
Issued ordinary shares at 1 January	1,115,700,000	1,115,500,000
Effect of issue of shares under the Company's share option scheme	24,658	29,589
Effect of shares held for share award scheme	(6,524,000)	(2,709,112)
Weighted average number of ordinary shares at 31 December	<u>1,109,200,658</u>	<u>1,112,820,477</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 RMB204,772,000 (2021: RMB92,619,000) and the weighted average number of issued ordinary shares of 1,117,457,000 (2021: 1,120,594,000 shares) after adjusting the effects of dilutive potential ordinary shares during the year, as follows:

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

	2022	2021
Weighted average number of ordinary shares at 31 December	1,109,200,658	1,112,820,477
Effect of deemed issue of shares under the Company's equity settled share-based transactions	<u>8,256,790</u>	<u>7,773,657</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>1,117,457,448</u></u>	<u><u>1,120,594,134</u></u>

**8 DIVIDENDS**

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Final dividend proposed after the end of the reporting period of HK\$6.0 cents per ordinary share (2021: HK\$2.5 cents per ordinary share)	<u>59,800</u>	<u>22,805</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**

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$2.5 cents per ordinary share (2021: HK\$4.0 cents per ordinary share)	<u>23,962</u>	<u>36,694</u>

## 9 BILLS RECEIVABLE/TRADE RECEIVABLES

	<b>31 December 2022 RMB'000</b>	31 December 2021 RMB'000
Bills receivable	<u>78,274</u>	<u>142,458</u>
Trade receivables	<b>498,373</b>	408,793
Less: allowance for credit loss	<u>(31,294)</u>	<u>(20,803)</u>
	<u><b>467,079</b></u>	<u>387,990</u>

### Ageing analysis

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

As at 31 December 2022, 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:

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Current to 3 months	<b>284,885</b>	239,330
4 to 6 months	<b>103,051</b>	10,877
7 to 12 months	<b>48,459</b>	90,666
Over 12 months	<u>30,684</u>	<u>47,117</u>
	<u><b>467,079</b></u>	<u>387,990</u>

The credit terms agreed with customers were normally ranged from 1 month to 1 year (2021: 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 2022, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	126,716	72,240
4 to 6 months	23,633	13,253
7 to 12 months	2,043	1,709
1 year to 2 years	1,871	4,377
Over 2 years	904	1,190
	<u>155,167</u>	<u>92,769</u>

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

## 11 SHARE CAPITAL

	2022		2021	
	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	<u>20,000,000,000</u>	<u>168,981</u>	<u>20,000,000,000</u>	<u>168,981</u>
Ordinary shares, issued and fully paid:				
At 1 January	1,115,700,000	9,453	1,115,500,000	9,451
Shares issued under share option scheme	<u>50,000</u>	<u>-</u>	<u>200,000</u>	<u>2</u>
At 31 December	<u>1,115,750,000</u>	<u>9,453</u>	<u>1,115,700,000</u>	<u>9,453</u>

The holders of ordinary shares as at 31 December 2022 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'S DISCUSSION AND ANALYSIS

### BUSINESS OVERVIEW AND OUTLOOK

#### Overview

In 2022, influenced by multiple factors, the volume of orthopedic surgery fluctuated greatly throughout the year. Since April 2022, the VBP of joint implants has been implemented nationwide based on the bidding results, which has exerted great influence on the whole joint and even orthopedics industry. After the implementation of the VBP policy, there was a small scale boost in the volume of joint surgery, and also accelerated import-substitution strategy. In the fourth quarter in 2022, operations were unable to be performed in hospitals affected by the pandemic, resulting in a decrease in the surgery volume during this period.

Among the VBP of joint plants organized by the National Healthcare Security Administration (“NHS”) in September 2021, the terminal prices of hip and knee implants have decreased by more than 80% on average. Since then, the Company has been facing challenges of rebuilding business model, collaborating the external supply chain and adjusting internal production and operation structure under new price system. On the one hand, the Company has actively coordinated with distributors and timely clarified sales policy to guarantee the supply of products and services after the implementation of VBP. On the other hand, the Company has improved the production and operation capability and enhanced the production efficiency on the premise of ensuring product quality.

The Group has won the bidding in four categories of three brands in the VBP of joints nationwide with the maximum procurement quantity in all brands. Leveraging on its rich product lines and extensive hospital coverage, the Group has seized this great opportunity to improve the market share of joint products and maintained its leading position in orthopedics industry by adjusting the industry competition pattern after implementing the VBP of joint implants. As of 31 December 2022, the Group has realized sales revenue of RMB1,052.0 million with a year-on-year growth of 38.2% and net profits of RMB204.8 million with a year-on-year growth of 121.1%.

#### Business of Hip and Knee Implants

The business of hip and knee implants includes hip and knee products manufactured by both traditional technology and 3D printing technology. The Group offers customers and patients a full line of joint implants manufactured by different technologies, including hip and knee implants and instruments suitable for primary, complicated, revision and reconstructive operations.

After the implementation of VBP, the volume of primary hip and knee replacement operations using the products of the Group has been increasing rapidly, especially the increase in number of knee replacement operation, which has led to the growth of overall hip and knee implants business. With this VBP, the Group has successfully established partnership with several key Class III A hospitals and enhanced the market share of middle and high-end market. Although the VBP has led to a decrease in the ex-factory price of primary hip and knee joints, the increase in their sales volume have just made up for the drop in prices. Meanwhile, the Group's extensive product lines have enabled the Company to actively respond to the diversified needs of surgeries. In 2022, the revenues from hip and knee implants received by the Group were RMB921.4 million with a year-on-year growth of 44.7%.

### **Business of Spine and Trauma Implants**

With unique 3D printing technologies, the Group owns a complete line of 3D printed spine products together with conventional spine and trauma product lines, featuring differentiated product portfolio. The Company has not only provided professional solutions for spinal fusion surgeries by making use of 3D printing technology, but also constantly explored the application of 3D printing customization technology in the field of spine and trauma so as to meet customers' needs.

In September 2022, entrusted by NHSA, the Tianjin Medical Purchasing Center conducted National VBP of Spine Consumables. Spine products of the Group's Libeier and AK brands have won the bidding. In the future, the Company will provide more diversified product sets together with 3D printed products beyond the scope of VBP, so as to increase the volume of operations in the hospital.

In 2022, the Group realized revenues of RMB60.0 million from spine and trauma implants, with a year-on-year decrease of 24.3%.

### **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 54 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 2022, the Group's income from customised product and services reached RMB47.0 million, a year-on-year increase of 101.3%.

## **Research and Development**

The Group has been committed to building a R&D system that leads the market trends with its innovative technologies, not only realizing iterative upgrade of product lines within the scope of VBP so as to drive the innovation of joint implants with market demands, but also satisfying clinical differentiation by taking advantages of 3D printing technologies and researching and developing diversified and customized products. Meanwhile, the Company has stepped into the fields of digital intelligent orthopedics and biological materials.

In 2022, the Group has obtained 6 registration certificates of Class III Medical Device approved by NMPA, including TMK tibia spacer of knee joint prostheses, bone filling materials used in the maxillofacial surgery, unicompartment knee joint prostheses, Vitamin E-contained acetabulum lining, half shoulder joint prostheses and navigation system of hip replacement. As of 31 December 2022, the Group has been awarded 72 registration certificates of Class III Medical Device approved by NMPA, 15 CE certificates approved by European regulatory organizations and 2 FDA certificates of the United States.

For innovative products, the certification of high cross-linked polyethylene knee spacer and approval of additional specifications models of ceramic head have enriched the product line of hip and knee joints and provided super-wear-resistant joint friction interface solutions for clinical practice. The approval of certification of unicompartmental condyle prosthesis has filled the gap of knee preservation products, enabling the Company to provide a complete clinical solution for knee replacement systems. Besides, the approval of bone fillers has marked the Company's first biomaterial product that has been introduced successfully. As the first digital surgical device, the approval of the certification of navigation system for hip replacement surgery marked that the Group has officially entered the field of orthopaedic surgical navigational and robotic system.

Further, the Group has formulated ICOS customization process for 3D printing technology to satisfy the increasing needs of hospitals. ICOS customized products have been further enriched and achieved breakthroughs in total ankle solutions. The approval of certificates of 3D printed osteotomy guide plate provides surgical positioning solutions for hip, knee, spine and trauma products and lays a foundation in the development of customized 3D printing tools through digital technologies.

As of 31 December 2022, the Group has obtained 192 patents for invention, 424 patents for utility models and 20 authorized PCT patents. Particularly, Beijing AK R&D Center has won the honorary title of 2022 "Worker Pioneer" in Beijing and Libeier R&D Center has been qualified as 2022 Beijing Outstanding Young Engineer Innovation Studio.

## **Sales and Marketing**

### ***Sales***

Along with the successful implementation of national VBP of joints in 2022, AK Medical smoothly transited its overall business and the trend of import substitution has accelerated significantly. A number of breakthroughs have been made during this process. The Company has successfully covered more than 90% of provincial hospitals nationwide through VBP into more hospitals, including but not limited to PLA General Hospital Fourth Medical Center, Peking Union Medical College Hospital, West China Hospital of Sichuan University, The First Affiliated Hospital of Zhejiang University School of Medicine, Qilu Hospital of Shandong University, The Second Xiangya Hospital of Central South University and other key national and provincial hospitals. Besides, the Company has established National Clinical Research Center for Orthopedics, Sports Medicine and Rehabilitation and National Trauma Center and thus deepened cooperation with national hospitals.

AK brand has further developed in overseas markets, providing foreign customers with stable implants, and the overseas revenues has reached a new high.

In September 2022, the conventional spine products in Libeier and AK brands has won the bidding in spine consumables VBP nationwide, and 3D printed spinal products have further been introduced to more provincial-level hospitals, including more than 30 newcomers.

The Company has constantly provided rich product lines and comprehensive solutions to satisfy diversified needs of clinical operations and maintained customers' loyalty. Integrating AK, Libeier, ITI and JRI, the Company has responded to different market demands in a more flexible way and can meet the needs of customers at different levels.

### ***Marketing***

In 2022, the Group made active preparation for the implementation of joint VBP. Based on clinical needs, the Company has constantly launched new products and differentiated academic activities of market and maintained its leading position as a solution provider for the full line of hip and knee products. Moreover, the Company has carried out "Master Plan", "Knee and Hip Joint Series Seminar", "Pathways" and other famous academic projects and cooperated with "National Health Commission Capacity Building and Continuing Education Center" to conduct "Research on Building Capacity of Application of Digital Orthopedic Technology", for the purpose of promoting the construction of national intelligent medical system and strengthening the application of AI, surgical robot, 3D printing and other digital technologies in medical industry. The Group is dedicated to creating a 3D platform mode integrating innovative product platform, internationally advantageous technology platform and customer platform, promoting surgeon education projects in new products, new technologies and new surgical methods and building an international academic exchange platform at different levels and in different directions.

## Product Level:

The Company has introduced several new products this year:

- 1) **3D Printing Bone Fillers:** Relying on the accumulated 3D printing technology, the Company has introduced a wide range of bone fillers, not only enhancing the overall stability, but also promoting long-term bone integration between implants and sclerotin; in inclusive bone defect, non-inclusive bone defect, osteoporosis, local hardening with non-inclusive bone defect and revision bone defect and other clinical applications, it has retained more bone tissues and provided more reliable and long-term support for joint prosthesis.
- 2) **First Domestic high-cross-linked Dual-system Knee Unicondyle Replacement System:** The product system is composed of movable platform and fixed platform, which can meet different clinical indications, and that has enriched the product line of AK knee joints and further enhanced product advantages of knee joints of AK Medical.
- 3) **3D ACT Dual Mobility Total Hip System:** As the first 3D printing total hip product, the product is able to provide greater dislocation distance and reduce the probability of dislocation. The flexible design in screw setting has improved the instant stability of acetabular cup.
- 4) **SR II Congenital Hip Production System:** AK Medical has teamed up with orthopedic experts in China to develop the SR II congenital hip product system for patients with congenital hip dysplasia. This revolutionarily improved design of the 3D printed congenital acetabular cup system allows COC interface to be chosen for 40mm acetabular cup, which has effectively reduced the difficulty of congenital hip operation and enhanced the surgical efficacy of the patient. Together with SR II femoral stem, this acetabular cup has formed the congenital hip product system, reaching the leading level of similar products.
- 5) **The Group has launched the first domestic Visual Intelligent Assistance System for Joint Replacement – Visual Treatment Solution (the “VTS”) system.** The system combines 3D printing digital technology with visual intelligent assistance technology to adapt to the complex working environments in hip arthroplasty, and assists the whole process from preoperative CT data processing and 3D surgical planning to intraoperative real-time visualized tracking and acetabulum prosthesis implantation. The VTS system is a solution to preoperative planning and visualized real-time monitoring relying on surgeon – engineer interaction, aiming to improve the surgical performance and clinical efficacy of total hip arthroplasty.

## Academic Platform:

- 1) **Relying on the platform of National Clinical Research Center for Orthopedics, Sports Medicine and Rehabilitation, the Company has cooperated with experts from member hospitals of “Multi-center Project post Marketing of SR II Congenital Hip System Product” to launch a systematic course of “The Way to Congenital Hip Dislocation” for difficult surgical technologies of congenital hip dysplasia so as to promote doctors’ comprehensive improvement in disease, surgical technology and patient management.**

- 2) Relying on the famous academic platform Pathways, the Company has established an academic exchange platform for both Chinese and foreign doctors. This year, the Group has completed three Pathways academic activities, inviting domestic R&D experts to give academic lectures on international platforms with more than 25,000 Chinese doctors attending this activity. Pathways activities have promoted the international academic exchanges and enhanced the popularity of AK Medical academic brand.
- 3) In 2022, based on Master Plan platform, the Group continued to carry out a number of academic activities on product promotion and training of hip and knee revision both online and offline, which are aimed at improving doctors' professional level. Relying on established provincial training centers, nearly 300 key hospitals are covered.
- 4) On the "Knee and Hip Joint Series Seminar", the Group has designed a series of training courses for doctors in respect of complex and revised surgical techniques, to improve doctor's surgical skills and enhance patients' clinical efficacy. This year, the Group has held more than 40 academic activities, covering primary and complex operations, revision and bone reconstruction on hip and knee joints with more than 300,000 doctors being trained.

## **Prospect**

With the alleviation of COVID-19 pandemic and implementation of VBP nationwide, the uncertainty of China's orthopedic industry will be eliminated and its development will be resumed gradually. The Group will make strategic adjustments in a timely manner to adapt to the industry changes after VBP, including but not limited to:

1. Further promote the commercial application of 3D printed products led by 3D Printing Customized Technology

3D printing technology has always been one of the core advantages of the Group, and we are currently the only one in China with 3D printing customized registration certificate. With increasingly strict requirements of doctors and patients on products and enhanced demand in personalization, customized products will have broader application prospect. Furthermore, 3D printed customized products will achieve commercial application and provide more clinical potential in the subdivision of small joints of extremities, spine and trauma.

2. Improve the market share of middle and high-end market with technology and services and consolidate the dominant position in mass markets

As a domestic brand with long history, the Group has always committed to occupying a large share in the market. In the VBP nationwide, the Group has obtained the largest share in hospital submitted amount by virtue of the Group's brand and channel advantages. In the future, the Group will focus on key hospitals with advanced technologies and professional services through diversified academic and market activities, seize the opportunity of import substitution brought by VBP and consolidate the dominant position in the market.

3. Maintain the Group’s leading position in domestic orthopedics industry and strengthen the Group’s image as an innovative practitioner of orthopedics

As a leading brand in domestic joint field, the Group is building product strategies including “Joint Master” and “Spinal Fusion Master” to meet clinical needs with excellent products and increase the Group’s market share in orthopedics. Meanwhile, the Group will continue to promote the commercialization of digital orthopedic technology, step into new field of biological materials, deepen cooperation with basic research institutions and strengthen its image as an innovative practitioner of orthopedics.

## FINANCIAL REVIEW

### Overview

	Year ended 31 December		Variance %
	2022 <i>RMB’000</i>	2021 <i>RMB’000</i>	
Revenue	<b>1,052,047</b>	761,441	38.2%
Gross profit	<b>636,435</b>	499,189	27.5%
Profit for the year	<b>204,772</b>	92,619	121.1%
Profit for the year attributable to equity shareholders of the Company	<b>204,772</b>	92,619	121.1%
<b>Earnings per share</b>			
Basic	<b>RMB0.18</b>	RMB0.08	
Diluted	<b>RMB0.18</b>	RMB0.08	

For the year ended 31 December 2022, the Group achieved revenue of RMB1,052.0 million, representing an increase of 38.2% as compared to 2021. The growth in revenue was mainly attributable to the accelerated import substitution as a result of the VBP policy implemented in China since April 2022 and the strong demand for the Group’s products from hospitals. At the same time, the extensive product lines of the Group effectively met the needs of the differentiated market, further contributing to the growth in sales revenue.

In April 2022, following the implementation of the nationwide VBP policy for joint implants, the Company recorded a significant growth in sales of hip and knee implants within the scope of VBP. At the same time, the Company’s aggressive market expansion efforts and the launch of new products effectively drove revenue growth in revision replacement implants and ICOS customised products and value-added surgical services. In addition, overseas sales grew significantly in 2022. Along with the significant growth in revenue, the Group’s net profit for the year ended 31 December 2022 increased significantly by 121.1% as compared to 2021. The significant increase in net profit was primarily due to the growth in revenue stated above, coupled with relatively stable costs and expenses by taking effective cost control measures.

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

## Revenue

	Year ended 31 December		
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	Variance %
Hip replacement implants <sup>(1)</sup>	654,999	469,493	39.5%
Knee replacement implants <sup>(2)</sup>	266,415	167,385	59.2%
Spinal and trauma implants <sup>(3)</sup>	60,006	79,320	-24.3%
Customised products and services <sup>(4)</sup>	46,952	23,319	101.3%
Others <sup>(5)</sup>	23,675	21,924	8.0%
Total	<b>1,052,047</b>	<b>761,441</b>	<b>38.2%</b>

### 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 products and services;
- (5) Others primarily include surgical instruments, medical irrigators and third party orthopedic products.

The revenue of the Group amounted to RMB1,052.0 million for the year ended 31 December 2022, representing a substantial increase of 38.2% as compared with RMB761.4 million for the year ended 31 December 2021. The increase in revenue was mainly attributable to the national VBP policy for joint implants driving sales of the hip and knee replacement implants within the scope of VBP. At the same time, the extensive product lines of the Group effectively met the needs of the differentiated market, further contributing to the growth in sales revenue.

## Hip and Knee Implants Products

The Group's hip and knee replacement implants products include knee replacement implants and hip replacement implants as well as 3D-printed hip and knee replacement implants.

For the year ended 31 December 2022, hip replacement implants registered a revenue of RMB655.0 million, representing an increase of 39.5% as compared to that of RMB469.5 million for the year ended 31 December 2021. For the year ended 31 December 2022, knee replacement implants registered a revenue of RMB266.4 million, representing an increase of 59.2% as compared to that of RMB167.4 million for the year ended 31 December 2021.



In 2022, supported by the VBP policy for joint implants implemented throughout the country, the volume of hip and knee implants of the Group's brand has increased dramatically, and thus led to significant increase in the sales revenue of the Company. At the same time, with the Company's aggressive market expansion efforts and the launch of new products, the sales revenue of revision joint system achieved substantial growth.

### **Spinal and Trauma Implants Products**

The Group's 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 2022, the Group's spinal and trauma implants products registered a revenue of RMB60.0 million, representing a decrease of 24.3% as compared to that of RMB79.3 million for 2021. The Company's innovative and functional 3D printing technology facilitated the continuous expansion of its spinal product line, which has been highly recognised by the market and have further facilitated the implantation of 3D spinal products, resulting in an increase in sales of 3D spinal products. Nevertheless, due to the imminent implementation of the national VBP policy for spinal consumables, distributors have postponed imports of Libeier-branded spinal implants within the scope of the VBP policy. At the same time, the Company made a provision of RMB20.0 million of discount of future sales price in relation to certain specific Libeier-branded spinal products, which offset the revenue growth of 3D spinal products.

### **Customised products and services**

Customised products and services include revenue from customised joint, pelvis, spinal and trauma implants products and customised surgical value-added services. In 2022, the Company further leveraged its technical advantages in 3D printing customised products and value-added surgical services to successfully develop customised surgeries in a number of hospitals, resulting in a significant growth of 101.3% in revenue from customised products and services as compared to that for 2021.

### **Others**

Others primarily include revenue from surgical instruments, medical irrigators and third party orthopaedic products. For the year ended 31 December 2022, others recorded a revenue of RMB23.7 million, representing an increase of 8.0% as compared to that of RMB21.9 million for the year ended 31 December 2021.

## 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 our sales revenue from China and the overseas is as follows:

	Year ended 31 December		
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	Variance %
China	886,318	631,131	40.4%
Other countries	165,729	130,310	27.2%
Total	<u>1,052,047</u>	<u>761,441</u>	<u>38.2%</u>

The Group's sales revenue derived from the overseas for the year ended 31 December 2022 was approximately RMB165.7 million, representing a substantial increase of 27.2% as compared with the year ended 31 December 2021. This was mainly due to an increase in the number of surgeries resulted from the active exploration in overseas markets by the Company in 2022. The revenue from China for the year ended 31 December 2022 was RMB886.3 million, representing a substantial increase of 40.4% as compared to the year ended 31 December 2021. This was mainly affected by the increase in sales of joint implants.

## Cost of Sales

For the year ended 31 December 2022, the cost of sales was RMB415.6 million, representing an increase of 58.5% as compared with RMB262.3 million for the year ended 31 December 2021. The increase in cost of sales was primarily due to an increase in sales volume of the Group's products.

## Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. The Group's gross profit increased by 27.5% to RMB636.4 million for the year ended 31 December 2022 from RMB499.2 million for the year ended 31 December 2021. The substantial increase in gross profit was primarily due to an increase in the Group's revenue.

Gross margin is calculated as gross profit divided by revenue. The Group's gross margin was 60.5% for the year ended 31 December 2022, representing a decrease of 5.1% from 65.6% for the year ended 31 December 2021. Since April 2022, the implementation of the national VBP policy for joint implants resulted in a decrease in the sales price of hip and knee implants within the scope of VBP, which led to a decrease in gross profit margin. There was no significant change in gross profit margin for other products except for the change in gross profit for the hip and knee implants within the scope of VBP.

## **Other Income, net**

The Group's other income for the year ended 31 December 2022 was RMB11.2 million, representing an increase of RMB5.2 million as compared with RMB6.0 million for the year ended 31 December 2021. Other income in 2022 was primarily from government grants and subsidy for research and development projects.

## **Selling and Distribution Expenses**

Selling and distribution expenses were RMB180.1 million for the year ended 31 December 2022, representing a decrease of 3.9% as compared with RMB187.3 million for the year ended 31 December 2021. In 2022, the Company continued to actively carry out marketing activities and promotions of customised products and renovated products as well as trainings on new products. Due to the pandemic, some offline marketing activities were postponed.

## **General and Administrative Expenses**

General and administrative expenses amounted to RMB118.3 million for the year ended 31 December 2022, representing an increase of 12.3% as compared with RMB105.3 million for the year ended 31 December 2021. The increase was mainly due to the increase in equity-settled share-based payment expenses in the current year and provision for credit losses based on the ageing and balance of receivables.

## **Research and Development Expenses**

Research and development expenses for the year ended 31 December 2022 was RMB110.9 million, representing a decrease of 1.9% as compared with RMB113.1 million for the year ended 31 December 2021. In 2022, the Company continued to actively invest in research and development, strengthen the construction of its research and development team, and actively advance research and development projects and the development of new products.

## **Net Finance Income**

Net finance income was RMB20.3 million for the year ended 31 December 2022, representing an increase of RMB11.2 million from RMB9.1 million for the year ended 31 December 2021. Such increase was primarily attributable to the significant increase in interest income and the impact of exchange rate movements resulting in an increase in foreign exchange gains.

## **Goodwill**

In 2022, there was an indication of impairment of goodwill formed on the acquisition of JRI due to the impact of the pandemic as well as policy and other factors. As at the end of 2022, the Group made a full provision of RMB18.4 million for impairment of goodwill arising from the acquisition of JRI.

## **Income Tax Expenses**

Income tax expense was RMB35.5 million for the year ended 31 December 2022, representing an increase of 122.8% as compared with RMB15.9 million for the year ended 31 December 2021. Such increase was primarily attributable to the increase in profit before tax.

## **Liquidity and Financial Resources**

As at 31 December 2022, the Group had cash and cash equivalents of RMB625.8 million, structured deposit of RMB416.6 million, time deposits over 3 months of RMB30.0 million and export-related performance bonds of RMB10.9 million, amounting to RMB1,083.3 million in aggregate, as compared with RMB952.6 million as at 31 December 2021. 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 RMB1,629.0 million as at 31 December 2022, representing an increase of RMB184.1 million as compared with RMB1,444.9 million as of 31 December 2021. Such increase primarily represents the proceeds from the operations of the Group.

## **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 foreign currencies, i.e. currencies other than the functional currency of the operations to which the transactions relate generating from overseas sales and purchases. Foreign currency exposure is currently concentrated in USD and EUR. For the year ended 31 December 2022, the Group recorded a net exchange gain of RMB4.7 million, as compared with an exchange gain of RMB1.7 million for the year ended 31 December 2021. 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 2022, the Group's total capital expenditure amounted to approximately RMB142.3 million (as of 31 December 2021: RMB106.1 million), which was primarily used in (i) plant construction; (ii) purchase of patents; and (iii) procurement of equipment, machinery, and software for manufacturing and R&D activities.

## **Charge of Assets/Pledge of Assets**

As of 31 December 2022, the Group pledged a deposit of RMB10.9 million in the pledged deposits account for the processing of performance bonds in relation to export operations. Other than that, the Group did not have any charge of assets or pledge of assets.

## **Borrowings and Gearing Ratio**

As of 31 December 2022, 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 2022, the gearing ratio of the Group was 0% (as of 31 December 2021: nil).

## **Contingent Liabilities**

As of 31 December 2022, the Group did not have any material contingent liabilities (as of 31 December 2021: nil).

## **Significant Investments**

As of 31 December 2022, 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 2022, the Group had no other plans for material investments and capital assets except for the construction of a new office park in Changping New Town East District.

## **Employee and Remuneration Policy**

As of 31 December 2022, the Group had 1,034 employees (31 December 2021: 908 employees). Total staff remuneration expenses including Directors' remuneration for the year ended 31 December 2022 amounted to RMB206.0 million (for the year ended 31 December 2021: RMB204.5 million).

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.

On 31 March 2022, the Company offered to grant 8,582,362 share options under the share option scheme and 838,784 shares under the share award scheme, respectively, to selected employees of the Group.

## **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 who and 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\$470.3 million). All the net proceeds were fully utilized as at 31 December 2022.

## **Subsequent Event**

As of date of this announcement, the Group had no materiel events since 31 December 2022.

## **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 2022 and up to the date of this announcement, with the exception of code provision C.2.1.

According to code provision C.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 2022 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 2022.

## **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 2022 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 2022 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 2022.

## **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 2022 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 Thursday, 15 June 2023. 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\$6.0 cents per ordinary share for the year ended 31 December 2022 (2021: HK\$2.5 cents) to the shareholders whose names appear on the register of members of the Company on Wednesday, 28 June 2023. The final dividend, if approved by the shareholders of the Company at the AGM, will be payable on or around Tuesday, 18 July 2023.

## **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 Thursday, 15 June 2023, the register of members of the Company will be closed from Monday, 12 June 2023 to Thursday, 15 June 2023, both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Link Market Services (Hong Kong) Pty Limited at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Friday, 9 June 2023.
- (b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Monday, 26 June 2023 to Wednesday, 28 June 2023, 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 Limited at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Friday, 23 June 2023.



## **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 2022 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, 27 March 2023

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