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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 2024

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 2024, together with the comparative figures for the last year.

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Variance %
	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>	
Revenue	1,346,377	1,093,862	23.1%
Gross profit	808,193	674,486	19.8%
Profit for the year	273,926	182,104	50.4%
Profit for the year attributable to equity shareholders of the Company	273,926	182,104	50.4%
Earnings per share			
Basic	RMB0.25	RMB0.16	
Diluted	RMB0.24	RMB0.16	

For the year ended 31 December 2024, the Group achieved revenue of approximately RMB1,346.4 million, representing a significant increase of 23.1% as compared to 2023. In 2024, under accelerated import substitution driven by the volume-based procurement (“**VBP**”) policy, the demand for the Group’s surgical products continued to grow. The number of surgeries rose rapidly, further improving the coverage of its products in hospitals and the sales of products covered by the national VBP. Meanwhile, through active market expansion and supported by the digital orthopedics whole process solutions, the number of overseas surgeries has increased, leading to a notable growth in overseas revenue for the Group. The Group achieved a net profit of approximately RMB273.9 million for the year ended 31 December 2024, representing a significant increase of 50.4% as compared to the same period of 2023. The increase in profit was primarily attributable to revenue growth and cost control.

The Directors have resolved to recommend the payment of a final dividend of HK\$7.2 cents per share for the year ended 31 December 2024.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2024

(Expressed in Renminbi (“RMB”))

	Note	Year ended 31 December 2024 RMB'000	2023 RMB'000
Revenue	3	1,346,377	1,093,862
Cost of sales		(538,184)	(419,376)
Gross profit		808,193	674,486
Other income, net	4	16,654	26,370
Selling and distribution expenses		(240,911)	(218,806)
General and administrative expenses		(143,949)	(133,441)
Research and development expenses		(139,206)	(137,126)
Operating profit		300,781	211,483
Net finance income		19,041	19,634
Profit before taxation	5	319,822	231,117
Income tax	6	(45,896)	(49,013)
Profit for the year		273,926	182,104
Profit attributable to equity shareholders of the Company		273,926	182,104
Other comprehensive income			
Item that is or may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of entities outside mainland China		8,626	13,475
Other comprehensive income, net of tax		8,626	13,475
Total comprehensive income		282,552	195,579
Total comprehensive income attributable to equity shareholders of the Company		282,552	195,579
Earnings per share			
Basic	7(a)	RMB0.25	RMB0.16
Diluted	7(b)	RMB0.24	RMB0.16

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*at 31 December 2024**(Expressed in RMB)*

	<i>Note</i>	At 31 December 2024 RMB'000	At 31 December 2023 RMB'000
Non-current assets			
Property, plant and equipment		683,616	574,970
Intangible assets		83,338	87,966
Goodwill		113,411	113,411
Deferred tax assets		70,677	67,260
Time deposits		206,301	184,601
		1,157,343	1,028,208
Current assets			
Inventories		488,668	595,514
Trade receivables	<i>9</i>	494,820	451,401
Bills receivable	<i>9</i>	81,858	78,777
Deposits, prepayments and other receivables		80,517	87,207
Other financial assets		615,235	395,455
Time deposits		64,784	35,245
Cash and cash equivalents		352,173	331,217
		2,178,055	1,974,816
Current liabilities			
Trade payables	<i>10</i>	122,100	151,451
Bills payable		30,001	23,470
Contract liabilities		102,905	85,299
Accruals and other payables		244,040	184,724
Bank loans	<i>11</i>	60,447	21,394
Lease liabilities		12,123	14,239
Current taxation		24,800	17,596
		596,416	498,173
Net current assets		1,581,639	1,476,643
Total assets less current liabilities		2,738,982	2,504,851

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*at 31 December 2024**(Expressed in RMB)*

	<i>Note</i>	At 31 December 2024 RMB'000	At 31 December 2023 RMB'000
Non-current liabilities			
Deferred income		19,641	10,425
Other payables		5,800	5,926
Lease liabilities		9,152	16,311
Bank loans	<i>11</i>	17,667	32,259
Deferred tax liabilities		48,536	48,027
		<hr/>	<hr/>
		100,796	112,948
		<hr/>	<hr/>
NET ASSETS		2,638,186	2,391,903
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Share capital	<i>12</i>	9,515	9,508
Reserves		2,628,671	2,382,395
		<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company		2,638,186	2,391,903
		<hr/>	<hr/>
TOTAL EQUITY		2,638,186	2,391,903
		<hr/>	<hr/>

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 designing, developing, producing and marketing orthopedic implants and related products.

The Company’s shares were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 20 December 2017 (the “Listing”).

2 MATERIAL ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements set out in this announcement has been prepared in accordance with IFRS Accounting Standards as 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. Material accounting policies adopted by the Group are disclosed below.

The IASB has issued certain amendments to IFRS Accounting Standards 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 period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements are presented in 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 2024 comprise the Company and its subsidiaries.

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

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

The Group has applied the following amendments to IFRS Accounting Standards as issued by the IASB to these financial statements for the current accounting period:

- Amendments to IAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current (“2020 amendments”)* and amendments to IAS 1, *Presentation of financial statements: Non-current liabilities with covenants (“2022 amendments”)*
- Amendments to IFRS 16, *Leases: Lease liability in a sale and leaseback*
- Amendments to IAS 7, *Statement of cash flows* and IFRS 7, *Financial instruments: Disclosures – Supplier finance arrangements*

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

3 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

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

	2024 RMB’000	2023 <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	729,084	590,396
– Knee replacement implants	405,110	311,351
– Spinal and trauma implants	127,326	123,268
– Digital orthopedics customised products and services	51,335	49,593
– Others (i)	33,522	19,254
	<u>1,346,377</u>	<u>1,093,862</u>

- (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 2024 (2023: 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, accruals and lease liabilities attributable to the individual segments and bank loans managed directly by the 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. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

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 2024 and 2023 is set out below.

	Orthopedic implants - China		Orthopedic implants - United Kingdom		Total	
	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Revenue from external customers	1,224,155	991,365	122,222	102,497	1,346,377	1,093,862
Inter-segment revenue	1,609	2,226	41,976	49,988	43,585	52,214
Reportable segment revenue	<u>1,225,764</u>	<u>993,591</u>	<u>164,198</u>	<u>152,485</u>	<u>1,389,962</u>	<u>1,146,076</u>
Reportable segment profit/(loss)	313,133	239,787	(1,474)	(7,043)	311,659	232,744
Reportable segment assets	2,488,823	2,380,775	174,559	168,241	2,663,382	2,549,016
Additions to non-current assets during the year	195,721	228,128	10,649	2,673	206,370	230,801
Reportable segment liabilities	606,887	525,029	30,885	29,176	637,772	554,205

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

	2024 RMB'000	2023 RMB'000
Revenue		
Reportable segment revenue	1,389,962	1,146,076
Elimination of inter-segment revenue	(43,585)	(52,214)
	<hr/>	<hr/>
Consolidated revenue	<u>1,346,377</u>	<u>1,093,862</u>
Profit		
Reportable segment profit	311,659	232,744
Elimination of inter-segment loss/(profit)	8,163	(1,627)
	<hr/>	<hr/>
Consolidated profit before taxation	<u>319,822</u>	<u>231,117</u>
Assets		
Reportable segment assets	2,663,382	2,549,016
Elimination of inter-segment receivables	(13,896)	(8,707)
	<hr/>	<hr/>
	2,649,486	2,540,309
Other financial assets	615,235	395,455
Deferred tax assets	70,677	67,260
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Consolidated total assets	<u>3,335,398</u>	<u>3,003,024</u>
Liabilities		
Reportable segment liabilities	637,772	554,205
Elimination of inter-segment payables	(13,896)	(8,707)
	<hr/>	<hr/>
	623,876	545,498
Current taxation	24,800	17,596
Deferred tax liabilities	48,536	48,027
	<hr/>	<hr/>
Consolidated total liabilities	<u>697,212</u>	<u>611,121</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	
	2024	2023	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
– China	1,072,059	866,730	1,047,489	931,045
– United Kingdom	59,250	55,178	39,177	29,903
– Other countries	215,068	171,954	–	–
	<u>1,346,377</u>	<u>1,093,862</u>	<u>1,086,666</u>	<u>960,948</u>

4 OTHER INCOME, NET

	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	14,623	19,944
Others	<u>2,031</u>	<u>6,426</u>
	<u>16,654</u>	<u>26,370</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs:

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Salaries, wages and other benefits	225,283	229,854
Contribution to defined contribution retirement scheme	20,884	20,054
Equity settled share-based transactions	8,778	5,056
	<u>254,945</u>	<u>254,964</u>

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

(b) Other items

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Cost of Inventories*	551,556	435,315
Amortisation cost of intangible assets	20,767	14,431
Depreciation charge		
– Owned property, plant and equipment	57,704	58,495
– Right-of-use assets	17,863	18,013
	<u>75,567</u>	<u>76,508</u>
Credit losses recognised from trade and other receivables	21,580	13,698
Auditors' remuneration		
– Audit services	3,018	3,047
– Other services	1,300	1,300
	<u>4,318</u>	<u>4,347</u>

* Cost of inventories includes RMB111,579,000 in 2024 (2023: RMB120,409,000) 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

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Current tax		
Provision for the year	51,701	40,623
(Over)/under-provision in respect of prior years	(2,881)	268
Deferred tax		
Origination and reversal of temporary differences	(2,924)	8,122
	<u>45,896</u>	<u>49,013</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 2024 (2023: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2024 is 16.5% (2023: 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 2024 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 2024 are 25% (2023: 25%). According to the relevant PRC income tax law, the Company's subsidiaries, Beijing AK Medical Co., Ltd. ("AK Medical Beijing") and ITI Medical Co., Ltd. ("ITI Medical"), together with Beijing Libeier Bio-engineering Institute Co., Ltd. ("Libeier") which was certified as a New and High Technology Enterprise for the first time during 2023, are entitled to a preferential income tax rate of 15% for their New and High Technology Enterprises status. The current certification of New and High Technology Enterprise held by AK Medical Beijing, ITI Medical and Libeier will be expired on 25 October 2026, 5 November 2026 and 25 October 2026, respectively.

Taxation for subsidiaries operating mainly in the England and Wales were calculated at statutory enterprise income tax rate of 19% for 2024 (2023: 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 ("AK Medical HK") and Bright AK Limited ("Bright AK HK"), 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:

	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	319,822	231,117
Notional tax of PRC statutory tax rate of 25%	79,956	57,779
Effect of PRC preferential tax rate	(32,039)	(22,273)
Effect of tax rate changes	–	14,183
Effect of lower tax rates in other countries	320	423
Effect of non-deductible expenses	1,759	1,430
Effect of unused tax losses not recognised	2,539	2,235
Effect of additional deduction on research and development expenses *	(10,439)	(10,044)
PRC dividend withholding tax	6,681	5,012
(Over)/under-provision in respect of prior years	(2,881)	268
Actual tax expenses	45,896	49,013

* According to the relevant PRC income tax law, certain research and development costs of PRC subsidiaries are qualified for 100% (2023: 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 RMB273,926,000 (2023: RMB182,104,000) and the weighted average number of issued ordinary shares of 1,115,890,585 (31 December 2023: 1,113,122,158 shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2024	2023
Issued ordinary shares at 1 January	1,121,896,437	1,115,750,000
Effect of issue of shares under the Company's share option scheme	368,750	3,796,559
Effect of shares held for share award scheme	(6,374,602)	(6,424,401)
Weighted average number of ordinary shares at 31 December	1,115,890,585	1,113,122,158

(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 RMB273,926,000 (2023: RMB182,104,000) and the weighted average number of issued ordinary shares of 1,118,670,467 (31 December 2023: 1,119,189,095 shares) after adjusting the effects of dilutive potential ordinary shares during the year, as follows:

Weighted average number of ordinary shares (diluted)

	2024	2023
Weighted average number of ordinary shares at 31 December	1,115,890,585	1,113,122,158
Effect of deemed issue of shares under the Company's equity settled share-based transactions	<u>2,779,882</u>	<u>6,066,937</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>1,118,670,467</u></u>	<u><u>1,119,189,095</u></u>

8 DIVIDENDS

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

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Final dividend proposed after the end of the reporting period of HK\$7.2 cents per ordinary share (2023: HK\$4.5 cents per ordinary share)	<u><u>75,000</u></u>	<u><u>45,750</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.

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

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$4.5 cents per ordinary share (2023: HK\$6.0 cents per ordinary share)	<u><u>46,103</u></u>	<u><u>61,509</u></u>

9 BILLS RECEIVABLE/TRADE RECEIVABLES

	31 December 2024 RMB'000	31 December 2023 RMB'000
Bills receivable	<u>81,858</u>	<u>78,777</u>
Trade receivables	561,392	496,393
Less: allowance for credit loss	<u>(66,572)</u>	<u>(44,992)</u>
	<u>494,820</u>	<u>451,401</u>

As at 31 December 2024, approximately RMB22,907,000 (31 December 2023: RMB18,771,000) of bills receivable was pledged for bills payable.

Ageing analysis

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

As at 31 December 2024, 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 2024 RMB'000	2023 RMB'000
Current to 3 months	315,041	188,537
4 to 6 months	57,641	139,093
7 to 12 months	65,512	82,478
Over 12 months	<u>56,626</u>	<u>41,293</u>
	<u>494,820</u>	<u>451,401</u>

The credit terms agreed with customers were normally ranged from 1 month to 1 year (2023: 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 2024, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December 2024 RMB'000	2023 RMB'000
Within 3 months	70,926	104,965
4 to 6 months	29,527	29,662
7 to 12 months	12,990	12,708
1 year to 2 years	5,490	3,506
Over 2 years	<u>3,167</u>	<u>610</u>
	<u>122,100</u>	<u>151,451</u>

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

11 BANK LOANS

(a) The analysis of the repayment schedule of bank loans is as follows:

	31 December 2024 RMB'000	31 December 2023 RMB'000
Within 1 year or on demand	60,447	21,394
After 1 year but within 2 years	17,667	21,745
After 2 years but within 5 years	–	10,514
	17,667	32,259
	78,114	53,653

(b) Assets pledged as security for bank loans

At 31 December 2024, the bank loans were secured as follows:

	31 December 2024 RMB'000	31 December 2023 RMB'000
Secured bank loans	48,374	53,653
Unsecured bank loans	29,740	–
	78,114	53,653

As at 31 December 2024, the Group had secured bank loans of RMB48,374,000 (31 December 2023: RMB53,653,000), and these bank loans were secured by the Group's non-current pledged deposits of US\$27,302,000 (approximately RMB196,260,000) (31 December 2023: US\$25,993,000 (approximately RMB184,101,000)).

12 SHARE CAPITAL

	2024		2023	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
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	1,121,896,437	9,508	1,115,750,000	9,453
Shares issued under share option scheme	775,000	7	6,146,437	55
At 31 December	1,122,671,437	9,515	1,121,896,437	9,508

The holders of ordinary shares as at 31 December 2024 are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

Overview

On 21 May 2024, the National Healthcare Security Administration (“NHSA”) announced the “Selection Results of the Renewed VBP of Artificial Joints Upon Expiration of the Purchasing Agreement”. This is the second round of renewed procurement of the first VBP of artificial joints for a term of three years, covering more than 6,281 hospitals, with a total demand of 581,600 sets. The aggregate demand increased by approximately 8% compared with the first round of VBP result, showing upward trend while keeping stability. According to this round of renewal results, the Group continuously ranked the top tier among all brands in the volume of renewals, representing an increase of approximately 10% as compared with the first round of VBP. As of December 31, 2024, 29 provinces and regions have implemented the bid result of the second round. By leveraging on its leading skill and complete joints total solutions, the Group further expanded its market share in joints total sector and continued to strengthen its market competitiveness in the orthopedic field.

The national implementation of the first VBP of artificial joints has driven the increasing surgical volume of the Group’s products, further accelerated the progress of the import substitution, and boosted the continued growth of the revenue of Group’s VBP products. Meanwhile, the Group relied on the implementation of VBP to rapidly devise the layout of national and provincial hospitals, realizing a coverage of over 90% of top-tier hospitals. Given that complex revision surgeries are mainly concentrated in top-tier hospitals, the Group’s revision products have also gradually resumed growth as the Group’s coverage of top-tier hospitals has significantly increased and is expected to support the Group’s sustained growth in the future. Relying on 3D printing technology, the Group has established iCOS ecosystem, a comprehensive digital solution. Currently, the implementation and layout have begun in some key hospitals. Meanwhile, the Group’s overseas business also saw significant growth, and a series of activities centered the “Health Silk Road International Exchange Program” has been rolled out in 2024, which enhanced the Group’s brand image overseas. While maintaining the investment in research and development, the Group implemented effective cost control and efficiency improvement measures to reduce operating costs and administrative expenses while revenue increased.

As of 31 December 2024, the Group recorded sales revenue of approximately RMB1,346.4 million, representing an increase of approximately 23.1% compared to the same period of last year, and a net profit of approximately RMB273.9 million, representing an increase of approximately 50.4% compared to the same period of last year.

AK iCOS Ecosystem

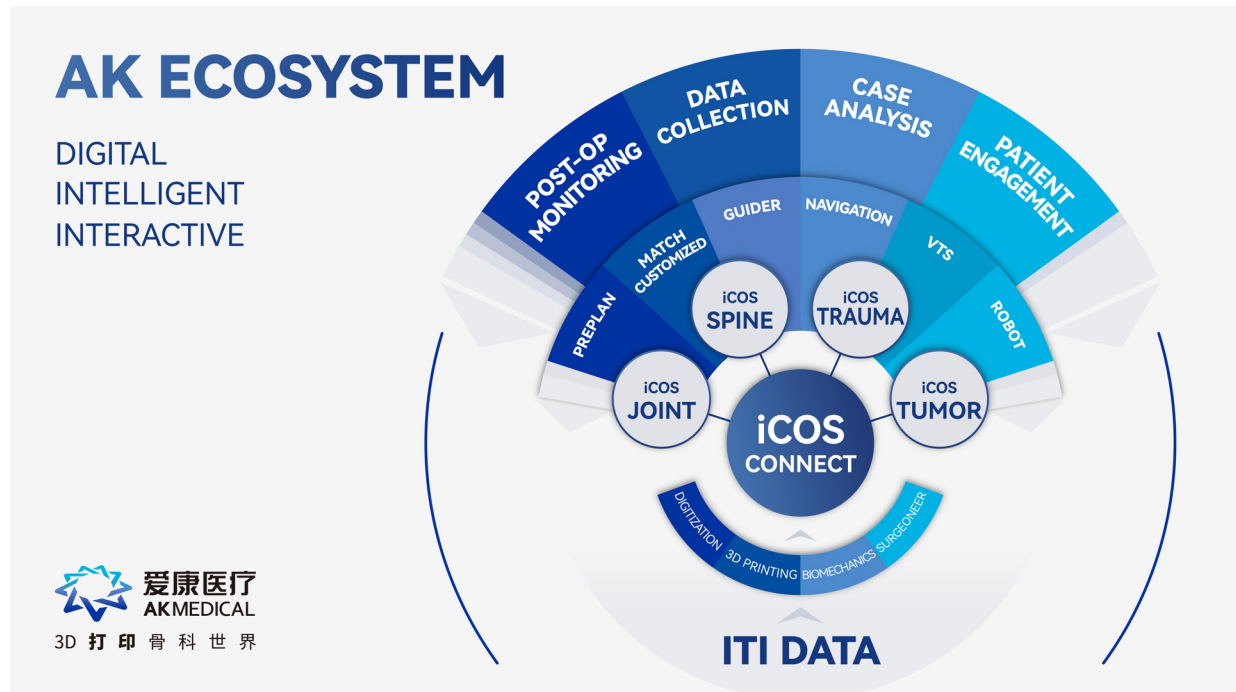
In today’s healthcare field, digital and intelligent technologies are leading the transformation of orthopedic diagnosis and treatment model, which has become a hot topic in the industry. Cutting-edge technologies such as artificial intelligence, virtual/augmented/mixed reality, 3D printing, navigation and robotic assistance are gradually being integrated into the clinical practice of orthopedics, continuously empowering orthopedic surgeons. These digital technologies simplify complex surgeries, improve simple surgeries, and personalize precise surgeries, which have become the core development trend of the orthopedic field in the future.

The Group began to deploy 3D printing technology in 2009, focusing on the research and application of metal 3D printing technology in the orthopedic implants, and built the 3DACT three-dimensional precision construction technology platform, realizing the combination of standardized prosthesis manufacturing and personalized diagnosis and treatment solutions through digitalization to provide precise surgery solutions services for different anatomical characteristics and clinical needs of patients.

In 2014, the Group launched the first Physician-Technician Interaction Platform in China – the iCOS digital orthopedics customised products and services platform (hereinafter referred to as the “iCOS Digital Orthopedics Platform”), which provided one-stop services such as preoperative planning, lesion area model printing, surgical simulation, customized surgical guide, and personalized prosthesis design and manufacturing, through patient imaging data and interaction with doctors to improve the accuracy of preoperative preparation and reduce surgical risks. In 2022, the Group launched the first Joint Visual Treatment Solution (VTS) Navigation System in China, which uses visualization technology and intelligent algorithms to monitor surgeries in real time. Preoperative image data processing, 3D surgical planning, and intraoperative visual tracking functions were integrated to achieve sub-millimeter precision operation during acetabular prosthesis implantation, which improved the efficacy of total hip arthroplasty and shortened the rehabilitation period. In 2023, the hip surgery robot self-developed by the Group was approved for launch. In 2024, the knee surgery robot was re-approved, thus completing the full deployment in the digital orthopaedic hip and knee track.

Currently, the Group has established a core framework for orthopaedic personalized services through the iCOS Digital Orthopedics Platform. Relying on the existing 3D printing technology platform, biomechanics platform, medical-industrial interaction platform and image and digital document processing platform, the Group has completed the whole life cycle management system of personalized implants from pre-operative, intra-operative to post-operative. The iCOS Digital Orthopedics Platform is based on a database of more than 20,000 case characteristics, which can be used to provide revision surgery prediction services. Based on the existing four categories of joints, spine, trauma, and oncology, the Group’s pre-operative planning solutions, intra-operative surgical positioning guides, intra-operative VTS system, or surgical robots are used to ultimately realize the precise implantation of personalized prostheses via iCOS Digital Orthopedics Platform. In 2024, the Group has built a system for post-operative follow-up, monitoring and data analysis of personalized cases, and promoted the evolution of personalized orthopaedic implants from “passive replacement” to “active interaction”.

The Group's iCOS Digital Orthopedics Platform has formed a total solution network of "preoperative planning – intraoperative digital assistance – prognosis monitoring". Based on the 3D customized preoperative planning, the Group can accurately match robots or navigation systems and customized tools during surgery to ensure precise and efficient surgery. Prognosis optimization tools are also available to assist patients in their recovery after surgery. Combined with the Group's comprehensive portfolio of "conventional-complex-custom" implants, the complete solution network of the Group provides innovative solutions for orthopedic medicine and drives the industry towards precision, efficiency and personalization. Eventually, the Group transformed from a medical device manufacturer to an orthopaedic intelligent health management platform, and constructed a closed-loop orthopaedic digital ecosystem of "accurate diagnosis - intelligent production - full service".



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.

In 2024, the surgery volume of hip and knee joint implants showed a steady recovery. The Group established an in-depth cooperation pattern with a number of national and provincial hospitals and other key medical institutions, which effectively improved brand awareness and recognition by various means such as R&D and academic cooperations. The import substitution process has achieved remarkable results, and the contribution of surgery volume in top-tier hospitals continued to increase. The Group's surgical implant volume significantly increased in economically developed provinces which were traditionally dominated by import brands, such as Guangdong, Shanghai, and Zhejiang, covering most of the key hospitals in these regions.

As of 31 December 2024, the Group's revenue from hip and knee products was approximately RMB1,134.2 million, representing a year-on-year increase of approximately 25.8%.

Spinal and Trauma Implants Business

The Group has a complete line of conventional spinal and trauma products, as well as 3D printed spinal products. With its unique 3D printing technology, the Group has developed a differentiated product portfolio.

In 2024, affected by relevant policies, spinal implants business remained stable in a short time. Thanks to 3D spinal implants' unique strength, the Group has cooperated with national and provincial-level major hospitals based on joint research, has focused on leading hospitals' businesses, and has developed over 108 new hospitals (including 10 provincial-level hospitals). It is expected to achieve growth accompanied by expanding volume in the future.

As of 31 December 2024, the Group's revenue from spinal and trauma implants was approximately RMB127.3 million, representing a year-on-year increase of approximately 3.3%.

Digital Orthopedics Customised Products and Services

Following the successful domestic sales of the Visual Treatment Solution (VTS) Navigation System in the first half of 2024, the Visual Treatment Solution (VTS) Navigation System recorded its first overseas sale in September 2024, marking the Group's entry into the international market. This sale not only introduced a new digital assistance solution for orthopedists in Mexico but also demonstrated the Visual Treatment Solution (VTS) Navigation System's competitiveness and technological advantages in the global healthcare market. As of 31 December 2024, the Visual Treatment Solution (VTS) Navigation System has assisted in more than 1,000 surgeries in China and abroad.

In 2024, as industry policies increased transparency and regulation in the healthcare sector, the fluctuations brought by the adjustment period affected the number of surgeries with iCOS customised product to a certain extent.

In 2024, the Group's revenue from digital orthopedics customised products and services was RMB51.3 million, representing an increase of approximately 3.5% compared with 2023.

Overseas Business

Overseas strategy is an important part of the Group's growth strategy. In 2024, the Group actively expanded overseas markets. The Group has clearly positioned its two brands, JRI and AK, to complement each other's brands, product lines and sales for different markets. It has established a three-tier management structure: overseas sales, overseas business and overseas marketing. At the same time, relying on the "Health Silk Road International Exchange Program", the Group actively carried out international exchanges, and held 24 international academic exchange activities of various scales for domestic introduction and international outreach throughout the year, thereby enhancing the Group's overseas brand awareness and influence. In 2024, the Group's products were registered in five new overseas countries. In addition, the products registration and market access in progress in 10 countries and 12 newly added distributors. In 2024, in addition to the conventional products for overseas business, the Visual Treatment Solution (VTS) Navigation System was exhibited in the United States, Mexico and Thailand, attracting the attention and high recognition from overseas doctors, and recorded its first overseas sale in 2024. The digital orthopedics whole process solutions will be likely to become a strong support for the Group's overseas business expansion in the future.

In 2024, the Group's revenue from overseas products amounted to approximately RMB274.3 million, an increase of approximately 20.8% compared with the revenue for the same period of 2023. This revenue has been included in the revenue from hip and knee joints, and digital orthopedics customised products and services mentioned above.

Research and Development

The Group continues to build an innovation-driven R&D system that integrates technology with market needs. In 2024, the Center for Medical Device Evaluation of the National Medical Products Administration released a public announcement on the review results of applications for the special review of innovative medical devices. The "artificial cervical disc" project submitted by AK Medical was approved to enter the special review process and was publicly announced. This product is expected to provide an advanced solution for the development of non-fusion technology in cervical spine surgery, further promoting the development of 3D printing technology in the spinal surgery field.

As of 31 December 2024, a total of four products – the intervertebral disc prosthesis, hip joint prosthesis-femoral head, thoracolumbar prosthesis (certified), and sacral reconstruction prosthesis have been accepted into the NMPA's special review pathway for innovative medical devices. It fully demonstrates that the Group's products possess exclusive basic research capabilities, core technology development capabilities and a wealth of product application reserves.

In addition to innovative R&D of implants, the Group has established an integrated ecosystem around the core focus of intelligent device in conjunction with R&D of prostheses. The Group's K3 intelligent surgical robot, equipped with a self-developed robotic arm, represents a further leap forward in digital orthopedics technology. It continues to push technological boundaries to drive continuous advancements in intelligent healthcare.

At present, the Group has completed R&D in intelligent imaging and planning technologies, focusing on breakthroughs in multimodal medical image fusion and biomechanical computation. The Group has developed deep learning-based 3D registration algorithms for CT/MRI/X-ray images, enabling high-precision anatomical reconstruction. It has also established a dynamic matching model of elastic modulus and mechanical properties at the implant-bone interface, which is likely to address the clinical challenge of prosthesis subsidence in elderly patients with osteoporosis, and provide higher-quality and more precise solutions for complex bone defect repair. Meanwhile, in the development of digital twin and intelligent service systems, the Group has built a full-cycle digital twin model for patients, integrating intraoperative and postoperative follow-up data, simulating personalized rehabilitation processes, and developing a digital system for personalized implants. Through mobile internet technology, the Group has realized a comprehensive recording of production, implantation, and usage of data. Leveraging the iCOS medical-engineering collaboration engine, the Group has enabled real-time spatial collaborative design among multiple experts, forming a new R&D and innovation service system “driven by data and enabled by cloud synergy”.

Sales and Marketing

The Group’s commitment to innovation is reflected in its unique technologies, products, and solutions. The Group pioneers in adopting personalized solutions based on 3D printing technology to precisely meet the personalized needs of each patient, enhance surgical precision, and overcome complex problems that conventional products cannot resolve. Through R&D collaboration with medical institutions, the Group continuously drives innovation and product optimization. The Group transforms cutting-edge technology into tangible benefits for patient health and healthcare sustainability. Meanwhile, the Group actively carries out market education and promotion, thereby creating value for its stakeholders while benefiting patients.

The Group firmly believes that education is an essential tool for translating innovation into tangible value for patients, surgeons, and healthcare systems. To meet the needs of surgeon clients, the Group has introduced a series of training and technical support programs through AK Medical Academy. Since its establishment in 2012, AK Medical Academy has evolved into a global education platform, offering courses tailored to the personalized needs of each surgeon across all the Group’s business lines. Additionally, the Group has integrated the “ITI Medical-Engineering Interaction Platform” to further support surgeons’ efforts in patient education and enhance patients’ understanding and experience of the products and technologies of the Group.

Conventional Joints and Spine Business Promotion

In 2024, the Group carried out a series of marketing activities in joint market promotion, focused on themes such as “knee preservation,” “developmental dysplasia of the hip”, and “complex revision”, thereby enhancing its influence in the top-tier hospitals. The Group collaborated with the National Orthopedic Medical Center’s Knee Preservation Alliance to organize 15 university-level academic activities and nearly 100 smaller events throughout 2024. The Group also partnered with the National Clinical Research Center for Orthopedics, Sports Medicine and Rehabilitation to launch the “Way to the Congenital Hip” systematic course, providing an academic exchange platform for the diagnosis and treatment of developmental dysplasia of the hip. These diverse academic activities provided doctors with professional training and communication platforms, with the cumulative number of participating doctors and scholars reaching nearly 100,000.

In the spine sector, in alignment with the development trends of minimally invasive, personalized, and intelligent spinal surgery, the Group launched a series of unique products in 2024, including the 3D-printed zero-incision self-stabilizing fusion cage, 3D-printed zero-incision self-stabilizing vertebral body, and 3D-printed atlantoaxial fusion cage, aiming to address key pain points in the spinal field and establish the Group’s brand image as a “fusion expert” in the spine sector. Centered around 3D printing technology and 3D-printed spinal fusion products, the Group carried out a series of academic education and market activities, with the total number of participating doctors and scholars reaching nearly 40,000.

Digital Orthopedics Capacity Building Project

Since the industry standardization led by the National Health Commission in 2023, the National Health Commission has also specified that academic conferences, that strictly comply with the relevant national regulations, and are conducted in a compliant and orderly manner, should be given full and adequate support and encouragement. In 2024, the Group launched a series of digital orthopedics capability-building activities, including the VTS Tutorials, under the Research Project on Improving Clinical Application Capabilities of Digital Orthopedic Technology led and organized by the Capacity Building and Continuing Education Centre of the National Health Commission. These efforts aim to promote digital orthopedic technologies and provide patients with more precise and efficient medical services.

Following the successful sales of the Visual Treatment Solution (VTS) Navigation System in China in the first half of 2024, the Group held a ceremony in December to celebrate the number of Visual Treatment Solution (VTS) Navigation System exceeding the 1,000 units. After eight years of research and development, VTS System has served more than 20 cities, 30 hospitals and 100 physicians worldwide. As at December 2024, over 1,000 units of VTS System were applied for clinical use.

In December 2024, K3 intelligent surgical robot, AK Medical's self-developed robot system was officially launched at the 2024 Academic Conference on Joint Surgery of the Chinese Medical Association. K3 intelligent surgical robot is equipped with the capability to help doctors in the whole process of procedure covering the preoperative, intraoperative, and postoperative phases. With self-developed mechanical arm, K3 possess a unique advantage in clinical application. And its unique soft tissue balance function also enables surgeons to better formulate preoperative plan and provide guidance on intraoperative operation in a practicable and effective way, making it a reliable and efficient helper for doctors in operations.

Health Silk Road International Exchange Program

Following the launch of the “Health Silk Road International Cooperation Alliance” at the 3rd “Silk Road Friendship” Award Ceremony in December 2023, the alliance hospital plaque unveiling ceremony was held in Beijing in May 2024. As a participating institution in the project, the Group actively promoted international medical exchange and cooperation. In 2024, the Group hosted a total of 10 events under the Health Silk Road International Cooperation Alliance, with more than 260 participants from 51 medical institutions in seven countries across three continents. The total number of news article views exceeded 400,000, generating a positive social impact.

Production and Manufacturing

The Group is actively committed to internal production and the construction of digitalized and highly efficient supply chain. During the reporting period in 2024, the construction of the intelligent factory project in Changping, Beijing, commenced successfully and was expected to be put into use in the first half of 2025. The construction of the project aimed to integrate digital upgrade and production operations of enterprises. After the comprehensive integration and upgrade are completed in the future, it will help enterprises improve the efficiency of resource utilization and optimize supply cycles, thereby effectively reducing the manufacturing and operation costs and supporting high-quality development.

Prospect

As the prices of the products in the orthopedic VBP converge and the implementation of the procurement measures begins, its impact is gradually being absorbed by the market. In the future, product quality, market training and education, the continuous capability of research and development and innovation and other elements will become key factors for enterprises to maintain competitiveness in the field of conventional products. While stabilizing the sales of conventional products under VBP, the Group is taking the advantage of the implementation of VBP as an opportunity to actively deploy in top-tier hospitals and key provinces such as Beijing, Shanghai, Zhejiang, and Guangdong. It is expected that the Group stands a good chance to further gain more market share, especially in the revision market share that mainly comes from top-tier hospitals.

At the same time, digitization and intelligence on a global scale have become a significant impetus for orthopedic enterprises to gain competitive advantages in the medium to long term within the orthopedic field. While maintaining the stable growth of conventional products, based on iCOS Digital Orthopedics Platform, the Group will actively drive to build a digital-intelligent interactive ecosystem and new business models. By leveraging the dual-brand strategy to expand overseas markets, the Group will promote the team transformation and enhance its capabilities, thus continuously creating value for shareholders.

Build a Digital-Intelligent Interactive Ecosystem and New Business Models

In next decade, in addition to the continuous development of new materials, the orthopedic field will develop in the directions of personalization, minimally invasiveness, and intelligence, so as to alleviate patients' surgical pain, shorten the recovery period, and improve their quality of life. With more than 15 years of experience in exploration and layout of 3D printing technology, the Group has built significant competitive advantages in the fields of customization and personalization, in particular, strong market barriers in top tier hospitals have been built. At the same time, the Group's continuous layout and exploration in the field of smart devices have further enhanced the competitiveness of conventional products. With the release of pricing items for surgical planning, 3D models, and 3D guides in various provinces, and the greater interest from the market in navigation systems and robots, the Group will have the opportunity to explore new business models.

Dual-brand Strategy to Expand Overseas Markets

The "JRI" brand under the Group is based in Europe, and is a trusted brand with a history of over 50 years and highly outstanding clinical data. The "AK" brand is rooted in China with production scale and relatively flexible business policies as the core competitiveness. Synergy between the two brands enabled the Group to better seize the growth opportunities in the international market. The Group has arranged overseas business deployment as its new growth engine to expand the scope of registered countries. Guided by the "Health Silk Road International Exchange Program", the Group has built brand influence in the markets of emerging countries to continuously expand the scale of overseas business.

Promote Team Transformation and Enhance Its Capabilities

With the adjustments of business priorities and the exploration of new business models, the Group needs to promote the professional digital transformation of its team correspondingly and enhances the team's capabilities to cope with the new situation, new priorities, and new models, so as to improve its business operation and management capabilities, and enhance its operational efficiency, and strengthen its corporate resilience, and consolidate its competitive advantages, thereby supporting the Group's long-term development.

FINANCIAL REVIEW

Overview

	As of 31 December		
	2024	2023	Variance
	<i>RMB'000</i>	<i>RMB'000</i>	%
Revenue	1,346,377	1,093,862	23.1%
Gross profit	808,193	674,486	19.8%
Profit for the year	273,926	182,104	50.4%
Profit for the year attributable to equity shareholders of the Company	273,926	182,104	50.4%
Earnings per share			
Basic	RMB0.25	RMB0.16	
Diluted	RMB0.24	RMB0.16	

For the year ended 31 December 2024, the Group achieved revenue of approximately RMB1,346.4 million, representing a significant increase of approximately 23.1% as compared to the same period of 2023. In 2024, under accelerated import substitution driven by the VBP policy, the demand for the Group's surgical products continued to grow. The number of surgeries rose rapidly, further improving the coverage of its products in hospitals and the sales of products covered by the national VBP. Meanwhile, through active market expansion and supported by the digital orthopedics whole process solutions, the number of overseas surgeries has increased, leading to a notable growth in overseas revenue for the Group. The Group achieved a net profit of approximately RMB273.9 million for the year ended 31 December 2024, representing a significant increase of approximately 50.4% as compared to the same period of 2023. The increase in profit was primarily attributable to revenue growth and cost control.

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

	2024	2023	Variance
	<i>RMB'000</i>	<i>RMB'000</i>	%
Hip replacement implants ⁽¹⁾	729,084	590,396	23.5%
Knee replacement implants ⁽²⁾	405,110	311,351	30.1%
Spinal and trauma implants ⁽³⁾	127,326	123,268	3.3%
Digital orthopedics customised products and services ⁽⁴⁾	51,335	49,593	3.5%
Others ⁽⁵⁾	33,522	19,254	74.1%
Total	1,346,377	1,093,862	23.1%

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, pelvic, spinal and trauma implant products and customised value-added surgical services and Visual Treatment Solution (VTS) Navigation System;
- (5) Others primarily include surgical instruments, medical irrigators and third party orthopedic products.

Revenue for the year ended 31 December 2024 amounted to approximately RMB1,346.4 million, representing an increase of approximately 23.1% as compared to the same period of 2023. The increase in revenue was largely attributable to the growth in sales of hip and knee replacement implants within the scope of VBP driven by the nationwide VBP policy for joint implants. Meanwhile, through active market expansion, the Group saw remarkable growth in overseas revenue.

Hip and Knee Replacement Implant Products

The hip and knee replacement implant products include knee replacement implants and hip replacement implants, as well as 3D-printed hip and knee replacement implants.

Revenue from hip replacement implants for the year ended 31 December 2024 amounted to approximately RMB729.1 million, representing a striking increase of approximately 23.5% from approximately RMB590.4 million for the year ended 31 December 2023. Revenue from knee replacement implants for the year ended 31 December 2024 amounted to approximately RMB405.1 million, representing a notable increase of approximately 30.1% from approximately RMB311.4 million for the year ended 31 December 2023.

In 2024, further driven by the national VBP policy for joint implants, the demand for the Group's surgical products kept growing, leading to continuous growth in sales revenue from hip and knee replacement implant products within the scope of VBP. In the meantime, through active market expansion, the Group successfully entered into many overseas regions for the sales activities, and has also achieved the increase in the number of overseas surgeries. The Group achieved significant growth in overseas revenue from its hip and knee replacement implant products through active market expansion.

Spinal and Trauma Implant Products

The spinal and trauma implant products of the Group include traditional spinal implants and trauma implants, as well as 3D-printed spinal implants. Revenue from spinal and trauma implant products for the year ended 31 December 2024 amounted to approximately RMB127.3 million, representing an increase of approximately 3.3% from approximately RMB123.3 million for the year ended 31 December 2023. In 2024, affected by the policy, the spinal business remained stable in the short run. Relying on its unique 3D printing technology, the Group has developed a differentiated product portfolio and has been highly recognized by the market. Newly-developed hospitals exceeded 108, including 10 provincial hospitals, achieving a rapid growth in the surgical implantation. Meanwhile, through active development, the sales of trauma implants products achieved remarkable growth.

Digital Orthopedics Customised Products and Services

Revenue from digital orthopedics customised products and services includes revenue from customised joint, pelvic, spinal and trauma implant products and customised value-added surgical services and Visual Treatment Solution (VTS) Navigation System. Revenue from customised products and services for the year ended 31 December 2024 amounted to approximately RMB51.3 million, representing an increase of approximately 3.5% from approximately RMB49.6 million for the year ended 31 December 2023. In 2024, affected by the policy, the revenue from the customised products and services of the Group remained stable. However, relying on the advantages of its products and technologies, the Group has successfully expanded its business into multiple hospitals and carried out customised surgeries. Through active market expansion, the Group successfully achieved sales of Visual Treatment Solution (VTS) Navigation System in China and overseas regions in 2024.

Others

Other revenue includes revenue from surgical instruments and third party orthopedic products. In 2024 and 2023, the Group's revenue from surgical instruments and third-party orthopedic products amounted to approximately RMB33.5 million and approximately RMB19.3 million, representing approximately 2.5% and approximately 1.8% of its revenue, respectively.

Domestic and Overseas Sales

The majority of the Group's revenue is generated in China, with a smaller percentage derived from overseas sales. A breakdown of the Group's domestic and overseas sales revenue is set forth below:

	2024 RMB'000	2023 RMB'000	Variance %
China	1,072,059	866,730	23.7%
Other countries	274,318	227,132	20.8%
Total	<u>1,346,377</u>	<u>1,093,862</u>	<u>23.1%</u>

For the year ended 31 December 2024, the Group's overseas sales revenue amounted to approximately RMB274.3 million, representing a notable increase of approximately 20.8% as compared to the year ended 31 December 2023. The increase was primarily due to an increase in the number of overseas surgeries in 2024 as a result of the Group's active expansion of overseas markets. Revenue from China for the year ended 31 December 2024 amounted to approximately RMB1,072.1 million, representing a significant increase of approximately 23.7% from approximately RMB866.7 million for the year ended 31 December 2023, primarily due to the impact of the aforementioned increase in the number of surgeries.

Cost of Sales

For the year ended 31 December 2024, the cost of sales was approximately RMB538.2 million, representing an increase of approximately 28.3% from approximately RMB419.4 million for the year ended 31 December 2023. The increase in cost of sales was primarily due to an overall increase in the sales volume of the Group's products.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. Gross profit for the year ended 31 December 2024 amounted to approximately RMB808.2 million, representing an increase of approximately 19.8% as compared to approximately RMB674.5 million for the year ended 31 December 2023. The increase in gross profit was primarily due to the increase in revenue.

Gross margin is calculated as gross profit divided by revenue. The Group's gross margin was approximately 60.0% for the year ended 31 December 2024, a decrease of approximately 1.7% from approximately 61.7% for the year ended 31 December 2023. The proportion of revenue from products covered by the VBP increased, which led to a slight drop in gross margin.

Other Income, Net

Other income for the year ended 31 December 2024 was approximately RMB16.7 million, representing a decrease of approximately RMB9.7 million from approximately RMB26.4 million for the year ended 31 December 2023. Other income mainly represents income from government subsidy in 2024.

Selling and Distribution Expenses

Selling and distribution expenses were approximately RMB240.9 million for the year ended 31 December 2024, representing an increase of approximately 10.1% from approximately RMB218.8 million for the year ended 31 December 2023. The increase was mainly due to more domestic and international marketing activities conducted by the Group for the year.

General and Administrative Expenses

General and administrative expenses amounted to approximately RMB143.9 million for the year ended 31 December 2024, representing an increase of approximately 7.9% from approximately RMB133.4 million for the year ended 31 December 2023. The increase was mainly due to an increase in the option expenses of management staff 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 2024 were approximately RMB139.2 million, representing an increase of approximately 1.5% from approximately RMB137.1 million for the year ended 31 December 2023. In 2024, the Group continued to actively invest in R&D of digital orthopedics, strengthen its R&D team, actively implement R&D projects, as well as develop new products.

Net Finance Income

Net finance income was approximately RMB19.0 million for the year ended 31 December 2024, representing a decrease of approximately RMB0.6 million from approximately RMB19.6 million for the year ended 31 December 2023. The slight decrease in finance income was primarily due to the combined effect of the increase in interest income and foreign exchange losses as a result of exchange rate movements.

Income Tax Expenses

Income tax expense was approximately RMB45.9 million for the year ended 31 December 2024, representing a decrease of approximately 6.4% from approximately RMB49.0 million for the year ended 31 December 2023. The decrease was primarily due to the combined effect of an increase in net profit and reversal of deferred income tax assets in prior period resulting from changes in the tax rates of subsidiaries of the Group in 2023.

Liquidity and Financial Resources

As at 31 December 2024, we had cash and cash equivalents of approximately RMB352.2 million, structured deposits of approximately RMB610.7 million, time deposits over three months of approximately RMB56.8 million, and restricted deposits of approximately RMB8.0 million, amounting to approximately RMB1,027.7 million in aggregate, as compared with RMB757.3 million as at 31 December 2023. The Board's approach to manage the liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities so as to avoid any unacceptable losses or damage to the Group's reputation.

Net Current Assets

We had net current assets of approximately RMB1,581.6 million as at 31 December 2024, representing an increase of approximately RMB105.0 million from approximately RMB1,476.6 million as at 31 December 2023. Such increase was primarily generated by the Group's operations.

Foreign Exchange Exposure

The Group's principal business is conducted in China. Foreign currency risks primarily include accounts receivables, accounts payables and cash balances that are denominated in foreign currencies, i.e., a currency other than the functional currency of the operations to which the transaction relates generating from overseas sales and purchases. The foreign currencies giving rise to this risk are primarily US dollars and Euros. For the year ended 31 December 2024, the Group recorded a net exchange loss of approximately RMB3.4 million, as compared to an exchange loss of approximately RMB1.9 million for the year ended 31 December 2023. So far, the Group has not had any hedging arrangements to manage foreign exchange risks and has not employed any financial instruments for hedging purposes, but has been actively monitoring and overseeing such risks.

Capital Expenditure

For the year ended 31 December 2024, the Group's total capital expenditure amounted to approximately RMB206.4 million, which was primarily used for (i) plant construction; (ii) purchase of patents; and (iii) purchase of equipment, instruments and software for manufacturing and R&D activities.

Charge of Assets/Pledge of Assets

As at 31 December 2024, the Group mainly pledged a deposit of approximately RMB196.3 million in the pledged deposits account to obtain a bank loan for new plant construction (as at 31 December 2023: approximately RMB184.1 million), and bills receivable of approximately RMB22.9 million and restricted deposits of approximately RMB7.5 million were used to be pledged for bills payable (as at 31 December 2023: bills receivable of approximately RMB18.8 million and restricted deposits of approximately RMB5.2 million), amounting to approximately RMB226.7 million in aggregate. Other than the above, we did not have any charge or pledge of assets.

Borrowings and Gearing Ratio

As at 31 December 2024, the balance of the Group's short-term bank loans of approximately RMB60.4 million (as at 31 December 2023: approximately RMB21.4 million), which were repayable on demand within one year, and the balance of the Group's long-term borrowings of approximately RMB17.7 million (as at 31 December 2023: approximately RMB32.3 million) (which were repayable within two years) were invested in the construction of the new plant and supplementing daily working capital demand. All borrowings are all denominated in RMB. Our loans have a term of less than three years, with interest rate being 2.5% to 3.0%. Gearing ratio represents the percentage of bank borrowings to total equity. As of 31 December 2024, the gearing ratio of the Group was approximately 3.0% (as of 31 December 2023: approximately 2.2%).

Contingent Liabilities

As at 31 December 2024, we did not have any material contingent liabilities (as at 31 December 2023: Nil).

Significant Investments

We did not hold any significant investments in other equity interests as at 31 December 2024.

Future Plans for Material Investments and Capital Assets

As at 31 December 2024, the Group had two projects under construction: a new office park in the eastern part of Changping New City and a new plant in Changzhou West Taihu Lake Park. Depending on actual needs at the relevant times, the Group currently expects to fund those two projects through internal funds and/or external funds. Other than that, the Group have no other plans for material investments and capital assets.

Employee and Remuneration Policy

As at 31 December 2024, the Group had 954 employees (as at 31 December 2023: 1,052 employees). Total staff remuneration expenses including Directors' remuneration for the year ended 31 December 2024 amounted to approximately RMB254.9 million (for the year ended 31 December 2023: approximately RMB255.0 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 schemes.

Material Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures

During the year ended 31 December 2024, there was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group.

Subsequent Event

There are no important events affecting the Group which have occurred since the end of the financial year ended 31 December 2024.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and management are committed to achieving high corporate governance standards. The Board has reviewed the Group's corporate governance practices and is satisfied that the Group has been in compliance with the code provisions ("**Code Provisions**") set out in the Corporate Governance Code contained in Part 2 of Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the year ended 31 December 2024 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 individual. The Group deviates from this Code Provision because the position of the chairman and chief executive officer of the Group 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 Group 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 Group. 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 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 2024 as set out in the preliminary announcement have been agreed 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. The work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by KPMG on the preliminary announcement.

REVIEW BY THE AUDIT COMMITTEE

The audit committee of the Group has reviewed the Group's annual results for the year ended 31 December 2024.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Specific enquiries were made to all the Directors and the Directors confirmed that they had fully complied with the Model Code for transactions in the Group’s securities throughout the year ended 31 December 2024.

The Group has also established written guidelines on no less exacting 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 Group. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Group throughout the year ended 31 December 2024.

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

Neither the Group nor any of its subsidiaries has purchased, sold or redeemed any of the Group’s listed securities, including sale of treasury shares (as defined under the Listing Rules), if any, during the year ended 31 December 2024.

As at 31 December 2024, there were no treasury shares (as defined under the Listing Rules) held by the Group.

PUBLIC FLOAT

Based on the information publicly available to the Group and within the knowledge of the Directors, at least 25% of the Group’s total issued share capital was held by the public at all times during the financial year ended 31 December 2024 as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

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

ANNUAL GENERAL MEETING

The Annual General Meeting (“**AGM**”) of the Group will be held on Wednesday, 18 June 2025. A notice convening the AGM will be published and despatched to shareholders of the Group (“**Shareholders**”) (if requested) in the manner required by the Listing Rules and will be available on the website of the Group at <https://www.ak-medical.net> and the website of HKEXnews operated by Hong Kong Exchanges and Clearing Limited at <https://www.hkexnews.hk>, respectively, in due course.

FINAL DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK\$7.2 cents per ordinary share of the Group for the year ended 31 December 2024 (2023: HK\$4.5 cents) to the Shareholders whose names appear on the register of members of the Group on Friday, 27 June 2025. The final dividend, if approved by the Shareholders at the AGM, will be payable on or around Friday, 18 July 2025.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Group 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, 18 June 2025, the register of members of the Group will be closed from Friday, 13 June 2025 to Wednesday, 18 June 2025, both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with the Group's Hong Kong branch share registrar, MUFG Corporate Markets Pty Limited at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Thursday, 12 June 2025.
- (b) For the purpose of determining Shareholders who qualify for the final dividend, the register of members of the Group will be closed from Wednesday, 25 June 2025 to Friday, 27 June 2025, both days inclusive. In order to qualify for the final dividend, all transfer documents should be lodged for registration with the Group's Hong Kong branch share registrar, MUFG Corporate Markets Pty Limited at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Tuesday, 24 June 2025.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Group at <https://www.ak-medical.net> and HKEXnews operated by Hong Kong Exchanges and Clearing Limited at <https://www.hkexnews.hk>, respectively. The annual report for the year ended 31 December 2024 containing all the information required by Appendix D2 to the Listing Rules will be despatched to the Shareholders (if requested) and published on the above websites in accordance with the Listing Rules in due course.

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

Hong Kong, 26 March 2025

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 Dr. Gao Wei as independent non-executive Directors.