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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 2023

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 2023, together with the comparative figures for the last year.

#### FINANCIAL HIGHLIGHTS

	<u>Year ended 31 December</u>		<b>Variance</b>
	<b>2023</b>	2022	
	<b>RMB'000</b>	RMB'000	<b>%</b>
Revenue	<b>1,093,862</b>	1,052,047	4.0%
Gross profit	<b>674,486</b>	636,435	6.0%
Profit for the year	<b>182,104</b>	204,772	-11.1%
Profit for the year attributable to equity shareholders of the Company	<b>182,104</b>	204,772	-11.1%
<b>Earnings per share</b>			
Basic	<b>RMB0.16</b>	RMB0.18	
Diluted	<b>RMB0.16</b>	RMB0.18	

For the year ended 31 December 2023, the Group achieved revenue of RMB1,093.9 million, representing an increase of 4.0% as compared to 2022. In 2023, due to the anti-corruption campaigns, the number of surgeries in hospitals decreased. The decline in the number of operations in hospitals affected the sales of the Company’s products to a large extent. Under such pressure, on the one hand, the Company continued to explore the domestic market and improve the coverage of its products in hospitals, which drove the revenue growth of its spine products. On the other hand, it actively explored overseas markets, and its overseas revenue also realized significant growth. For the year ended 31 December 2023, the Group achieved a net profit of RMB182.1 million, representing a decrease of 11.1% as compared to the year of 2022, which was mainly attributable to the increase in investment related to R&D and market development.

The Directors have resolved to recommend the payment of a final dividend of HK\$4.5 cents per share for the year ended 31 December 2023.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2023

(Expressed in Renminbi (“RMB”))

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
<b>Revenue</b>	3	<b>1,093,862</b>	1,052,047
Cost of sales		<u>(419,376)</u>	<u>(415,612)</u>
<b>Gross profit</b>		<b>674,486</b>	636,435
Other income, net	4	<b>26,370</b>	11,193
Selling and distribution expenses		<b>(218,806)</b>	(180,107)
General and administrative expenses		<b>(133,441)</b>	(118,313)
Research and development expenses		<b>(137,126)</b>	(110,865)
Impairment loss on goodwill		<u>–</u>	<u>(18,360)</u>
<b>Operating profit</b>		<b>211,483</b>	219,983
Net finance income		<u>19,634</u>	<u>20,307</u>
<b>Profit before taxation</b>	5	<b>231,117</b>	240,290
Income tax	6	<u>(49,013)</u>	<u>(35,518)</u>
<b>Profit for the year</b>		<u>182,104</u>	<u>204,772</u>
<b>Profit attributable to equity shareholders of the Company</b>		<u>182,104</u>	<u>204,772</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>13,475</u>	<u>23,243</u>
<b>Other comprehensive income, net of tax</b>		<u>13,475</u>	<u>23,243</u>
<b>Total comprehensive income</b>		<u>195,579</u>	<u>228,015</u>
<b>Total comprehensive income attributable to equity shareholders of the Company</b>		<u>195,579</u>	<u>228,015</u>
<b>Earnings per share</b>			
Basic	7(a)	<b>RMB0.16</b>	RMB0.18
Diluted	7(b)	<b>RMB0.16</b>	RMB0.18

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2023

(Expressed in RMB)

	Note	At 31 December 2023 RMB'000	At 31 December 2022 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		574,970	435,629
Intangible assets		87,966	85,275
Goodwill		113,411	113,411
Deferred tax assets		67,260	74,820
Pledged and time deposits		184,601	—
		<u>1,028,208</u>	<u>709,135</u>
<b>Current assets</b>			
Inventories		595,514	402,330
Trade receivables	9	451,401	467,079
Bills receivable	9	78,777	78,274
Deposits, prepayments and other receivables		87,207	34,362
Other financial assets		395,455	416,593
Pledged and time deposits		35,245	40,890
Cash and cash equivalents		331,217	625,829
		<u>1,974,816</u>	<u>2,065,357</u>
<b>Current liabilities</b>			
Trade payables	10	151,451	155,167
Bills payable		23,470	—
Contract liabilities		85,299	79,846
Accruals and other payables		184,724	165,098
Bank loans	11	21,394	—
Lease liabilities		14,239	13,500
Current taxation		17,596	22,773
		<u>498,173</u>	<u>436,384</u>
<b>Net current assets</b>		<u>1,476,643</u>	<u>1,628,973</u>
<b>Total assets less current liabilities</b>		<u>2,504,851</u>	<u>2,338,108</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)***at 31 December 2023**(Expressed in RMB)*

	<i>Note</i>	<b>At 31 December 2023 RMB'000</b>	<b>At 31 December 2022 RMB'000</b>
<b>Non-current liabilities</b>			
Deferred income		<b>10,425</b>	13,331
Other payables		<b>5,926</b>	8,324
Lease liabilities		<b>16,311</b>	25,281
Bank loans	<i>11</i>	<b>32,259</b>	–
Deferred tax liabilities		<b>48,027</b>	47,411
		<b>112,948</b>	94,347
<b>NET ASSETS</b>			
		<b>2,391,903</b>	2,243,761
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>12</i>	<b>9,508</b>	9,453
Reserves		<b>2,382,395</b>	2,234,308
<b>Total equity attributable to equity shareholders of the Company</b>			
		<b>2,391,903</b>	2,243,761
<b>TOTAL EQUITY</b>			
		<b>2,391,903</b>	2,243,761

## 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 MATERIAL ACCOUNTING POLICIES

#### (a) Statement of compliance

The financial statements set out in this announcement has been prepared in accordance with IFRS Accounting Standards 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 2023 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:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 1, *Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

The adoption of the above new and amended IFRSs effective for the financial year beginning on 1 January 2023 does not have a material impact on the Group. Among which, impacts of the adoption of the amendments to IAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction are discussed below:

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognized the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately, and the associated deferred tax assets and liabilities are required to be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. The change primarily impacts disclosures of components of deferred tax assets and liabilities, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under IAS 12.

### 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>2023</b> <b><i>RMB'000</i></b>	2022 <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>590,396</b>	654,999
– Knee replacement implants	<b>311,351</b>	266,415
– Spinal and trauma implants	<b>123,268</b>	60,006
– Customised products and services	<b>49,593</b>	46,952
– Others (i)	<b>19,254</b>	23,675
	<b>1,093,862</b>	1,052,047

(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 2023 (2022: 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 2023 and 2022 is set out below.

	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2023	2022	2023	2022	2023	2022
	<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>991,365</b>	974,203	<b>102,497</b>	77,844	<b>1,093,862</b>	1,052,047
Inter-segment revenue	<u>2,226</u>	<u>3,463</u>	<u>49,988</u>	<u>38,914</u>	<u>52,214</u>	<u>42,377</u>
<b>Reportable segment revenue</b>	<b><u>993,591</u></b>	<b><u>977,666</u></b>	<b><u>152,485</u></b>	<b><u>116,758</u></b>	<b><u>1,146,076</u></b>	<b><u>1,094,424</u></b>
<b>Reportable segment profit/(loss)</b>	<b>239,787</b>	267,066	<b>(7,043)</b>	(29,666)	<b>232,744</b>	237,400
Interest income	<b>22,772</b>	17,752	–	–	<b>22,772</b>	17,752
Depreciation and amortisation for the year	<b>80,263</b>	69,768	<b>10,676</b>	10,633	<b>90,939</b>	80,401
Impairment loss on goodwill	–	–	–	18,360	–	18,360
<b>Reportable segment assets</b>	<b>2,380,775</b>	2,149,067	<b>168,241</b>	156,570	<b>2,549,016</b>	2,305,637
Additions to non-current assets during the year	<b>228,128</b>	129,533	<b>2,673</b>	12,767	<b>230,801</b>	142,300
<b>Reportable segment liabilities</b>	<b>525,029</b>	453,793	<b>29,176</b>	29,312	<b>554,205</b>	483,105

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
<b>Revenue</b>		
Reportable segment revenue	1,146,076	1,094,424
Elimination of inter-segment revenue	<u>(52,214)</u>	<u>(42,377)</u>
Consolidated revenue	<u><b>1,093,862</b></u>	<u><b>1,052,047</b></u>
<b>Profit</b>		
Reportable segment profit	232,744	237,400
Elimination of inter-segment (profit)/loss	<u>(1,627)</u>	<u>2,890</u>
Consolidated profit before taxation	<u><b>231,117</b></u>	<u><b>240,290</b></u>
<b>Assets</b>		
Reportable segment assets	2,549,016	2,305,637
Elimination of inter-segment receivables	<u>(8,707)</u>	<u>(22,558)</u>
	<b>2,540,309</b>	2,283,079
Other financial assets	395,455	416,593
Deferred tax assets	<u>67,260</u>	<u>74,820</u>
Consolidated total assets	<u><b>3,003,024</b></u>	<u><b>2,774,492</b></u>
<b>Liabilities</b>		
Reportable segment liabilities	554,205	483,105
Elimination of inter-segment payables	<u>(8,707)</u>	<u>(22,558)</u>
	<b>545,498</b>	460,547
Current tax liabilities	17,596	22,773
Deferred tax liabilities	<u>48,027</u>	<u>47,411</u>
Consolidated total liabilities	<u><b>611,121</b></u>	<u><b>530,731</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.

	Revenue from external customers		Specified non-current assets	
	2023	2022	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
– China	<b>866,730</b>	886,318	<b>931,045</b>	598,914
– United Kingdom	<b>55,178</b>	42,475	<b>29,903</b>	35,401
– Other countries	<b>171,954</b>	123,254	–	–
	<b><u>1,093,862</u></b>	<u>1,052,047</u>	<b><u>960,948</u></b>	<u>634,315</u>

**4 OTHER INCOME, NET**

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	<b>19,944</b>	9,720
Others	<b>6,426</b>	1,473
	<b><u>26,370</u></b>	<u>11,193</u>

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) **Staff costs:**

	<b>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>
Salaries, wages and other benefits	<b>229,854</b>	189,566
Contribution to defined contribution retirement scheme	<b>20,054</b>	16,483
Equity settled share-based transactions	<b>5,056</b>	8,129
	<hr/> <b>254,964</b> <hr/>	<hr/> 214,178 <hr/>

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

**(b) Other items**

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Cost of Inventories*	435,315	426,461
Amortisation cost of intangible assets	14,431	12,195
Depreciation charge		
– owned property, plant and equipment	58,495	51,719
– right-of-use assets	18,013	16,487
	<u>76,508</u>	<u>68,206</u>
Credit losses recognised from trade and other receivables	13,698	10,491
Auditors' remuneration		
– Audit services	3,047	2,626
– other services	1,300	1,300
	<u>4,347</u>	<u>3,926</u>

\* Cost of inventories includes RMB120,409,000 in 2023 (2022: RMB99,949,000) 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**

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
<b>Current tax</b>		
Provision for the year	40,623	28,796
Under/(over)-provision in respect of prior years	268	(335)
<b>Deferred tax</b>		
Reversal and origination of temporary differences	<u>8,122</u>	<u>7,057</u>
	<u>49,013</u>	<u>35,518</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 2023 (2022: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2023 is 16.5% (2022: 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 2023 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 2023 are 25% (2022: 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. ("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 2023 (2022: 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:**

	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Profit before taxation	<b>231,117</b>	240,290
Notional tax of PRC statutory tax rate of 25%	<b>57,779</b>	60,073
Effect of PRC preferential tax rate	<b>(22,273)</b>	(33,504)
Effect of tax rate changes	<b>14,183</b>	–
Effect of lower tax rates in other countries	<b>423</b>	678
Effect of non-deductible expenses	<b>1,430</b>	5,570
Effect of unused tax losses not recognised	<b>2,235</b>	6,175
Effect of additional deduction on research and development expenses *	<b>(10,044)</b>	(10,888)
PRC dividend withholding tax	<b>5,012</b>	7,749
Under/(over)-provision in respect of prior years	<b>268</b>	(335)
Actual tax expenses	<b>49,013</b>	<b>35,518</b>

\* According to the relevant PRC income tax law, certain research and development costs of PRC subsidiaries are qualified for 100% (2022: 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 RMB182,104,000 (2022: RMB204,772,000) and the weighted average number of issued ordinary shares of 1,113,122,158 (2022: 1,109,200,658 shares) during the year, calculated as follows:

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

	<b>2023</b>	2022
Issued ordinary shares at 1 January	<b>1,115,750,000</b>	1,115,700,000
Effect of issue of shares under the Company's share option scheme	<b>3,796,559</b>	24,658
Effect of shares held for share award scheme	<b>(6,424,401)</b>	(6,524,000)
Weighted average number of ordinary shares at 31 December	<b>1,113,122,158</b>	1,109,200,658

**(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 RMB182,104,000 (2022: RMB204,772,000) and the weighted average number of issued ordinary shares of 1,119,189,095 (2022: 1,117,457,448 shares) after adjusting the effects of dilutive potential ordinary shares during the year, as follows:

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

	2023	2022
Weighted average number of ordinary shares at 31 December	1,113,122,158	1,109,200,658
Effect of deemed issue of shares under the Company's equity settled share-based transactions	<u>6,066,937</u>	<u>8,256,790</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>1,119,189,095</u></u>	<u><u>1,117,457,448</u></u>

**8 DIVIDENDS**

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Final dividend proposed after the end of the reporting period of HK\$4.5 cents per ordinary share (2022: HK\$6.0 cents per ordinary share)	<u><u>45,750</u></u>	<u><u>59,800</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**

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$6.0 cents per ordinary share (2022: HK\$2.5 cents per ordinary share)	<u><u>61,509</u></u>	<u><u>23,962</u></u>

## 9 BILLS RECEIVABLE/TRADE RECEIVABLES

	<b>31 December 2023 RMB'000</b>	31 December 2022 RMB'000
Bills receivable	<u>78,777</u>	<u>78,274</u>
Trade receivables	<b>496,393</b>	498,373
Less: allowance for credit loss	<u>(44,992)</u>	<u>(31,294)</u>
	<u><b>451,401</b></u>	<u>467,079</u>

As at 31 December 2023, approximately RMB18,771,000 (2022: nil) 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 2023, 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>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Current to 3 months	<b>188,537</b>	284,885
4 to 6 months	<b>139,093</b>	103,051
7 to 12 months	<b>82,478</b>	48,459
Over 12 months	<u>41,293</u>	<u>30,684</u>
	<u><b>451,401</b></u>	<u>467,079</u>

The credit terms agreed with customers were normally ranged from 1 month to 1 year (2022: 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 2023, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	104,965	126,716
4 to 6 months	29,662	23,633
7 to 12 months	12,708	2,043
1 year to 2 years	3,506	1,871
Over 2 years	610	904
	<u>151,451</u>	<u>155,167</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	31 December
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year or on demand	21,394	—
After 1 year but within 2 years	21,745	—
After 2 years but within 5 years	10,514	—
	<u>32,259</u>	<u>—</u>
	<u>53,653</u>	<u>—</u>

## (b) Assets pledged as security for bank loans

At 31 December 2023, the bank loans were secured as follows:

	<b>31 December 2023 RMB'000</b>	31 December 2022 RMB'000
Secured bank loans	<b><u>53,653</u></b>	<u>–</u>

As at 31 December 2023, the Group had bank loans of RMB53,653,000, and the bank loans were secured by the Group's non-current pledged deposits of United States dollar 25,993,000 (approximately RMB184,101,000).

## 12 SHARE CAPITAL

	2023		2022	
	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	<b><u>20,000,000,000</u></b>	<b><u>168,981</u></b>	<u>20,000,000,000</u>	<u>168,981</u>
Ordinary shares, issued and fully paid:				
At 1 January	<b>1,115,750,000</b>	<b>9,453</b>	1,115,700,000	9,453
Shares issued under share option scheme	<u>6,146,000</u>	<u>55</u>	<u>50,000</u>	<u>–</u>
At 31 December	<b><u>1,121,896,000</u></b>	<b><u>9,508</u></b>	<u>1,115,750,000</u>	<u>9,453</u>

The holders of ordinary shares as at 31 December 2023 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 the first half of 2023, with the end of the COVID-19 pandemic, the number of patients seeking medical care increased significantly, and the number of hospital-end orthopedic surgeries also ushered in a peak in the second quarter, representing a significant increase over the corresponding period of last year, and was reflected in the performance of the Company for the first half of the year.

In July 2023, the National Health Commission (the “NHC”) joined hands with nine departments of the PRC government to carry out a series of centralized rectification work aimed at corruption in the national healthcare sector. This series of campaigns affected the number of operations in public hospitals to a certain extent in the short term, as well as the promotion and application of innovative high value-added products in hospitals, so the performance of the Company was also affected to some degree.

In 2023, with the further recovery of overseas markets from the pandemic, the Company actively expanded overseas markets resulting in the quick growth of the foreign operations, which proportion in the overall revenue structure of the Company increased rapidly and drove the business growth of the Company.

As of 31 December 2023, the Group has realized sales revenue of RMB1,093.9 million with a year-on-year growth of 4.0% and net profits of RMB182.1 million with a year-on-year decrease of 11.1%.

#### 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.

In the first half of 2023, with the end of the COVID-19 pandemic, the volume of joint surgeries ushered in a small peak, resulting in the revenue growth of the joint business of the Company. In the second half of 2023, due to the introduction of a series of anti-corruption campaigns, the number of operations in hospitals was affected to a certain extent, resulting in a decline in the revenue of the Company's domestic joint business. In 2023, the Company actively expanded its foreign operations, in particular the emerging market attained rapid business growth. The growth of the overseas revenue partially covered the decline in the domestic joint business. In 2023, the revenues from hip and knee implants of the Group amounted to RMB901.7 million, representing a year-on-year decrease of 2.1%.

## **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 different customers' needs.

In 2023, the Volume Based Procurement (the “VBP”) of spine products began to be implemented nationwide. After the implementation of the VBP policy, leverage on the leading fusion technology and good postoperative efficacy, the Company's products were welcomed by clinicians. During this period, the Company continued to launch new 3D printed spine products, further enriching its spine product line and providing clinicians with more options.

In 2023, the Group realized revenues of RMB123.3 million from spine and trauma implants products, with a year-on-year increase of 105.4%.

## **Customised Products and Services**

Customised products and services include customised joint, pelvis, spinal and trauma implants products as well as customised surgical value-added services. In 2023, with the advantage of 3D printing technology, the Company obtained two more new registration certificates for 3D printing customized products, further expanding the coverage of customized products and consolidating the absolute advantage of the Company in the field of 3D printing customized technology. However, in the second half of 2023, against the background of the anti-corruption campaigns, doctors became more cautious about the use of varieties that were not covered by the VBP, making an impact to the revenue of the customized products and services. In 2023, the Group's revenue from customised products and services reached RMB49.6 million, representing a year-on-year increase of 5.6% over the revenue for the year ended 2022.

## **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 the 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 small joints of extremities.

In 2023, the Group has obtained 18 new registration certificates of Class III Medical Device approved by the National Medical Products Administration (the “NMPA”), including 3D printed knee joint prosthesis, 3D printed second-generation interbody fusion cage, 3D printed matched long segmental bone and thoracolumbar prosthesis, and hip surgery robot, etc. As of 31 December 2023, the Group has been awarded 88 registration certificates of Class III Medical Device approved by the NMPA, 15 CE certificates approved by European regulatory organizations and 2 U.S. Food and Drug Administration certificates.

For innovative products, the registration of the iBot hip surgery robot has been approved, which has helped the Group form a digital integrated orthopedic solution from orthopedic 3D printing to surgical navigation and the robotic system. The newly approved 3D printed acetabular cup and interbody cage are ones of the second generation of 3D printed products, where active substances are added on the basis of 3D printed bone trabecula with a special micro-nano structure, realizing the upgrade from bioinertness to bioactivity. The launch of customized prostheses represented by 3D printed matched long segmental bone and thoracolumbar prostheses marked the continuous refinement and establishment of the Innovative Customised Orthopedic Solution (“**ICOS**”) orthopedic customization platform and further improvement of the 3D printing solutions of the Group.

For topics of R&D projects, the high cross-linked polyethylene material project led and submitted by the Group was successfully shortlisted for “selecting the best candidates via open competition mechanism” in the innovation task of the Ministry of Industry and Information Technology of the People’s Republic of China (the “**MIIT**”) and the NMPA. Beijing Libeier Bio-engineering Institute Co., Ltd.\* (北京理貝爾生物工程研究所有限公司), a subsidiary of the Group, has been approved as a national new and high technology enterprise, which is the first time that the Group was granted such qualification since the acquisition of Libeier.

As of 31 December 2023, the Group has obtained 304 patents for invention, 404 patents for utility models and 31 authorized PCT patents.

## **Sales and Marketing**

### ***Joints Business***

In 2023, the joint sales business of the Company mainly focused on two aspects: firstly, to focus on conventional markets dominated by import brands such as Beijing, Shanghai, Zhejiang and Guangdong, and be committed to achieving import substitution; and secondly, to consolidate and maintain hospitals with a larger number of surgeries using the Company’s branded products. Although the number of joint prostheses implanted was affected to a certain extent due to the impact of the anti-corruption campaigns nationwide, the Company still achieved a series of breakthroughs in the sales market:

**Breakthrough in key target markets:** In Zhejiang, Guangdong, Shanghai, Beijing and other markets that have been conventionally dominated by imported brands, the share of the Company’s products has increased significantly. For example, the Company has achieved and obtained over 20% of the market share of joint implants in Beijing in 2023.

**Breakthrough in key target hospitals:** Breakthroughs have been achieved in a number of key hospitals at provincial level or above, and the proportion of the Company’s surgical implants in the national provincial hospital market has been further increased.

The share of the mass market remained stable and continued to consolidate.

For the work of the joint marketing, the Company continued to be one of the companies holding a leading position in product innovation, launched an additional series of new products in 2023, and carried out a series of fruitful marketing activities. Innovative unicondyle products such as HAUK and the 3D printed congenital hip product system have received a good response from the market. The Company continued to promote dozens of academic activities such as an international project named Pathways, the Way to the Congenital Hip – Congenital Hip Seminar, the training session on unicondyle standard course, and the challenging case seminar of HDR hip system.

### ***Spine Business***

The Company takes the 3D printing technology as a traction and actively promotes the increase of its market share of 3D printed spine products. With unique technical advantages and clinical efficiency, its 3D printed spine products were newly introduced to 262 hospitals in 2023, including 52 provincial hospitals, achieving a rapid growth in the surgical implantation. In 2023, Apollo self-stabilising vertebral body product launched by the Group is the first 3D printed self-stabilising vertebral body product in the PRC, and its product design is well received by the market. Osteo Match, a product system developed by the Group with adaptability of elastic modulus of prosthesis to bone modulus, which includes an interbody fusion device and an artificial vertebral system, is the first spinal fusion prosthesis system with biomechanical matching of bone modulus in the world. The launch of 3D printed TC Bridge effectively solves the problem of repair and reconstruction of complex and large bone defects of limbs, and enables the exploration of 3D printing technology of the Company to reach new heights and fields.

The 3D printed fusion device and vertebrae products of the Libeier brand were launched, creating a dual-brand operation mode for 3D printed products and further consolidating the position of the Group as one of the leading companies in the field of 3D printing in the PRC.

### ***Overseas Business***

In 2023, the Company actively expanded its overseas business under the AK and JRI brands. During 2023, the joint business of the Company was further expanded to Vietnam, Uzbekistan and other countries, of which the Southeast Asian market grew by more than 50%.

With the support of the China International Cultural Exchange Center, the Company launched the “International Exchange Project of the Health Silk Road” to build an academic exchange platform for domestic and foreign experts and enhance the influence of Chinese brands in countries of the Belt and Road Initiative.

## ***Digital Orthopedics Business***

Based on the conventional joint business and leveraging the accumulation of digital processing capabilities in 3D printing technology, the Company has deepened its business exploration and layout in the field of digital orthopedics. After years of cultivation, the Company has obtained a series of registration certificates in the digital field, such as surgical intelligent planning, personalized surgical model printing, personalized surgical guide, personalized implant printing, visual intelligent assistance system for joint replacement, surgical robots, etc., and has the ability to provide comprehensive solutions for services, products and equipment.

The Company cooperated with the Capacity Building and Continuing Education Center of the NHC to continue to carry out the “Research Topic on Improving the Clinical Application Ability of Digital Orthopedic Technology”, aiming to promote the construction of a national intelligent medical system, strengthen the development of digital technologies such as artificial intelligence, surgical robot and 3D printing in the medical industry, build a national exchange platform for digital orthopedics, and promote the academic development of digital orthopedics.

To sum up, the Company has constantly provided extensive product lines and comprehensive solutions to cover diverse surgical needs and maintained customers’ loyalty. With multiple brands of 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. The exploration of digital orthopedics will drive the Company to enter new business areas and build a new engine for its ongoing growth.

### **Prospect**

Under the impact of the industry policies, the orthopedic industry in the PRC has experienced relatively slow growth in the past few years. However, with the stabilization of policies, the orthopedic industry is expected to return to relatively rapid growth in the future. In addition, after the COVID-19 pandemic, new development opportunities have also emerged in overseas markets. The Group will make strategic adjustments in a timely manner to adapt to the industrial changes after the VBP, including but not limited to:

1. Increasing the market share of the middle and high-end markets led by digital orthopedic technology

The Group has vigorously developed digital orthopedic technology in recent years. In addition to the 3D printing technology with its core advantage, the Group has also explored and developed navigation systems and robotic systems to assist orthopedic surgeries. The navigation and robotic system are combined with the ICOS customized platform to form a closed loop of technology to meet the personalized demands of doctors and patients, and will enable more diversified application scenarios and more clinical possibilities. The Group will make use of its digital orthopedic technology as the entry point to establish partnership with more large-scale tertiary hospitals, seize the opportunity of import substitution brought about by the VBP, and further enhance the share of the brands in the middle and high-end markets.

## 2. Vigorously expanding overseas markets and building the second growth engine of the Group

After the outbreak of the COVID-19 pandemic, new opportunities have emerged in the overseas orthopedic market. On the one hand, the volume of surgeries in emerging markets resumed rapidly. On the other hand, multinational companies experienced a shortage of supply due to supply chain disruption. The Group seized opportunities and achieved sales breakthroughs in overseas markets in the past two years. In the future, we will further increase our efforts to expand overseas markets, strengthen the stickiness with end customers, gradually build the brand loyalty among end customers, and ensure the stable growth of overseas revenue. At the same time, we will integrate the market resources of AK and JRI to promote the synergistic development of the two brands. We will create the overseas business as the second growth engine of the Group.

## 3. Maintaining the Group's position as one of the leading companies in domestic orthopedics industry and strengthening the Group's image as an innovative practitioner of orthopedics

As one of the leading brands 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 and small joints of extremities, deepen cooperation with basic research institutions and strengthen its image as an innovative practitioner of orthopedics.

## FINANCIAL REVIEW

### Overview

	<u>Year ended 31 December</u>		<b>Variance</b> %
	<b>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>	
Revenue	<b>1,093,862</b>	1,052,047	4.0%
Gross profit	<b>674,486</b>	636,435	6.0%
Profit for the year	<b>182,104</b>	204,772	-11.1%
Profit for the year attributable to equity shareholders of the Company	<b>182,104</b>	204,772	-11.1%
<b>Earnings per share</b>			
Basic	<b>RMB0.16</b>	RMB0.18	
Diluted	<b>RMB0.16</b>	RMB0.18	

For the year ended 31 December 2023, the Group achieved revenue of RMB1,093.9 million, representing an increase of 4.0% as compared to 2022. In 2023, due to the anti-corruption campaigns, the number of surgeries in hospitals decreased. The decline in the number of operations in hospitals affected the sales of the Company's products to a large extent. Under such pressure, on the one hand, the Company continued to explore the domestic market and improve the coverage of its products in hospitals, which drove the revenue growth of its spine products. On the other hand, it actively explored overseas markets, and its overseas revenue also realized significant growth. For the year ended 31 December 2023, the Group achieved a net profit of RMB182.1 million, representing a decrease of 11.1% as compared to the year of 2022, which was mainly attributable to the increase in investment related to R&D and market development.

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

	<u>Year ended 31 December</u>		<b>Variance</b> %
	<b>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>	
Hip replacement implants <sup>(1)</sup>	<b>590,396</b>	654,999	-9.9%
Knee replacement implants <sup>(2)</sup>	<b>311,351</b>	266,415	16.9%
Spinal and trauma implants <sup>(3)</sup>	<b>123,268</b>	60,006	105.4%
Customised products and services <sup>(4)</sup>	<b>49,593</b>	46,952	5.6%
Others <sup>(5)</sup>	<b>19,254</b>	23,675	-18.7%
<b>Total</b>	<b><u>1,093,862</u></b>	<b><u>1,052,047</u></b>	<b><u>4.0%</u></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 customized joint, pelvis, spinal and trauma implants products and customised surgical value-added services.
- (5) Others primarily include surgical instruments, medical irrigators and third party orthopedic products.

For the year ended 31 December 2023, the Group achieved revenue of RMB1,093.9 million, representing an increase of 4.0% as compared to 2022. In 2023, due to the anti-corruption campaigns, the number of surgeries in hospitals decreased. The decline in the number of operations in hospitals affected the sales of the Company's products to a large extent. Under such pressure, on the one hand, the Company continued to explore the domestic market and improve the coverage of its products in hospitals, which drove the revenue growth of its spine products. On the other hand, it actively explored overseas markets, and its overseas revenue also realized significant growth.

## **Hip and Knee Implants Products**

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 2023, hip replacement implants registered a revenue of RMB590.4 million, representing a decrease of 9.9% as compared to that of RMB655.0 million for the year ended 31 December 2022. In 2023, due to the anti-corruption campaigns, the number of operations in hospitals decreased. Under such influence, the sales volume of hip replacement implant products of the Company from the domestic market declined, and the decrease in the sales volume resulted in the decrease in the revenue from the hip replacement implant products. At the same time, through active market development, the Company's revenue from the hip replacement implant products sold overseas still maintained significant growth.

For the year ended 31 December 2023, knee replacement implants registered a revenue of RMB311.4 million, representing an increase of 16.9% as compared to that of RMB266.4 million for the year ended 31 December 2022. In 2023, the Company's revenue from knee replacement implants products sold domestically was also affected by the anti-corruption campaigns, and the revenue from the primary knee replacement implant products declined. However, driven by new products such as unicondyle, the Company's overall sales revenue from knee replacement implants still achieved growth.

## **Spinal and Trauma Implants Products**

Our spinal and trauma implants products include conventional spinal implants and trauma implants as well as 3D-printed spinal implants. For the year ended 31 December 2023, spinal and trauma implants products registered a revenue of RMB123.3 million, representing a significant increase of 105.4% as compared to that of RMB60.0 million for the year ended 31 December 2022. The significant increase in the revenue from spinal and trauma implants products was mainly affected by the following two factors: on the one hand, in 2023, the innovation and functional excellence of the 3D printing technology of the Company and the expanding spine product line have been highly recognized by the market, which further promoted the implantation of 3D spine products, and thus the sales of 3D spine products has increased significantly. On the other hand, in 2022, the Company made provision for future sales price discounts of RMB20.0 million for certain specific spinal products of the Libeier brand, so as to further expand the revenue growth of spinal and trauma implants in 2023.

## Customised products and services

Revenue from customised products and services includes revenue from customised joint, pelvis, spinal and trauma implants products and customised surgical value-added services. For the year ended 31 December 2023, customised products and services registered a revenue of RMB49.6 million, representing an increase of 5.6% as compared to that of RMB47.0 million for the year ended 31 December 2022. In 2023, the Company further leveraged its technical advantages in 3D printing customised products and value-added surgical services to successfully establish cooperation in customised surgeries with a number of hospitals.

## Others

Others include revenue from surgical instruments and third party orthopaedic products. In 2023 and 2022, our revenue from surgical instruments and third party orthopaedic products was RMB19.3 million and RMB23.7 million, respectively, representing 1.8% and 2.3% of our revenue, respectively.

## Domestic and Overseas Sales

Most of the Group's revenue came from China with relatively 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		Variance %
	2023 RMB'000	2022 RMB'000	
China	866,730	886,318	-2.2%
Other countries	227,132	165,729	37.1%
Total	<u>1,093,862</u>	<u>1,052,047</u>	<u>4.0%</u>

Our sales revenue derived from the overseas for the year ended 31 December 2023 was approximately RMB227.1 million, representing a substantial increase of 37.1% as compared with the year ended 31 December 2022. This was mainly due to an increase in the number of overseas surgeries resulted from the active exploration of overseas markets by the Company in 2023. The revenue from China for the year ended 31 December 2023 was RMB866.7 million, representing a decrease of 2.2% as compared to the year ended 31 December 2022. This was mainly affected by the decrease in sales of joint replacement implants mentioned above.

## Cost of Sales

For the year ended 31 December 2023, the cost of sales was RMB419.4 million, representing an increase of 0.9% as compared with RMB415.6 million for the year ended 31 December 2022. The increase in cost of sales was primarily due to an increase in overall sales volume of the Company's products.

## **Gross Profit and Gross Margin**

Gross profit represents revenue less cost of sales. For the year ended 31 December 2023, the gross profit amounted to RMB674.5 million, representing an increase of 6.0% as compared with RMB636.4 million for the year ended 31 December 2022. On the one hand, the increase in gross profit was due to higher revenues. On the other hand, it was due to a decrease in the cost of the major products through active cost control by the Company. At the same time, the Company made the provision for price discounts for specific spine products in 2022, resulting in a decrease in the gross profit in 2022 and further expanding the increase in the gross profit in 2023.

Gross margin is calculated as gross profit divided by revenue. Our gross margin was 61.7% for the year ended 31 December 2023, representing an increase of 1.2% as compared with 60.5% for the year ended 31 December 2022. In 2023, through active cost control, the cost of major products of the Company decreased, and the cost decline resulted in an increase in the gross margin. At the same time, the proportion of revenue from products from overseas market increased, which further promoted the improvement of the gross margin.

## **Other Income, Net**

The other income for the year ended 31 December 2023 was RMB26.4 million, representing an increase of RMB15.2 million as compared with RMB11.2 million for the year ended 31 December 2022. Other income in 2023 was mainly an increase of the income received from government grants.

## **Selling and Distribution Expenses**

Selling and distribution expenses were RMB218.8 million for the year ended 31 December 2023, representing an increase of 21.5% as compared with RMB180.1 million for the year ended 31 December 2022. The increase was mainly due to an increase of marketing and promotion activities, as well as the increase of labor costs and travelling expenses for sales personnel.

## **General and Administrative Expenses**

General and administrative expenses amounted to RMB133.4 million for the year ended 31 December 2023, representing an increase of 12.8% as compared with RMB118.3 million for the year ended 31 December 2022. The increase was mainly due to an increase in labor costs 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 2023 were RMB137.1 million, representing an increase of 23.7% as compared with RMB110.9 million for the year ended 31 December 2022. In 2023, the Company continued to actively make investment 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 RMB19.6 million for the year ended 31 December 2023, representing a decrease of RMB0.7 million as compared with RMB20.3 million for the year ended 31 December 2022. Although the interest income of the Group recorded a significant increase, the finance income of the Group slightly decreased due to the foreign exchange losses resulting from exchange rate movements.

## **Income Tax Expenses**

Income tax expense was RMB49.0 million for the year ended 31 December 2023, representing an increase of 38.0% as compared with RMB35.5 million for the year ended 31 December 2022. Such increase was primarily due to the reversal of deferred income tax assets in prior period resulting from changes in the tax rates of subsidiaries of the Group.

## **Liquidity and Financial Resources**

As at 31 December 2023, we had cash and cash equivalents of RMB331.2 million, structured deposit of RMB390.9 million, time deposits over 3 months of RMB30.0 million, and restricted deposits of RMB5.2 million, amounting to RMB757.3 million in aggregate, as compared with RMB1,083.3 million as at 31 December 2022. The Group's cash and cash equivalents were mainly denominated in RMB, US dollars and Hong Kong dollars. The bank loans were denominated in RMB. 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 RMB1,476.6 million as at 31 December 2023, representing a decrease of RMB152.4 million as compared with RMB1,629.0 million as of 31 December 2022. Such decrease was mainly attributable to the Group's investment in the construction of new plants.

## **Foreign Exchange Exposure**

Our 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. At present, foreign exchange exposure mainly arises from USD and EUR. For the year ended 31 December 2023, the Group recorded a net exchange loss of RMB1.9 million, as compared with an exchange gain of RMB4.7 million for the year ended 31 December 2022. 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 2023, the Group's total capital expenditure amounted to approximately RMB230.8 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 2023, the Group mainly pledged a deposit of RMB184.1 million in the pledged deposits account to obtain a bank loan for new plant construction (as of 31 December 2022: nil), and bills receivable of RMB18.8 million and restricted deposits of RMB5.2 million were used to be pledged for bills payable (as of 31 December 2022: nil), amounting to RMB208.1 million in aggregate. Other than that, we did not have any charge or pledge of assets.

## **Borrowings and Gearing Ratio**

As of 31 December 2023, the balance of our short-term bank loans of RMB21.4 million and the balance of our long-term borrowings of RMB32.3 million were invested in the construction of the new plant. Our loan term was not more than 3 years, and the borrowing rate was 2.8%-3%. Gearing ratio represents the percentage of bank borrowings to total equity. As of 31 December 2023, the gearing ratio of the Group was 2.2% (as of 31 December 2022: nil).

## **Contingent Liabilities**

As of 31 December 2023, the Group did not have any material contingent liabilities (as of 31 December 2022: nil).

## **Significant Investments**

As of 31 December 2023, the Group did not hold any significant investments in equity interests of any other companies.

## **Future Plans for Material Investments and Capital Assets**

As of 31 December 2023, the Group had two projects under construction and ready for construction: a new office park in the eastern part of Changping New City and a new plant in Changzhou West Taihu Lake Park. Subject to the actual situation at the relevant time, the Company currently expects to provide funding for the two projects through the use of internal funds and/or external funding. Other than that, we have no other plans for material investments and capital assets.

## **Employee and Remuneration Policy**

As of 31 December 2023, the Group had 1,052 employees (31 December 2022: 1,034 employees). Total staff remuneration expenses including Directors' remuneration for the year ended 31 December 2023 amounted to RMB255.0 million (for the year ended 31 December 2022: RMB206.0 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.

### **Subsequent Event**

From 31 December 2023 to the date of this announcement, the Group had no material events.

### **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 Part 2 of Appendix C1 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the year ended 31 December 2023 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 Company deviates from this code provision because the position of 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 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 2023 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 Company has reviewed the Group's annual results for the year ended 31 December 2023.

## **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 C3 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Specific enquiry was made of all the Directors and the Directors confirmed that they had fully complied with the Model Code for transactions in the Company’s securities throughout the year ended 31 December 2023.

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 throughout the year ended 31 December 2023.

## **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 2023.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

During the year ended 31 December 2023, there was no material acquisition or disposal of subsidiaries, associates and joint ventures 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 2023 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 Tuesday, 18 June 2024. A notice convening the AGM will be published and despatched to shareholders of the Company 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\$4.5 cents per ordinary share for the year ended 31 December 2023 (2022: HK\$6.0 cents) to the shareholders whose names appear on the register of members of the Company on Friday, 28 June 2024. The final dividend, if approved by the shareholders of the Company at the AGM, will be payable on or around Thursday, 18 July 2024.

## **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 Tuesday, 18 June 2024, the register of members of the Company will be closed from Thursday, 13 June 2024 to Tuesday, 18 June 2024, 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 Wednesday, 12 June 2024.
- (b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Wednesday, 26 June 2024 to Friday, 28 June 2024, 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 Tuesday, 25 June 2024.

## **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 2023 annual report containing all the information required by Appendix D2 of the Listing Rules will be despatched 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, 26 March 2024

*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.*