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Kangji Medical Holdings Limited

康基医疗控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9997)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2020

FINANCIAL HIGHLIGHTS

The board (the “**Board**”) of directors (the “**Directors**”) of Kangji Medical Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) hereby announces the unaudited consolidated interim results of the Group for the six months ended June 30, 2020 (the “**Reporting Period**”), which have been reviewed by the Company’s audit committee. The financial highlights of the Group for the Reporting Period together with the comparative figures for the corresponding previous period are set out as follows:

	Six months ended June 30,		
	2020	2019	Change
	(Unaudited)	(Unaudited)	
	<i>RMB'000</i>	<i>RMB'000</i>	%
Revenue	212,587	216,059	-1.6
Gross profit	177,634	180,019	-1.3
Profit for the period	89,596	130,653	-31.4
Non-HKFRS adjusted profit for the period	137,324	130,653	5.1
Profit attributable to owners of the parent	80,742	83,618	-3.4
Earnings per share			
– Basic (RMB)	11.92 cents	8.14 cents	46.4
– Diluted (RMB)	11.82 cents	8.14 cents	45.2

For the six months ended June 30, 2020, the Group realized revenue of RMB212.6 million, representing a decrease of 1.6% as compared to the same period of 2019. The decrease in revenue was mainly due to the impact of COVID-19 outbreak on our sales in the first quarter of 2020, partially offset by the sales recovery in the second quarter of 2020.

The net profit of the Group for the six months ended June 30, 2020 was RMB89.6 million, which decreased by 31.4% as compared to the same period of 2019 mainly due to the listing expenses and share-based payment expenses which amounted to RMB32.1 million and RMB15.6 million, respectively. Profit attributable to owners of the parent decreased by 3.4% due to: (i) a decrease in the net profit of the Group, and (ii) elimination of non-controlling interest as a result of our restructuring in March 2020 in preparation for the listing on the Stock Exchange (the “**Listing**” or “**Global Offering**”).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June

	<i>Notes</i>	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
REVENUE	4	212,587	216,059
Cost of sales		<u>(34,953)</u>	<u>(36,040)</u>
Gross profit		177,634	180,019
Other income and gains	4	26,791	12,913
Selling and distribution expenses		(23,207)	(17,188)
Administrative expenses		(54,003)	(13,531)
Research and development costs		(12,076)	(8,167)
Other expenses		<u>(1,224)</u>	<u>(1,202)</u>
PROFIT BEFORE TAX	5	113,915	152,844
Income tax expense	6	<u>(24,319)</u>	<u>(22,191)</u>
PROFIT FOR THE PERIOD		<u>89,596</u>	<u>130,653</u>
Attributable to:			
Owners of the parent		80,742	83,618
Non-controlling interests		<u>8,854</u>	<u>47,035</u>
		<u>89,596</u>	<u>130,653</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		<u>(1,090)</u>	–
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		<u>(1,090)</u>	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>88,506</u>	<u>130,653</u>
Attributable to:			
Owners of the parent		79,652	83,618
Non-controlling interests		<u>8,854</u>	<u>47,035</u>
		<u>88,506</u>	<u>130,653</u>
Earnings per share attributable to equity holders of the parent			
Basic	8	<u>RMB11.92 cents</u>	<u>RMB8.14 cents</u>
Diluted	8	<u>RMB11.82 cents</u>	<u>RMB8.14 cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020 (Unaudited) <i>RMB'000</i>	31 December 2019 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	9	59,167	56,526
Prepayments for property, plant and equipment		2,418	–
Right-of-use assets		16,821	17,024
Intangible assets		50	66
Deferred tax assets		2,054	1,901
Total non-current assets		80,510	75,517
CURRENT ASSETS			
Inventories		41,013	36,922
Trade receivables	10	91,135	73,012
Prepayments, other receivables and other assets		10,626	5,833
Financial assets at fair value through profit or loss		15,590	34,910
Pledged deposits	11	409	1,440
Cash and cash equivalents	11	2,875,880	565,148
Total current assets		3,034,653	717,265
CURRENT LIABILITIES			
Trade payables	12	7,159	9,318
Other payables and accruals		99,730	47,131
Deferred income		636	636
Dividend payable		23,635	188,928
Due to shareholders		304	–
Tax payable		18,626	21,359
Total current liabilities		150,090	267,372
NET CURRENT ASSETS		2,884,563	449,893
TOTAL ASSETS LESS CURRENT LIABILITIES		2,965,073	525,410

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)

		30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
	<i>Note</i>		
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,965,073</u>	<u>525,410</u>
NON-CURRENT LIABILITIES			
Deferred income		2,226	2,544
Deferred tax liabilities		<u>2,160</u>	<u>7,406</u>
Total non-current liabilities		<u>4,386</u>	<u>9,950</u>
Net assets		<u>2,960,687</u>	<u>515,460</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>13</i>	88	–
Reserves		<u>2,960,599</u>	<u>327,228</u>
		2,960,687	327,228
Non-controlling interests		<u>–</u>	<u>188,232</u>
Total equity		<u>2,960,687</u>	<u>515,460</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

	<i>Notes</i>	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		113,915	152,844
Adjustments for:			
Bank interest income	4	(3,240)	(6,494)
Investment income from financial assets at fair value through profit or loss	4	(3,297)	(890)
Loss on disposal of items of property, plant and equipment	5	100	2
Depreciation of property, plant and equipment		3,572	2,968
Depreciation of right-of-use assets		203	208
Amortisation of intangible assets		16	17
Impairment of trade receivables	5	541	573
Recognition of deferred income		(318)	(318)
Share-based payment expense		15,593	–
		127,085	148,910
Increase in inventories		(4,091)	(262)
Increase in trade receivables		(18,664)	(34,796)
Increase in prepayments, other receivables and other assets		(7,812)	(1,483)
(Decrease)/increase in trade payables		(2,159)	411
Increase in other payables and accruals		17,586	4,081
Cash generated from operations		111,945	116,861
Interest received		94	64
Income tax paid		(32,451)	(12,338)
Net cash flows from operating activities		79,588	104,587

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June

	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash flows from operating activities	<u>79,588</u>	<u>104,587</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(8,789)	(7,108)
Proceeds from disposal of items of property, plant and equipment	21	–
Purchases of financial assets at fair value through profit or loss	(1,780,319)	(323,839)
Proceeds from disposal of financial assets at fair value through profit or loss	1,799,639	273,839
Investment income from financial assets at fair value through profit or loss	3,297	890
Decrease/(increase) in pledged time deposits	1,031	(4)
Interest received	6,165	4,098
Decrease/(increase) in time deposits with original maturity of over three months	<u>95,812</u>	<u>(31,851)</u>
Net cash flows from/(used in) investing activities	<u>116,857</u>	<u>(83,975)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contribution from shareholders	37,417	–
Proceeds from issue of shares	2,858,319	–
Share issue expenses	(94,471)	–
Principal portion of lease payments	–	(3)
Capital reduction	(402,290)	–
Dividend paid	<u>(188,928)</u>	<u>–</u>
Net cash flows from/(used in) financing activities	<u>2,210,047</u>	<u>(3)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>2,406,492</u>	<u>20,609</u>
Cash and cash equivalents at beginning of period	469,336	64,580
Effect of foreign exchange rate changes, net	<u>52</u>	<u>440</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>2,875,880</u>	<u>85,629</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	2,875,880	405,624
Time deposits with original maturity of over three months when acquired	<u>–</u>	<u>319,995</u>
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	<u>2,875,880</u>	<u>85,629</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Corporate information

The Company is a limited liability company incorporated in the Cayman Islands on 12 February 2020. The registered office of the Company is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. During the Reporting Period, the Company's subsidiaries were principally involved in design, development, manufacture and sale of a comprehensive suite of minimally invasive surgical instruments and accessories.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 June 2020 (the "Listing Date").

2. Basis of preparation and changes to the Group's accounting policies

2.1 Basis of preparation

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial information is consistent with those of the Group as set out in the accountants' report in appendix I to the Company's prospectus dated 16 June 2020, except for the adoption of new standards effective as of 1 January 2020 as set out below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.2 Changes in accounting policies

In the period, the Group has applied, for the first time, the following revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the period.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The directors do not anticipate that the application of the revised HKFRSs above will have a material effect on the Group's interim condensed consolidated financial information.

3. Operating segment information

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

4. Revenue, other income and gains

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue from contracts with customers	212,587	216,059

Revenue from contracts with customers

(a) Disaggregated revenue information

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Type of goods or services		
Sale of medical instruments	212,587	216,059
Geographical markets		
Mainland China	195,356	198,060
Overseas	17,231	17,999
	212,587	216,059
Timing of revenue recognition		
Goods transferred at a point in time	212,587	216,059

(b) Performance obligation

Information about the Group's performance obligation is summarised below:

Sale of medical instruments

The performance obligation is satisfied upon acceptance of the goods and payment is generally due within one month, extending up to two to six months for certain customers.

4. Revenue, other income and gains (continued)

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Bank interest income	3,240	6,494
Government grants*	18,504	5,089
Investment income from financial assets at fair value through profit or loss	3,297	890
Foreign exchange gains, net	1,257	440
Others	493	–
	26,791	12,913

* The government grants mainly represent subsidies received from the local governments for the purposes of subsidising expenses arising from research activities, reward for financial contribution and capital expenditure incurred on certain projects.

5. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	34,688	35,719
Impairment of trade receivables	541	573
Write-down of inventories to net realisable value	265	321
Government grants	(18,504)	(5,089)
Listing expenses	32,135	–
Loss on disposal of items of property, plant and equipment	100	2
Foreign exchange difference, net	(1,257)	(440)
Share-based payment expense	15,593	–

6. Income tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

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

6. Income tax (continued)

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period.

Pursuant to the rules and regulations of Singapore, Singapore profits tax has been provided at the rate of 17% on the estimated assessable profits arising in Singapore during the period.

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations, preferential tax treatment is available to Hangzhou Kangji, since it was recognised as a High and New Technology Enterprise and was entitled to a preferential tax rate of 15% during the periods. Jiangxi Kanghuan Medical Instrument Co., Ltd., which operates in Mainland China, was identified as a Small and Micro Enterprise and was entitled to a preferential tax rate of 5% during the period.

The Group calculates the income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed consolidated statement of profit or loss and other comprehensive income are:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax:		
Income tax charge	22,418	22,255
Deferred tax	1,901	(64)
Total tax charge for the period	24,319	22,191

7. Dividends

On 8 April 2020, the Company declared a cash dividend of RMB65,700,000 to its shareholders, of which RMB23,635,000 has not been paid as at 30 June 2020 and this amount is fully paid in July 2020.

The Board resolved not to declare any interim dividend for the six months ended 30 June 2020 (the six months ended 30 June 2019: nil).

8. Earnings per share attributable to equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit for the period attributable to owners of the parent of RMB80,742,000 (six months ended 30 June 2019: RMB83,618,000), and the weighted average number of shares of 677,202,720 in issue during the period, as adjusted to reflect the capitalisation issue as set out in note 13(f) (six months ended 30 June 2019: 1,026,707,319 ordinary shares, which were deemed to have been issued by way of capitalisation throughout the six months ended 30 June 2019).

The calculation of the diluted earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent, the assumption that 683,378,675 shares issued and issuable, and the weighted average number of ordinary shares assumed to have been issued on the deemed exercise of all dilutive potential ordinary shares arising from share options and restricted share units ("RSUs") granted by the Company.

8. Earnings per share attributable to equity holders of the parent (continued)

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	80,742	83,618
	80,742	83,618
	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period	677,202,720	1,026,707,319
Effect of dilution-weighted average number of ordinary shares arising from share options and restricted share units	6,175,955	-
	683,378,675	1,026,707,319
	683,378,675	1,026,707,319

9. Property, plant and equipment

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Carrying amount at beginning of period/year	56,526	52,651
Additions	6,334	10,277
Depreciation provided during the period/year	(3,572)	(6,398)
Disposals	(121)	(4)
	59,167	56,526
Carrying amount at end of period/year	59,167	56,526

10. Trade receivables

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Trade receivables	93,828	75,164
Impairment	(2,693)	(2,152)
	91,135	73,012
	91,135	73,012

10. Trade receivables (continued)

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to two to six months for certain customers. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancement over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 3 months	75,195	57,993
3 to 6 months	5,788	10,287
6 to 12 months	8,633	3,684
1 to 2 years	1,502	979
Over 2 years	17	69
	<u>91,135</u>	<u>73,012</u>

11. Cash and cash equivalents and pledged deposits

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Cash and bank balances	2,875,880	388,336
Time deposits	409	178,252
	<u>2,876,289</u>	566,588
Less: Pledged time deposits: Pledged for potential transactions on financial assets at fair value through profit or loss	<u>(409)</u>	<u>(1,440)</u>
Cash and cash equivalents	<u>2,875,880</u>	<u>565,148</u>
Denominated in RMB	15,835	509,781
Denominated in HK\$	2,765,922	–
Denominated in US\$	93,510	54,766
Denominated in other currencies	613	601
Cash and cash equivalents	<u>2,875,880</u>	<u>565,148</u>

11. Cash and cash equivalents and pledged deposits (continued)

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between two weeks and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

12. Trade payables

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 3 months	6,945	9,232
3 to 6 months	136	10
6 to 12 months	5	3
Over 12 months	73	73
	7,159	9,318

Trade payables are non-interest-bearing and are normally settled on 45-day terms.

13. Share capital

	30 June 2020 (Unaudited)
Authorised: 5,000,000,000 ordinary shares of US\$0.00001 each US\$	50,000
Issued and fully paid: 1,252,207,500 ordinary shares of US\$0.00001 each US\$	12,522
RMB	88,000

There was no authorised and issued capital presented as at 31 December 2019 since the Company was not yet incorporated as at those date.

13. Share capital (continued)

A summary of movements in the Company's issued share capital, share premium and share held for share-based payments is as follows:

	<i>Notes</i>	Number of shares in issue	Share capital <i>RMB'000</i>	Share premium account <i>RMB'000</i>	Share held for share-based payments <i>RMB'000</i>
At incorporation on 12 February 2020	<i>(a)</i>	1	–	–	–
Issue of shares on 22 February 2020	<i>(b)</i>	63,999	–	–	–
Issue of shares on 13 March 2020	<i>(c)</i>	36,000	–	–	–
Issue of shares on 19 May 2020	<i>(d)</i>	2,681	–	–	–
Capital contribution from shareholders on 20 May 2020	<i>(e)</i>	–	–	79,465	–
Capitalisation issue	<i>(f)</i>	1,026,707,319	72	(70)	(2)
Issue of shares on 29 June 2020	<i>(g)</i>	225,397,500	16	2,858,303	–
Share issue expenses		–	–	(128,666)	–
At 30 June 2020		<u>1,252,207,500</u>	<u>88</u>	<u>2,809,032</u>	<u>(2)</u>

- (a) On 12 February 2020, the Company was incorporated with an authorised share capital of US\$50,000 divided into 5,000,000,000 ordinary shares with par value of US\$0.00001 each and one share was issued to an initial subscriber and later transferred to Fortune Spring ZM B Limited (“ZM B”).
- (b) On 22 February 2020, 38,849 and 25,150 ordinary shares were allotted and issued to ZM B and Fortune Spring YG B Limited, respectively.
- (c) On 13 March 2020, the Company's 1,800,000,000 authorised but unissued ordinary shares were re-designated and reclassified as preferred shares of a par value of US\$0.00001 each, and 36,000 preferred shares were allotted and issued in exchange of the entire equity interests of the then shareholders of Hangzhou Kangji.
- (d) On 19 May 2020, 2,681 shares were allotted and issued to Fortune Spring KangJi 1 Limited (the “ESOP BVI”). Pursuant to the written resolutions of the shareholders of the Company dated 6 May 2020, the Company approved and adopted the pre-IPO share option plan (the “Option Plan”) and the restricted share unit plan (the “RSU Plan”). On the same day, 412 underlying shares under the Option Plan and a total of 2,119 underlying shares under the RSU Plan were granted to certain management team members and employees.
- (e) As part of the reorganisation, certain shareholders re-injected capital of RMB79,465,000 in the Company on 20 May 2020.
- (f) Pursuant to an ordinary resolution passed on 8 June 2020, a total of 1,026,707,319 shares were allotted and issued, credited as fully-paid at par, by way of capitalisation from the share premium account to the holders of shares whose names appear on the register of members of the Company on 26 June 2020 in proportion to their then respective existing shareholdings in the Company. This allotment and capitalisation issue were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in note (g) below.
- (g) In connection with the Company's initial public offering, 225,397,500 ordinary shares of US\$0.00001 each were issued at a price of HK\$13.88 per share for a total cash consideration, before expenses, of approximately HK\$3,128,517,300 (equivalent to RMB2,858,319,000). Dealings in these shares on the Stock Exchange commenced on 29 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

We are the largest domestic minimally invasive surgical instruments and accessories (MISIA) platform in China.

We design, develop, manufacture and sell a comprehensive suite of MISIA products that are focused on the surgical specialties of obstetrics and gynecology (OBGYN), general surgery, urology and thoracic surgery. As of June 30, 2020, we had registered 41 Class I, 13 Class II and eight Class III medical devices in China. We offer both disposable and reusable products, and a substantial majority of our revenue is derived from disposable products.

During the Reporting Period, the COVID-19 pandemic in China and globally had a significant impact on our business, especially in the first quarter of 2020. We had normal operations before Chinese New Year holidays starting from January 24, 2020. We temporarily suspended operations for approximately two weeks from the end of Chinese New Year holidays in early February to February 17, 2020 to protect our employees. We officially resumed normal on-site operations on February 18, 2020, including production and sales. The COVID-19 outbreak had significant impact on our results of operations in February and March during the Reporting Period mainly due to hospitals' lower demand for our products, as many surgeries were rescheduled to avoid cross-infection and hospital resources were redirected to support COVID-19 treatment during this period. As a result, for the first quarter of 2020, our revenue decreased by approximately 31.4% to RMB61.1 million from RMB89.1 million for the same period of 2019.

We achieved revenue growth of 19.3% for the second quarter of 2020 as compared to the same period of 2019, thanks to the recovery of market demand as surgery volume started to bounce back. As a result, the Group's revenue in the Reporting Period was approximately RMB212.6 million, which was a slight decrease of 1.6% as compared to the same period of 2019. Sales of disposable products accounted for approximately 87.6% of our total revenue during the Reporting Period.

Shares of the Company were successfully listed on the main board of the Stock Exchange on June 29, 2020.

Research and Development

We implement a clinical demand-oriented and highly responsive research and development (R&D) strategy. Leveraging our extensive network of key opinion leaders (KOLs), physicians, hospitals and medical associations, we have built various interaction channels with a large number of physicians, their affiliated hospitals and medical associations, including a five-member advisory board, an OBGYN research workstation, medical conferences and training programs.

We adopt a two-pronged R&D approach that values both in-house R&D and co-development with KOLs, physicians, hospitals and academic institutions. For the first half of 2020, we registered a total of 19 new patents in China which include 16 utility patents and three design patents.

Product Pipeline

We focus on R&D of MISIA Products (i) that have vast unmet market demand; (ii) for which we have R&D capabilities to quickly develop from concept to approved products; and (iii) that can gain market share at faster ramp up speed. In particular, we plan to continue to focus on products used in OBGYN, general surgery, urology and thoracic surgical specialties, including in the robotic assisted technology (RAT) areas. As of June 30, 2020, we had four product candidates in the registration process and five candidates in the product design and development stage.

Sales and Distribution

We have an extensive sales network primarily consisting of sales to domestic distributors, which then sell our products to hospitals and/or other end-customers. To a lesser extent, we also sell to hospitals and other customers (primarily including trading companies that sell our products to overseas original design manufacture (ODM) customers) in China, as well as to overseas distributors and ODM customers. During the Reporting Period, we maintained stable relationships with all of our core distributors. For the six months ended June 30, 2020, our sales reach covered more than 2,900 hospitals across China. We also successfully made inroads into select leading hospitals for certain product categories despite the severe restrictions during the pandemic. We also successfully moved certain academic promotion activities online by hosting Kangji branded webinars and webcast.

Outlook

We intend to implement a business strategy and apply the proceeds from the Global Offering in the manner and timeframe as disclosed in the Prospectus with the following key components: (i) continue to grow product sales by increasing sales and marketing efforts and commercializing new products; (ii) further enhance our R&D capabilities and expand our product pipeline; (iii) expand our production capacity to support future growth; (iv) expand our global footprint by increasing product registrations and broadening sales channels overseas; and (v) selectively pursue strategic investments and acquisitions.

We will continue to closely monitor the COVID-19 situation as well as various regulatory and administrative measures adopted by local governments to prevent and control the epidemic. We will continue to evaluate the impact of this outbreak on us and adapt our sales strategies accordingly.

FINANCIAL REVIEW

Overview

As disclosed in the Prospectus, our business was affected by the outbreak of COVID-19 in China and overseas. We have adopted various measures to mitigate the impact of the COVID-19 outbreak on our business operations, financial results and prospects, and maintained a safe and hygienic working environment in our offices and manufacturing facilities. During the Reporting Period, we did not experience any disruption in our supply chain, and as of June 30, 2020, almost all of our major distributors resumed their normal operations.

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

Revenue

	Unaudited		
	Six months ended June 30,		
	2020	2019	Change
	RMB'000	RMB'000	%
Disposable products			
Disposable trocars	99,949	109,948	-9.1
Polymer ligation clips	64,012	55,614	15.1
Disposable electrocoagulation forceps	17,945	14,061	27.6
Other disposable products ⁽¹⁾	4,397	3,564	23.4
<i>Sub-total</i>	186,303	183,187	1.7
Reusable products⁽²⁾	26,284	32,872	-20.0
Total	212,587	216,059	-1.6

Notes:

- (1) Other disposable products primarily include disposable suction and irrigation sets and retrieval bags, among others.
- (2) Reusable products primarily include reusable trocars, reusable forceps and other reusable products.

Our revenue amounted to RMB212.6 million for the six months ended June 30, 2020, representing a decrease of 1.6% as compared to RMB216.1 million for the six months ended June 30, 2019. The decrease was mainly attributable to the impact of COVID-19 outbreak on our sales in the domestic market in the first quarter of 2020, as the demand for our products decreased as a result of lower surgery volume. As surgery volume gradually recovered in the second quarter of 2020, demand for our products also bounced back and we had positive year-on-year growth in terms of total revenue for each month of the second quarter.

Disposable Products

Our disposable products include disposable trocars, polymer ligation clips, disposable electrocoagulation forceps and other disposable products. Our disposable products recorded revenue of RMB186.3 million for the six months ended June 30, 2020, representing an increase of 1.7% as compared to RMB183.2 million for the six months ended June 30, 2019. Such increase was mainly attributable to the year-on-year sales growth in the second quarter of 2020 when demand recovered as surgery volume bounced back, offset by the decline in sales in the first quarter of 2020. Demand for disposable products recovered much faster than for reusable products, as there is a more immediate need for product replenishment as surgeries return to normal level at hospitals.

During the Reporting Period, sales of disposable products accounted for 87.6% of our total revenue as compared to 84.8% for the same period in 2019.

Disposable trocars recorded revenue of RMB99.9 million for the six months ended June 30, 2020, representing a decrease of 9.1% as compared with RMB109.9 million for the six months ended June 30, 2019. Disposable trocars accounted for approximately 47.0% of our total revenue during the Reporting Period as compared to 50.9% for the same period in 2019. Polymer ligation clips recorded revenue of RMB64.0 million for the six months ended June 30, 2020, representing a growth of 15.1% compared to the same period in 2019.

Sales of polymer ligation clips recovered more quickly mainly because a large portion of the surgeries that have been delayed by COVID-19 and were subsequently rescheduled were cancer surgeries, which have higher usage of polymer ligation clips. In contrast, the number of disposable trocars used for any type of surgery is usually fixed.

Like polymer ligation clips, the other disposable product categories (disposable electrocoagulation forceps and other disposable products) also experienced faster recovery of demand and positive sales growth in the six months ended June 30, 2020 despite the pandemic. This can also be attributed to the higher growth rates for these product segments and our leading market positions.

Reusable Products

Our reusable products recorded revenue of RMB26.3 million for the six months ended June 30, 2020, representing a decrease of 20.0% as compared with RMB32.9 million for the six months ended June 30, 2019. Such decrease was mainly due to the impact of COVID-19 on demand for reusable products as well as the fact that face-to-face marketing activities at hospitals, which are essential for these non-standardized products, were curtailed by COVID-19 related restrictions.

Sales Channel

Most of our revenue comes from sales to domestic customers. During the Reporting Period, we primarily sold our products to domestic distributors. To a lesser extent, we also sold to hospitals and other customers (primarily including trading companies that sell our products to overseas ODM customers) in China, as well as to overseas distributors and ODM customers. The following table sets forth our revenue by geographic market and sales channel for the periods indicated:

	Unaudited		
	Six months ended June 30,		
	2020	2019	Change
	RMB'000	RMB'000	%
Domestic			
– Distributors	189,427	190,240	-0.4
– Hospitals and other customers	5,929	7,820	-24.2
<i>Sub-total</i>	<u>195,356</u>	<u>198,060</u>	<u>-1.4</u>
Overseas			
– ODM customers	15,465	16,726	-7.5
– Distributors	1,766	1,273	38.7
<i>Sub-total</i>	<u>17,231</u>	<u>17,999</u>	<u>-4.3</u>
Total	<u><u>212,587</u></u>	<u><u>216,059</u></u>	<u><u>-1.6</u></u>

Our revenue from overseas markets was approximately RMB17.2 million for the six months ended June 30, 2020, representing a decrease of 4.3% from the same period in 2019. This decrease was also due to the impact of COVID-19 and can be attributed to lower demand for our products, disruptions to operations for our overseas customers as well as constraints on international logistics. Our overseas sales continued to be affected by the spread of COVID-19 outside of China in the second quarter of 2020 even as conditions in China gradually improved. Revenue from overseas markets accounted for 8.1% of our total revenue for the first half of 2020 as compared to 8.3% for the same period in 2019.

Cost of Sales

For the six months ended June 30, 2020, our cost of sales was RMB35.0 million, representing a decrease of 3.0% as compared with RMB36.0 million for the six months ended June 30, 2019. The decrease in cost of sales was primarily due to a decrease in sales, as well as increased proportion of disposable products, as disposable products generally have lower raw material cost than reusable products. The decrease in raw material cost was partially offset by an increase in labor cost and other manufacturing cost.

Gross Profit and Gross Margin

Our gross profit declined by 1.3% to RMB177.6 million for the six months ended June 30, 2020 from RMB180.0 million for the six months ended June 30, 2019, due to a decrease in sales.

Our gross margin was 83.6% for the six months ended June 30, 2020, up from 83.3% for the six months ended June 30, 2019, which was primarily due to (i) a slightly higher proportion of sales under the “two-invoice” system in certain provinces of China, and such sales have higher gross margins due to higher ex-factory prices, and (ii) higher proportion of disposable products which have higher gross margins than reusable products.

Other Income and Gains

The Group's other income and gains for the six months ended June 30, 2020 was RMB26.8 million, while for the six months ended June 30, 2019, it was RMB12.9 million. The increase in other income was primarily due to an increase in government grants. Government grants in the first half of 2020 increased significantly year-on-year, primarily due to the increase in government subsidy we received in relation to the taxes we accrued in the fourth quarter of 2019 as a result of our significant growth in 2019, and the fact that our tax contribution is generally weighted higher toward end of the year. A big proportion of the government subsidy we receive each year is in relation to the taxes we paid to the local government and is usually granted to us twice a year. The rest of the government subsidy varies each year as we apply for various government incentives.

Selling and Distribution Expenses

Selling and distribution expenses were RMB23.2 million for the six months ended June 30, 2020, representing an increase of 35.0% as compared with RMB17.2 million for the six months ended June 30, 2019. The increase was primarily due to share-based payment expenses associated with our RSU Plan. Excluding share-based payment expenses, our selling and distribution expenses remained relatively stable for the Reporting Period.

Administrative Expenses

Administrative expenses amounted to RMB54.0 million for the six months ended June 30, 2020, representing an increase of 299.1% as compared with RMB13.5 million for the six months ended June 30, 2019. The increase was mainly due to the listing expenses and share-based payment expenses. Excluding the listing expenses and share-based payment expenses, our administrative expenses increased by RMB2.3 million for the Reporting Period mainly due to an increase in tax expense (primarily stamp duty associated with the restructuring in March 2020) and a moderate increase in staff cost.

Research and Development Expenses

Research and development expenses for the six months ended June 30, 2020 was RMB12.1 million, representing an increase of 47.9% as compared with RMB8.2 million for the six months ended June 30, 2019, which was mainly due to share-based payment expenses. Excluding the share-based payment expenses, our research and development expense increased moderately by RMB0.5 million for the Reporting Period due to an increase in the purchase of raw materials and a moderate increase in staff cost.

Other Expenses

Other expenses primarily consist of donation, foreign exchange loss, and loss on disposal of assets. During the Reporting Period, we recorded other expenses of RMB1.2 million for the six months ended June 30, 2020, which was primarily attributable to a donation in supporting the government's containment of the COVID-19 outbreak.

Income Tax Expenses

Income tax expenses were RMB24.3 million for the six months ended June 30, 2020, representing an increase of 9.6% as compared with RMB22.2 million for the six months ended June 30, 2019. The increase was primarily due to a moderate increase in taxes for our PRC subsidiaries since the majority of the listing expenses and share-based payment expenses cannot be deducted for tax purpose, as well as an inclusion of PRC withholding tax on distributable profit for the Group.

Non-HKFRS Adjusted Net Profit for the Period

To supplement our unaudited consolidated statement of profit or loss and other comprehensive income which is presented in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”), we also use adjusted net profit as a non-HKFRS measure, which is not required by, or presented in accordance with, HKFRSs. We believe that the presentation of non-HKFRS measure when shown in conjunction with the corresponding HKFRS measures provides useful information to investors and management in facilitating a comparison of our operating performance from period to period by eliminating potential impacts of certain non-operational or one-off expenses that do not affect our ongoing operating performance, including share-based payment expenses and listing expenses. Such non-HKFRS measure allows investors to consider metrics used by our management in evaluating our performance.

The following table shows our adjusted net profit for the Reporting Period and its reconciliation to profit for the periods indicated:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
Profit for the period	89,596	130,653
Add:		
Listing expenses	32,135	-
Share-based payment expenses	15,593	-
Non-HKFRS adjusted net profit for the period	137,324	130,653

Notes:

- (1) Share-based payment expenses are non-operational expenses arising from granting RSUs and Pre-IPO Share Options to selected management members, the amount of which may not directly correlate with the underlying performance of our business operations, and is also affected by non-operating performance related factors that are not closely or directly related to our business activities.
- (2) Listing expenses are one-off expenses in relation to the Listing and the Global Offering. We recorded all of the listing expenses in the Reporting Period.

The use of the non-HKFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for or superior to analysis of, our results of operations or financial condition as reported under HKFRSs. In addition, the non-HKFRS financial measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures presented by other companies.

Liquidity and Capital Resources

As of June 30, 2020, we had cash and cash equivalents of RMB2,875.9 million, as compared with RMB565.1 million as of December 31, 2019.

Net Current Assets

We had net current assets of RMB2,884.6 million as of June 30, 2020, representing an increase of RMB2,434.7 million as compared with RMB449.9 million as of December 31, 2019. Such increase primarily represents the cash proceeds received from the Global Offering.

Foreign Exchange Exposure

During the Reporting Period, the Group's operations were primarily based in the PRC. Assets, liabilities and transactions in the PRC are denominated in RMB, while overseas assets and transactions are mainly denominated in US Dollars. We are exposed to foreign currency risks, primarily including account receivables, account payables and cash balances that are denominated in a foreign currency, i.e., a currency other than our functional currency. For the six months ended June 30, 2020, the Group recorded an exchange gain of RMB1.3 million, as compared to an exchange gain of RMB0.4 million for the six months ended June 30, 2019. 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 six months ended June 30, 2020, the Group's total capital expenditure amounted to approximately RMB8.8 million, which was primarily used in purchasing machinery and equipment and motor vehicles. The Group's capital expenditure for the six months ended June 30, 2019 was approximately RMB7.1 million.

Charge of Assets/Pledge of Assets

As of June 30, 2020, we did not have any charge of assets or pledge of assets.

Borrowings

As of June 30, 2020, we did not have any outstanding bank loans and other borrowings. We monitor capital using a gearing ratio, which is debt divided by total assets. Debt includes trade payables, other payables and accruals. As of June 30, 2020, the gearing ratio of the Group was 3.4% (as of December 31, 2019: 7.1%).

Contingent Liabilities

As of June 30, 2020, we did not have any outstanding contingent liabilities.

Significant Investments

As of June 30, 2020, we did not hold any significant investments in the equity interests of any other companies.

Future Plans for Material Investments and Capital Assets

As of June 30, 2020, we did not have any plan for material investments and capital assets.

Employee and Remuneration Policy

As of June 30, 2020, the Group had 616 employees (June 30, 2019: 590 employees). Total staff remuneration expenses including Directors' remuneration and share-based payment expenses for the six months ended June 30, 2020 amounted to RMB37.2 million (for the six months ended June 30, 2019: RMB19.1 million).

The remuneration of directors and senior management is determined with reference to the salaries of comparable companies and their experience, duties and performance. The remuneration of other employees is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice.

USE OF PROCEEDS FROM LISTING

In connection with the Company's initial public offering, 225,397,500 ordinary shares of US\$0.00001 each were issued at a price of HK\$13.88 per share for a total cash consideration, after deducting underwriting commissions and estimated fees and expenses payable by the Company in the Global Offering, of approximately HK\$2,952.5 million (equivalent to RMB2,697.4 million). Dealings in these shares on the Stock Exchange commenced on June 29, 2020.

The net proceeds will be used in the manner and timeframe as disclosed in the section headed "Future Plans and Use of Proceeds" of the Prospectus. Since the Listing Date and up to June 30, 2020, the net proceeds has not been applied for any use.

COMPLIANCE WITH THE MODEL CODE AND THE CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as the code of conduct regarding securities transactions by Directors. Having made specific enquiry by the Company, all the Directors confirmed that they have complied with the requirements as set out in the Model Code from the Listing Date to June 30, 2020.

Compliance with the Corporate Governance Code

The Company has adopted the code provisions of the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The CG Code has been applicable to the Company with effect from the Listing Date and was not applicable to the Company during the Reporting Period.

As of six months ended June 30, 2020, save as provisions addressed below, the Company has complied with all the applicable code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules.

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The chairman and chief executive officer of the Company are held by Mr. ZHONG Ming who is one of the founders of the Group and has been operating and managing the Group since its establishment.

The Board believes that Mr. ZHONG Ming 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 considers that vesting the roles of chairman and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Company. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

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 from the Listing Date to June 30, 2020.

Material Acquisitions and Disposals of Subsidiaries

During the six months ended June 30, 2020, we did not have any material acquisition and disposal of subsidiaries.

Review by the Audit Committee

The audit committee consists of two independent non-executive Directors, Mr. CHEN Weibo (Chairman), Mr. JIANG Feng and one non-executive Director, Ms. CAI Li.

The Group’s interim results for the six months ended June 30, 2020 have been reviewed by all members of the audit committee. Based on such review, the audit committee was satisfied that the Group’s unaudited interim results were prepared in accordance with applicable accounting standards.

Events after the End of the Reporting Period

Our Directors are not aware of any significant event requiring disclosure that has taken place subsequent to June 30, 2020 and up to the date of this announcement.

Interim Dividend

The Board resolved not to declare any interim dividend for the six months ended June 30, 2020.

Publication of the 2020 Condensed Consolidated Interim Results and Interim Report

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kangjimedical.com). The interim report of the Company for the six months ended June 30, 2020 containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

By order of the Board
Kangji Medical Holdings Limited
康基医疗控股有限公司
ZHONG Ming
Chairman

Hong Kong, August 25, 2020

As at the date of this announcement, the board of Directors of the Company comprises Mr. ZHONG Ming and Ms. SHENTU Yinguang as executive Directors; Ms. CAI Li and Mr. CHEN Gang as non-executive Directors; and Mr. JIANG Feng, Mr. GUO Jian and Mr. CHEN Weibo as independent non-executive Directors.