



康基医疗控股有限公司
Kangji Medical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 9997

INTERIM REPORT
2020



CONTENTS

2	Corporate Information
3	Financial Highlights
4	Management Discussion and Analysis
23	Corporate Governance and Other Information
30	Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
31	Interim Condensed Consolidated Statement of Financial Position
33	Interim Condensed Consolidated Statement of Changes In Equity
34	Interim Condensed Consolidated Statement of Cash Flows
36	Notes to the Interim Condensed Consolidated Financial Information
51	Definitions

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. ZHONG Ming (*Chairman*)

Ms. SHENTU Yinguang

Non-executive Directors

Ms. CAI Li

Mr. CHEN Gang

Independent Non-executive Directors

Mr. JIANG Feng

Mr. GUO Jian

Mr. CHEN Weibo

AUDIT COMMITTEE

Mr. CHEN Weibo (*Chairman*)

Mr. JIANG Feng

Ms. CAI Li

REMUNERATION COMMITTEE

Mr. CHEN Weibo (*Chairman*)

Ms. SHENTU Yinguang

Mr. GUO Jian

NOMINATION COMMITTEE

Mr. ZHONG Ming (*Chairman*)

Mr. JIANG Feng

Mr. GUO Jian

JOINT COMPANY SECRETARIES

Mr. YIN Zixin

Ms. LEUNG Shui Bing (*ACIS, ACS*)

AUTHORIZED REPRESENTATIVES

Mr. ZHONG Ming

Mr. YIN Zixin

AUDITOR

Ernst & Young

Certified Public Accountants

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Financial Highlights

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 (Unaudited) RMB' 000	2019 (Unaudited) RMB' 000	Changes %
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
	212,587	216,059	-1.6
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.

Management Discussion and Analysis

OUR MISSION

Our mission is to enable physicians and improve health and wellness of patients through providing high performing and accessible products and services.

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.

In response to the outbreak of COVID-19 and its spread globally in the first half of 2020, we adopted measures to mitigate the impact of the COVID-19 outbreak on our business operations, financial results and prospects, and maintain a safe and hygienic working environment in our offices and manufacturing facilities. Soon after the COVID-19 outbreak was declared as a public health emergency of international concern by the WHO, we established a committee to handle COVID-19-related contingencies. The committee is headed by Mr. Zhong Ming, our executive Director, Chairman of the Board and chief executive officer, and comprises six members of the Board and senior management, and 10 department heads. The committee promptly formulated a company-wide COVID-19 emergency response plan, including but not limited to procuring sanitation supplies, assigning specific personnel to monitor COVID-19 related information, closely working with our suppliers to ensure supply of raw materials and periodically communicating with our customers to obtain timely updates of their operations and sales performance. We donated RMB1.1 million during the Reporting Period to a foundation to support the government's containment of the COVID-19 outbreak.

In March 2020, we were recognized as one of the Zhejiang Top 20 Biology and Medical Companies (浙江省生物醫藥20強) by the Economy and Information Technology Department of Zhejiang (浙江省經濟和信息化廳).

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.

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 and 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 pandemic. We also started to move certain academic promotion activities online by hosting Kangji branded webinars and webcast.

Management Discussion and Analysis

The Group's Subsidiaries and Facilities

We conduct our business mainly through our two subsidiaries in the PRC and their respective corporate information is set forth below:

Subsidiary	Place of establishment	Date of establishment	Shareholding percentage	Major business
Hangzhou Kangji	Hangzhou, Zhejiang Province, PRC	August 24, 2004	100%	PRC headquarters of our business, including manufacturing, distribution and research and development
Jiangxi Kanghuan	Jiujiang, Jiangxi Province, PRC	May 22, 2017	100%	Wholesale, retail and distribution

We also wholly own two overseas subsidiaries, being Kangji Medical (Singapore) Pte. Ltd. and Kangji Medical (Hong Kong) Limited. The corporate name of Kangji Medical (Singapore) Pte. Ltd. was changed from TPG Keyhole Success Holding Pte. Ltd. on July 28, 2020.

Our corporate headquarters are located in Tonglu, Zhejiang province. All of our manufacturing facilities during the Reporting Period are located in Zhejiang Province in the PRC.

We have solid manufacturing capabilities supported by an experienced production team, automated manufacturing processes and a cost-effective supply chain. We completed the construction of two new manufacturing facilities in the first half of 2019, bringing the total GFA of our manufacturing facilities to 28,699 square meters (“sq.m.”). During the Reporting Period, we increased the production capacity for our disposable products. The capacity utilization rate for our various disposable products ranged between 93% and 97% in the first half of 2020.

As of June 30, 2020, we owned the land use right of three parcels of land with a total site area of approximately 54,023 sq.m. and seven buildings with a total GFA of approximately 37,145.91 sq.m. Our buildings are primarily used as office buildings and manufacturing facilities.

As of June 30, 2020, we leased one property in Jiangxi with a GFA of approximately 74.11 sq.m., which has been used as our office premises.

Outlook

We intend to implement a business strategy and apply the proceeds from the Listing 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.

Management Discussion and Analysis

OUR PRODUCT PORTFOLIO

Our product portfolio is set out below as of June 30, 2020:

Product Type	Description
Disposable products	
Disposable trocars	Disposable trocars are used to create an access port for endoscopes or other surgical instruments during the MIS. Our disposable trocars are available in various types and specification
Polymer ligation clips	We are the first domestic company to obtain NMPA approval for polymer ligation clips, which are used to quickly occlude vessels and other tubular tissue structures in surgeries including MIS. Our polymer ligation clips have high biocompatibility and stability, and are radiolucent and available in different sizes
Disposable electrocoagulation forceps	We are the first company to obtain NMPA approval for Class III disposable electrocoagulation forceps, which utilize high-frequency electric current to quickly achieve hemostasis at bleeding sites, or dissect or cut tissues using different forceps tips, such as scissors, graspers or blades
Other disposable products	Other disposable products primarily include disposable suction and irrigation sets, and retrieval bags, among others
Reusable products	Reusable products primarily include reusable trocars, reusable forceps and other reusable products

OUR 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. The following table sets forth details of our product pipeline:

Expected launch date	Candidate name	Medical device classification	Application	Features and benefits	Current status
2020 or early 2021	4K-ultra resolution Endovision camera system (4K高清內窺鏡攝像系統)	Class II	Endoscopic imaging	1. Enable imaging with high resolution, stable vision and decreased chromatic aberration especially for red color; 2. Unclouded images to accommodate different surgical scenarios	Product registration testing

Management Discussion and Analysis

Expected launch date	Candidate name	Medical device classification	Application	Features and benefits	Current status
2020	Disposable ultrasonic scalpel (超聲切割止血刀一次性刀頭) ⁽¹⁾	Class III	Cutting soft tissues and closing vessels during surgery	1. Transect and coagulate tissues in one step, saving surgery time;	Application for NMPA registration filed; pending approval
2020	Ultrasonic scalpel (system) (超聲切割止血刀(主機)) ⁽¹⁾	Class III	Electrosurgical hardware to support disposable ultrasonic dissectors	2. Minimal lateral thermal damage for important tissue organs and their peripheries; 3. No current flows through the human body, making it safer and more reliable	Application for NMPA registration filed; pending approval
2020 or early 2021	Laparoscopic stapler (腹腔鏡吻合器) ⁽¹⁾	Class II	Anastomosis of the tubular tissues of the alimentary canal and anastomosis for lateral resection	1. Substitute traditional surgical suturing with faster suturing, fewer side effects and reduced surgical complications; 2. Easy to use without requiring proficient surgical suturing skills	Product design and development
2021	Absorbable ligation clip (可吸收結紮夾) ⁽¹⁾	Class III	Closure of blood vessels and tubular tissues during MIS	Made from biodegradable materials, can be degraded and absorbed in the human body after use	Clinical trial
2021	Disposable laparoscopic trocar (with external flap control) (一次性內窺鏡專用外控翻板穿刺器)	Class II	Laparoscopic surgeries to allow surgical instrument to enter into and exit from the human body, and allow inflation into the cavity	Increased control on sealing, which improves the shortcoming of secondary contamination caused by the entrance and exit of the endoscope and makes the specimen retrieval process more smooth	Product design and development

Management Discussion and Analysis

Expected launch date	Candidate name	Medical device classification	Application	Features and benefits	Current status
2022	Multi-dimensional rotational laparoscopic surgical instruments (多維度撓性內鏡器械)	Class II/III	Laparoscopic surgeries	Manually-operated devices to achieve multidimensional operations similar to robotic assisted surgical devices	Product design and development
Beyond 2022	Robot-assisted laparoscopic surgical instruments (機器人操作腹腔鏡手術器械)	Class II/III	Robot-assisted laparoscopic surgeries	Surgical instruments utilized by robotic arms, which can realize articulation beyond normal manipulation and multi-dimensional operation	Product design and development
To be determined	Knot-free subcuticular suture (免打結線) ⁽¹⁾	Class III	MIS	Used for suture in MIS	Product design and development

Note:

(1) These product candidates require clinical trials. For laparoscopic staplers, the electric type requires clinical trials.

During the Reporting Period, we continued to implement our strategy to enhance our R&D capabilities and expand our product pipeline. We have achieved the following progress to our pipeline products:

- 4K-ultra resolution Endovision camera system (4K高清內窺鏡攝像系統): We obtained the product electromagnetic compatibility test report in relation to our 4K-ultra resolution Endovision camera system in June 2020 and have entered into performance testing stage. This pipeline product is expected to be approved by the end of 2020.
- Disposable ultrasonic scalpel (system) (超聲切割止血刀一次性刀頭(系統)): We received a documents request from the CDME with respect to our application for registration of disposable ultrasonic scalpel in December 2019. As of the date of this report, we have submitted requested supplemental materials to the CDME for review. Our disposable ultrasonic scalpel is expected to be launched in the fourth quarter of 2020.
- Laparoscopic stapler (腹腔鏡吻合器): Our laparoscopic stapler, a type of advanced and high-value MISIA used to close incisions in laparoscopic surgeries, have entered into registration testing stage and is expected to be approved by the end of 2020, which would be sooner than expected.
- Absorbable ligation clip (可吸收結紮夾): Our absorbable ligation clip passed the ethics review in December 2019. The clinical trial procedure has been completed and the trial has entered into the follow-up stage as of date of this report.

Management Discussion and Analysis

FINANCIAL REVIEW

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.

Revenue

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.

	Unaudited		
	Six months ended June 30,		
	2020 RMB' 000	2019 RMB' 000	Changes %
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
Sub-total	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.

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.

Management Discussion and Analysis

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.

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 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 the condition 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.

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 RMB' 000	2019 RMB' 000	Changes %
Domestic			
– Distributors	189,427	190,240	-0.4
– Hospitals and other customers	5,929	7,820	-24.2
Sub-total	195,356	198,060	-1.4
Overseas			
– ODM customers	15,465	16,726	-7.5
– Distributors	1,766	1,273	38.7
Sub-total	17,231	17,999	-4.3
Total	212,587	216,059	-1.6

Management Discussion and Analysis

Cost of Sales

Our cost of sales during the Reporting Period mainly consisted of raw materials, direct labor costs and manufacturing costs.

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. The decrease in raw material cost was partially offset by an increase in labor cost and other manufacturing cost.

The following table sets forth the breakdown of our cost of sales by nature for the periods indicated:

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	RMB' 000 (except percentages)			
Raw materials cost	14,668	42.0%	16,431	45.6%
Direct labor costs	11,872	34.0	11,383	31.6
Manufacturing costs ⁽¹⁾	8,413	24.0	8,226	22.8
Total	34,953	100.0%	36,040	100.0%

Note:

(1) Manufacturing costs primarily include utilities costs, overhead expenses and depreciation of our manufacturing equipment.

The following table sets forth the breakdown of our cost of sales by product type for the periods indicated:

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	RMB' 000 (except percentages)			
Disposable products	24,796	70.9%	24,441	67.8%
Reusable products	10,157	29.1	11,599	32.2
Total	34,953	100.0%	36,040	100.0%

Gross Profit and Gross Profit 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.

Management Discussion and Analysis

The following table sets forth the breakdown of gross profit and gross profit margin by product type for the periods indicated:

	For the six months ended June 30,			
	2020		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000 (except percentages)			
Disposable products	161,507	86.7%	158,746	86.7%
Reusable products	16,127	61.4	21,273	64.7
Total	177,634	83.6%	180,019	83.3%

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.

The following table sets forth the breakdown of our other income and gains for the periods indicated:

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	RMB'000 (except percentages)			
Government grants	18,504	69.1%	5,089	39.4%
Bank interest income	3,240	12.1	6,494	50.3
Investment income from financial assets at fair value through profit or loss	3,297	12.3	890	6.9
Foreign exchange gains, net	1,257	4.7	440	3.4
Others	493	1.8	–	–
Total	26,791	100.0%	12,913	100.0%

Selling and Distribution Expenses

Our selling and distribution expenses during the Reporting Period primarily consisted of (i) marketing and advertising fees we incurred to maintain and expand our sales network; (ii) transportation and travel fees in relation to our sales and marketing activities; and (iii) staff costs for our sales and marketing personnel.

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 in the amount of approximately RMB6.2 million which was included in staff costs. Excluding share-based payment expenses, our selling and distribution expenses remained relatively stable for the Reporting Period.

Management Discussion and Analysis

The following table sets forth the breakdown of our selling and distribution expenses for the periods indicated:

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	RMB' 000 (except percentages)			
Marketing and advertising fees	13,398	57.7%	12,837	74.7%
Transportation and travel fees	1,037	4.5	2,117	12.3
Staff costs	8,265	35.6	1,747	10.2
Other	507	2.2	487	2.8
Total	23,207	100.0%	17,188	100.0%

Administrative Expenses

Our administrative expenses during the Reporting Period primarily consisted of (i) staff costs for our administrative and other staff; (ii) tax expenses; (iii) office, travel and miscellaneous expenses; (iv) depreciation and amortization; (v) professional services fees; (vi) impairment of trade receivables; and (vii) others (including one-off listing 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 (in the amount of RMB32.1 million) and share-based payment expenses (approximately RMB6.0 million) included in staff costs. 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).

The following table sets forth the breakdown of our administrative expenses for the periods indicated:

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	RMB' 000 (except percentages)			
Staff costs	10,466	19.4%	3,637	26.9%
Tax expenses	5,318	9.8	3,021	22.3
Office, travel and miscellaneous expenses	2,409	4.5	3,724	27.5
Depreciation and amortization	1,338	2.5	1,368	10.1
Professional services fees	1,554	2.9	1,095	8.1
Impairment of trade receivables	541	1.0	588	4.3
Listing expenses	32,135	59.5	–	–
Others	242	0.4	98	0.8
Total	54,003	100.0%	13,531	100.0%

Research and Development Expenses

Our research and development expenses during the Reporting Period primarily consisted of (i) costs of raw materials used in our research and development projects; (ii) staff costs in relation to our research and development team; and (iii) other research and development expenses including technical service fees and testing fees, costs for clinical trials and regulatory approvals, conference and travel expenses, depreciation and amortization and other miscellaneous costs.

Management Discussion and Analysis

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 included in staff costs. 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.

The following table sets forth the breakdown of our research and development expenses for the periods indicated:

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	RMB'000 (except percentages)			
Raw material costs	3,707	30.7%	2,695	33.0%
Staff costs	6,759	56.0	2,699	33.0
Others	1,610	13.3	2,773	34.0
Total	12,076	100.0%	8,167	100.0%

Other Expenses

Other expenses primarily consisted 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.

The following table sets forth the components of other expenses for the periods indicated:

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	RMB'000 (except percentages)			
Donation	1,100	89.9%	1,200	99.8%
Loss on disposal of items of property, plant and equipment	100	8.2	2	0.2
Others	24	1.9	–	–
Total	1,224	100.0%	1,202	100.0%

Income Tax Expenses

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

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 in income tax expenses despite a decrease in profit before tax for the period was primarily due to the fact that the majority of the listing expenses and share-based payment expenses cannot be deducted for tax purpose, as well as an increase in deferred tax which represented an inclusion of PRC withholding tax on distributable profit for the Group.

Management Discussion and Analysis

The Group calculates the period 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 are:

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	RMB' 000 (except percentages)			
Current tax:				
Income tax charge	22,418	92.2%	22,255	100.3%
Deferred tax	1,901	7.8	(64)	(0.3)
Total	24,319	100.0%	22,191	100.0%

Property, Plant and Equipment

Our property, plant and equipment during the Reporting Period consisted of buildings, plant and machinery, furniture and fixtures and motor vehicles. Our property, plant and equipment increased from RMB56.5 million as of December 31, 2019 to RMB59.2 million as of June 30, 2020. The increase in property, plant and equipment during the Reporting Period was primarily due to the purchase of machinery, equipment and motor vehicles.

Right-of-use Assets

We recognize right-of-use assets for land use rights and leases of office premises. Our right-of-use assets decreased from RMB17.0 million as of December 31, 2019 to RMB16.8 million as of June 30, 2020, primarily due to accumulated amortization during the Reporting Period.

Intangible Assets

Our intangible assets represent our software used to design our products. We had intangible assets of RMB66,000 and RMB55,000 as of December 31, 2019 and June 30, 2020, respectively. The decrease in the carrying amount of our intangible assets was primarily due to accumulated amortization during the Reporting Period.

Inventories

Our inventories during the Reporting Period consisted of raw materials, work-in-progress and finished goods. Under our inventory control policy, we regularly monitor and analyze our historical procurement, production and sales statistics and adjust our inventories to meet customer demand in a timely manner without causing inventory accumulation.

Our inventories increased from RMB36.9 million as of December 31, 2019 to RMB41.0 million as of June 30, 2020, primarily due to the increase in finished goods, as we built up our inventory to some extent in anticipation of increased sales in the second half of the year. Our inventory turnover days increased from 175 days in 2019 to 212 days in the Reporting Period primarily due to the increase in inventory as mentioned above, as well as the proportional decrease in cost of sales, as our cost of sales, in relation to revenue split, is generally lower in the first half of the year compared to the second half of the year.

Management Discussion and Analysis

The following table sets forth the details of our inventories as of the dates indicated and inventory turnover days for the periods indicated:

	As of June 30, 2020	As of December 31, 2019
	RMB'000	
Raw materials	19,829	17,763
Work-in-progress	4,747	6,193
Finished goods	16,437	12,966
Total	41,013	36,922
Inventory turnover days ⁽¹⁾	212	175

Note:

- (1) Calculated by dividing the arithmetic mean of the opening and ending balance of inventories in that period by cost of sales for the corresponding period and then multiplying by 183/365 days.

Trade Receivables

Our trade receivables represent outstanding amounts due from our distributors as well as other customers.

As of December 31, 2019 and June 30, 2020, we had trade receivables of RMB73.0 million and RMB91.1 million, respectively. The increase of our trade receivables was primarily due to the increase in short-term receivables within 3 months, which reflected our significant sales recovery in the second quarter. There was also an increase in receivables within 6 to 12 months as some customers (primarily our customers under the “two-invoice” system regions) took longer to settle. As a result, our trade receivable turnover days increased in the first half of 2020 compared to full year 2019 due to the increase in average trade receivables as well as proportional lower sales in the first half of the year compared to the second half of the year. Due to the impact of the Chinese New Year holiday and COVID-19 outbreak on trade receivable collection, as of June 30, 2020, 85.6% of our trade receivables as of December 31, 2019 had been subsequently settled.

The following table sets forth the details of our trade receivables as of the dates indicated and trade receivables turnover days for the periods indicated:

	As of June 30, 2020	As of December 31, 2019
	RMB'000	
Trade receivables	93,828	75,164
Impairment	(2,693)	(2,152)
Total	91,135	73,012
Trade receivable turnover days ⁽¹⁾	73	45

Note:

- (1) Calculated by dividing the arithmetic mean of the opening and ending balance of trade receivables in that period by revenue for the corresponding period and then multiplying by 183/365 days.

Management Discussion and Analysis

The following table sets forth an aging analysis, based on the invoice date and net of loss allowance, of our trade receivables as of the dates indicated:

	As of June 30, 2020	As of December 31, 2019
	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
Over one year	1,519	1,048
Total	91,135	73,012

Prepayments, Other Receivables and Other Assets

Our prepayments, other receivables and other assets during the Reporting Period primarily consisted of (i) prepayments to suppliers; (ii) prepaid expenses primarily including prepaid conference fees and product registration testing fees; and (iii) other receivables.

Our prepayments, other receivables and other assets further increased from RMB5.8 million as of December 31, 2019 to RMB10.6 million as of June 30, 2020, primarily due to the increase in prepayments which were paid toward the purchase of raw materials.

The following table sets forth the details of our prepayments, other receivables and other assets as of the dates indicated:

	As of June 30, 2020	As of December 31, 2019
	RMB'000	
Interest receivables	–	3,019
Prepayments	7,944	1,330
Prepaid expenses	1,887	1,172
Other receivables	795	312
Total	10,626	5,833

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss (“**FVTPL**”) decreased from RMB34.9 million as of December 31, 2019 to RMB15.6 million as of June 30, 2020 as our cash balance in domestic financial institutions decreased after payment of dividends in the first half of 2020.

Cash and Cash Equivalents

Our cash and cash equivalents increased from RMB565.1 million as of December 31, 2019 to RMB2,875.9 million as of June 30, 2020, primarily due to the inflow of IPO proceeds from the Global Offering.

As of June 30, 2020, most of our cash and cash equivalents were denominated in HK Dollars and Renminbi, while a portion was denominated in U.S. dollars or other currencies due to our export sales to overseas customers.

Management Discussion and Analysis

The following table sets forth a breakdown of our cash and cash equivalents as of the dates indicated:

	As of June 30, 2020	As of December 31, 2019
	RMB'000	
Cash and bank balances	2,875,880	388,336
Time deposits	409	178,252
Total	2,876,289	566,588
Less:		
Pledged time deposits for potential transactions on financial assets at FVTPL	(409)	(1,440)
Cash and cash equivalents	2,875,880	565,148
Denominated in:		
Renminbi	15,835	509,781
HK dollars	2,765,922	–
US dollars	93,510	54,766
Other currencies	613	601
Cash and cash equivalents	2,875,880	565,148

Trade Payables

Our trade payables decreased from RMB9.3 million as of December 31, 2019 to RMB7.2 million as of June 30, 2020, primarily due to a decrease in the short-term trade payables, reflecting a decrease in the purchase of raw materials in the recent months. Our trade payable turnover days increased to 43 days in the Reporting Period compared to 37 days in 2019. This was primarily due to the increase in average trade payables thanks to the growth of our business, as well as proportional lower cost of sales (in relation to proportional lower sales) in the first half of the year compared to the second half of the year.

The following table sets forth an aging analysis of trade payables based on the invoice dates as of the dates indicated and trade payable turnover days for the periods indicated.

	As of June 30, 2020	As of December 31, 2019
	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
Total	7,159	9,318
Trade payable turnover days⁽¹⁾	43	37

Note:

- (1) Calculated by dividing the arithmetic mean of the opening and ending balance of trade payables in that period by cost of sales for the corresponding period and then multiplying by 183/365 days.

Management Discussion and Analysis

Other Payables and Accruals

Our other payables and accruals during the Reporting Period primarily consist of (i) other payables, which mainly represent promotional fees payable in relation to our sales and marketing activities; (ii) payroll payables; (iii) taxes other than income tax; (iv) contract liabilities, which represented milestone and upfront payments received from our customers, including our distributors; and (v) accrued expenses which mainly represented professional fees payable as part of our total listing expenses in relation to our Global Offering.

Our other payables and accruals increased from RMB47.1 million as of December 31, 2019 to RMB99.7 million as of June 30, 2020, primarily due to the increase in accrued expenses which mainly represented professional fees payable as part of our total listing expenses in relation to our Global Offering.

The following table sets forth the details of our other payables and accruals as of the dates indicated:

	As of June 30, 2020	As of December 31, 2019
	RMB'000	
Other payables	28,931	26,892
Payroll payables	11,783	11,480
Taxes other than income tax	8,536	7,288
Contract liabilities	1,409	838
Accrued expenses	49,071	633
Total	99,730	47,131

Deferred Income

Our deferred income represents government grants we received from local PRC governments to support the expansion of our production capacity.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Liquidity and Capital Resources

Our primary uses of cash during the Reporting Period were to fund our capital expenditure for manufacturing and R&D, meet working capital needs, pay for listing expenses as well as dividend payment and capital reduction. Historically, we have financed our operations and other capital requirements primarily through cash generated from our operations.

On June 29, 2020, 225,397,500 Shares of US\$0.00001 each were issued at a price of HK\$13.88 per Share in connection with the Company's IPO on the Stock Exchange. The proceeds of HK\$17,469 representing the par value, were credited to the Company's share capital. The remaining proceeds of HK\$3,128,499,831 (before deduction of the expenses relating to the Company's IPO) were credited to the share premium account.

Management Discussion and Analysis

The following table sets forth a summary of the Group's condensed consolidated statements of cash flows for the periods indicated:

	For the six months ended June 30,	
	2020	2019
	RMB'000	
Cash flows from operating activities	79,588	104,587
Cash flows from/(used in) investing activities	116,857	(83,975)
Cash flows from/(used in) financing activities	2,210,047	(3)
Net increase in cash and cash equivalents	2,406,492	20,609
Cash and cash equivalents at end of period	2,875,880	85,629

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 Listing.

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 HK Dollars and 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.

The following table sets forth our net capital expenditures as at the dates indicated:

	For the six months ended June 30,	
	2020	2019
	RMB'000	
Plant and machinery	3,338	2,559
Construction in progress	—	3,413
Furniture and fixtures	138	953
Motor vehicles	5,276	183
Total	8,752	7,108

Management Discussion and Analysis

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	
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. 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.

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.

Charge of Assets/Pledge of Assets

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

Management Discussion and Analysis

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 date of this report, the Group had 640 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.

In recognition of the contributions of our Directors, senior management and employees and to incentivize them to further promote our development, the Company adopted the Pre-IPO Share Option Plan and the RSU Plan on May 6, 2020. A platform has been established for holding the incentive Shares to be awarded to the grantees under the RSU Plan. Pursuant to the terms of the Pre-IPO Share Option Plan and the RSU Plan, no grantees may exercise the options or obtain the RSUs prior to the Global Offering.

The table below sets forth the Group's employees by function as of date of this report:

	Number	% of total
Production	438	68.4
Research and development	77	12.0
Sales and marketing	47	7.3
Management and administrative	42	6.6
Quality control	13	2.0
Warehouse management	19	3.0
Procurement	4	0.6
Total	640	100.0

Corporate Governance and Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of date of this report, to the best knowledge of the Directors, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Interest in the Company

Name of Director/Chief Executive	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of shareholding in the total issued share capital (%)
Mr. Zhong Ming	Beneficiary of a trust ^(Notes 2)	408,500,000 (L)	32.62 (L)
	Interest of spouse ^(Notes 4)	231,500,000 (L)	18.49 (L)
Ms. Shentu Yinguang	Beneficiary of a trust ^(Notes 3)	231,500,000 (L)	18.49 (L)
	Interest of spouse ^(Notes 4)	408,500,000 (L)	32.62 (L)

Notes:

- (1) The letter "L" denotes our directors' long position in the Company's shares.
- (2) Fortune Spring ZM B Limited is owned by Fortune Spring ZM AA Limited and Fortune Spring ZM A Limited as to 99.9% and 0.1%, respectively. Fortune Spring ZM AA Limited is wholly owned by the Fortune Spring ZM Trust, for which Credit Suisse Trust Limited serves as the trustee and Mr. Zhong Ming acts as the settlor and protector.
- (3) Fortune Spring YG B Limited is owned by YG AA Limited and Fortune Spring YG A Limited as to 99.8% and 0.2%, respectively. YG AA Limited is wholly owned by The YG Trust, for which BOS Trustee Limited serves as the trustee, and Ms. Shentu Yinguang acts as the settlor and Mr. Zhong acts as the protector.
- (4) Mr. Zhong Ming and Ms. Shentu Yinguang are spouses, and therefore are deemed to be interested in the Shares held by each other under the SFO.

Save as disclosed above, as of date of this report, none of the Directors or chief executive of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or which will be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Corporate Governance and Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of date of this report, to the best knowledge of the Directors, the followings are the persons, other than the Directors or chief executive of the Company, who had interests or short positions in the shares and underlying shares which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name of shareholder	Capacity/Nature of interest	Total number of shares	Approximate percentage of shareholding (%)
Credit Suisse Trust Limited	Trustee of a trust <i>(Notes 2)</i>	408,500,000 (L)	32.62 (L)
BOS Trustee Limited	Trustee of a trust <i>(Notes 3)</i>	231,500,000 (L)	18.49 (L)
Fortune Spring ZM B Limited	Beneficial owner <i>(Notes 2)</i>	408,500,000 (L)	32.62 (L)
Fortune Spring YG B Limited	Beneficial owner <i>(Notes 3)</i>	231,500,000 (L)	18.49 (L)
Keyhole Holding Limited	Beneficial owner <i>(Notes 4)</i>	216,190,500 (L)	17.26 (L)
LYFE Capital Fund, L.P.	Beneficial owner <i>(Notes 5)</i>	65,780,000 (L)	5.25 (L)
LYFE Capital Fund-A, L.P.	Beneficial owner <i>(Notes 5)</i>	10,970,000 (L)	0.88 (L)

Notes:

- (1) The letter "L" denotes long position in the Company's shares.
- (2) Fortune Spring ZM B Limited is owned by Fortune Spring ZM AA Limited and Fortune Spring ZM A Limited as to 99.9% and 0.1%, respectively. Fortune Spring ZM AA Limited is wholly owned by the Fortune Spring ZM Trust, for which Credit Suisse Trust Limited serves as the trustee and Mr. Zhong Ming acts as the settlor and protector.
- (3) Fortune Spring YG B Limited is owned by YG AA Limited and Fortune Spring YG A Limited as to 99.8% and 0.2%, respectively. YG AA Limited is wholly owned by The YG Trust, for which BOS Trustee Limited serves as the trustee, and Ms. Shentu Yinguang acts as the settlor and Mr. Zhong acts as the protector.
- (4) Each of TPG Keyhole, L.P. (as sole shareholder of Keyhole Holding Limited), TPG Asia GenPar VII, L.P. (as a general partner of TPG Keyhole, L.P.), TPG Asia GenPar VII Advisors, Inc. (as a general partner of TPG Asia GenPar VII, L.P.), TPG Holdings III, L.P. (as the sole shareholder of TPG Asia GenPar VII Advisors, Inc.), TPG Holdings III-A, L.P. (as a general partner of TPG Holdings III, L.P.), TPG Holdings III-A, Inc. (as a general partner of TPG Holdings III-A, L.P.), TPG Group Holdings (SBS), L.P. (as the sole shareholder of TPG Holdings III-A, Inc.), TPG Group Holdings (SBS) Advisors, LLC (as a general partner of TPG Group Holdings (SBS), L.P.) and TPG Group Holdings (SBS) Advisors, Inc. (as the sole shareholder of TPG Group Holdings (SBS) Advisors, LLC) is deemed to be interested in the Shares held by Keyhole Holding Limited under the SFO. TPG Group Holdings (SBS) Advisors, Inc. is controlled by Mr. David Bonderman and Mr. James G. Coulter, who disclaim beneficial ownership of the Shares held by Keyhole Holding Limited except to the extent of their pecuniary interest therein.
- (5) LYFE Capital GP, L.P., as the general partner of LYFE Capital Fund L.P. and LYFE Capital Fund-A, L.P., is deemed to be interested in the Shares held by LYFE Capital Fund L.P. and LYFE Capital Fund-A, L.P., respectively. LYFE Capital GP, L.P. is wholly owned by LYFE Capital Management Limited and LYFE Capital Management Limited is ultimately controlled by Mr. Zhao Jin and Mr. Yu Zhengkun.

Save as disclosed above, as of date of this report, the Directors and the chief executive of the Company are not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which will be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO.

Corporate Governance and Other Information

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the six months ended June 30, 2020 was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of the shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any subsidiaries of the Group purchased, redeemed or sold any of the Company's listed securities from the Listing Date to June 30, 2020.

PRE-IPO SHARE OPTION PLAN AND RSU PLAN

On May 6, 2020, the Company adopted the Pre-IPO Share Option Plan and the RSU Plan, pursuant to which the Company may grant options to subscribe for the Shares and issue certain units of Shares with restrictive rights to eligible participants subject to the terms and conditions stipulated therein. On the same day, 412 underlying Shares under the Pre-IPO Share Option Plan and a total of 2,119 underlying Shares under the RSU Plan were granted to certain management members and employees.

The Pre-IPO Share Option Plan and the RSU Plan were adopted to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to selected employees, Directors and consultants and to promote the success of the Company's business by offering these individuals an opportunity to acquire a proprietary interest in the Company.

(a) Pre-IPO Share Option Plan

As of June 30, 2020, the number of shares in respect of which options had been granted under the Pre-IPO Share Option Plan was 4,120,000, representing approximately 0.33% of the shares of the Company in issue. The exercise price of the options granted under the Pre-IPO Share Option Plan is RMB6.787 per share.

The options granted under the Pre-IPO Share Option plan shall be valid for a period of six years commencing on the date that the Pre-IPO Share Option Plan is adopted and approved by the Shareholders of the Company.

Details of the options granted under the Pre-IPO Share Option Plan during the Reporting Period are set out below:

Name of grantee	Position	Exercised during the Reporting Period	Outstanding as of June 30, 2020	Date of grant	Number of underlying Shares subject to Option	Vesting schedule	Approximate percentage of issued Shares of the Company
Ms. Frances Fang Chovanec	Chief financial officer	Nil	4,120,000	May 6, 2020	4,120,000	580,000 Shares upon Listing; 1,180,000 Shares on the first year anniversary of the vesting commencement date; 1,180,000 Shares on the second year anniversary of the vesting commencement date; 1,180,000 Shares on the third year anniversary of the vesting commencement date	0.33%

Corporate Governance and Other Information

(b) RSU Plan

The underlying Shares of the RSU Plan are ordinary Shares held by the Fortune Spring KangJi 1 Limited. The maximum number of RSUs that may be granted under the RSU Plan in aggregate shall be such number of Shares held or to be held by the Fortune Spring KangJi 1 Limited from time to time.

The overall limit on the number of underlying Shares to be granted under the RSU Plan is 26,810,000 Shares, which have been reserved by the Fortune Spring KangJi 1 Limited. As of June 30, 2020, 6 management team members and employees have been granted by the Board a total of 21,190,000 underlying Shares under the RSU Plan.

The RSUs granted under the RSU Plan shall be valid for a period of six years commencing on the date that the RSU Plan is adopted and approved by the Shareholders of the Company.

MATERIAL ACQUISITIONS AND DISPOSALS

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

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 Listing, 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.

Since the Listing Date and up to June 30, 2020, the net proceeds have not been applied for any use. We currently intend to apply these net proceeds for the following purposes:

Use of proceeds	Planned applications (HK\$ million)	Percentage of total net proceeds (%)	Actual usage up to June 30, 2020 (HK\$ million)	Expected timeframe for unutilized net proceeds
For expanding our production capacity and strengthen our manufacturing capabilities, including: to expand production capacity of our current products and further automate existing production lines, including (i) purchasing additional machinery and equipment within the next six years, and procuring and deploying a manufacturing execution software system; and (ii) recruiting and training an additional 500 to 600 production workers.	HK\$273.5 million	9.8%	Nil	(i) within the next three years (ii) within the next five years

The allocation of new production workers is subject to adjustment between our current products and pipeline products in line with market demand. We plan to utilize the allocated net proceeds in line with anticipated market demand and sales growth. Assuming a 90% utilization rate of our annual production capacity and taking into account the market demand and our development strategies, we expect that the annual production capacity of each of disposable trocars, polymer ligation clips and disposable electrocoagulation forceps, our current major types of products, to increase at a CAGR of 30% to 40% from 2019 to 2024.

Corporate Governance and Other Information

Use of proceeds	Planned applications (HK\$ million)	Percentage of total net proceeds (%)	Actual usage up to June 30, 2020 (HK\$ million)	Expected timeframe for unutilized net proceeds
<p>to build up production capabilities for pipeline products, including</p> <p>(i) constructing and renovating new facilities to be built on our unused land;</p> <p>(ii) purchasing new machinery and equipment; and</p> <p>(iii) recruiting and training an additional 200 to 300 production workers. The allocation of new production workers is subject to adjustment between our current products and pipeline products in line with market demand.</p> <p>We plan to utilize the allocated net proceeds for pipeline products in line with their launch time and market demand. We have started to prepare for building up production capabilities for disposable ultrasonic scalpels and other pipeline products to be launched in 2020 and 2021. In 2021, we plan to gradually install production lines for absorbable ligation clips and laparoscopic staplers and expand production capacity for disposable ultrasonic scalpels. After 2022, we plan to continue to scale up production capacity of new products launched since 2020 and install production lines for other new products to be launched.</p>	HK\$284.7 million	10.2	Nil	within the next six years
<p>For funding our R&D activities, including:</p> <p>to establish an R&D center at our headquarters in order to provide technical support for our existing products, manufacturing processes and development of our near-commercial pipeline products, as well as two additional R&D centers within the next four years in select first- or second-tier cities, such as Hangzhou, Beijing and Shenzhen, to support the development of our mid- and long-term pipeline products and development of innovative products in the future.</p>	HK\$474.5 million	17.0	Nil	within the next four years
<p>development and expansion of our product pipeline, including advancing the development and registration of our pipeline products and exploring opportunities to acquire or in-license advanced technologies to apply to product development. We currently have nine product candidates in our pipeline, of which four candidates are in the registration process, including absorbable ligation clips, which is pending completion of clinical trials, and five candidates in earlier product design and development stage, which require substantial R&D prior to the registration process. We expect to continue to expand our product pipeline. Our pipeline products and R&D activities have and will continue to focus on multifunctional or biodegradable materials, and smart and miniaturized medical devices which involve more advanced or innovative technologies and more complex processes, and therefore require higher research and development investments.</p>	HK\$223.3 million	8.0	Nil	within the next five to six years

Corporate Governance and Other Information

Use of proceeds	Planned applications (HK\$ million)	Percentage of total net proceeds (%)	Actual usage up to June 30, 2020 (HK\$ million)	Expected timeframe for unutilized net proceeds
For investing in our sales and marketing activities, including:				
to be used in our domestic sales and marketing activities, including	HK\$418.7 million	15.0	Nil	(i) within the next five years (ii) within the next five years (iii) within the next four to five years
(i) establishing a product display and training center at our headquarters to offer clinical education and showcase products to physicians and hospitals;				
(ii) establishing a sales and marketing center at our headquarters, and approximately 10 to 12 regional sales offices in strategically selected first- or second-tier cities from 2021 to 2024; and				
(iii) conducting more academic promotion activities.				
to increase our overseas sales, including	HK\$139.6 million	5.0	Nil	within the next three to five years
(i) developing our overseas network of distributors by expanding the overseas business team, establishing overseas offices, seeking collaboration opportunities with local sales channels and attending international medical conferences and industry exhibitions to promote our brand and products; and				
(ii) registration of certain of our current and future products, such as disposable trocars, ligation clips, disposable ultrasonic scalpels and laparoscopic staplers in overseas jurisdictions, and conducting clinical trials if required.				
For funding potential strategic investment and acquisitions				
to fund potential strategic investment and acquisitions that could complement and expand our product portfolio and technologies, and in turn further drive our business growth.	HK\$697.8 million	25.0	Nil	within the next five years
For our working capital and general corporate purposes	HK\$279.1 million	10.0	Nil	within the next four to six years

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of 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 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.

Corporate Governance and Other Information

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.

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 report 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 report 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 report.

INTERIM DIVIDEND

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

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

There has been no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules from the date of the Prospectus.

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June

	Notes	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
REVENUE	4	212,587	216,059
Cost of sales		(34,953)	(36,040)
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		(1,224)	(1,202)
PROFIT BEFORE TAX	5	113,915	152,844
Income tax expense	6	(24,319)	(22,191)
PROFIT FOR THE PERIOD		89,596	130,653
Attributable to:			
Owners of the parent		80,742	83,618
Non-controlling interests		8,854	47,035
		89,596	130,653
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		(1,090)	–
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		(1,090)	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		88,506	130,653
Attributable to:			
Owners of the parent		79,652	83,618
Non-controlling interests		8,854	47,035
		88,506	130,653
Earnings per share attributable to equity holders of the parent			
Basic	8	RMB11.92 cents	RMB8.14 cents
Diluted	8	RMB11.82 cents	RMB8.14 cents

Interim Condensed Consolidated Statement of Financial Position

	Notes	30 June 2020 (Unaudited) RMB' 000	31 December 2019 (Audited) RMB' 000
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	14	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

	Note	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Deferred income		2,226	2,544
Deferred tax liabilities		2,160	7,406
Total non-current liabilities		4,386	9,950
Net assets		2,960,687	515,460
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	88	–
Reserves		2,960,599	327,228
		2,960,687	327,228
Non-controlling interests		–	188,232
Total equity		2,960,687	515,460

Interim Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2020

	Attributable to owners of the parent									
	Share capital RMB' 000	Share premium account* RMB' 000	Share held for share-based payments* RMB' 000	Capital reserve* RMB' 000	Statutory surplus reserve* RMB' 000	Retained profits* RMB' 000	Exchange fluctuation reserve* RMB' 000	Total RMB' 000	Non-controlling interests RMB' 000	Total equity RMB' 000
At 1 January 2020 (Audited)	-	-	-	187,832	43,057	96,339	-	327,228	188,232	515,460
Profit for the period (Unaudited)	-	-	-	-	-	80,742	-	80,742	8,854	89,596
Other comprehensive income for the period:										
Exchange differences on translation of financial statements (Unaudited)	-	-	-	-	-	-	(1,090)	(1,090)	-	(1,090)
Total comprehensive income for the period (Unaudited)	-	-	-	-	-	80,742	(1,090)	79,652	8,854	88,506
Capital reduction (note a) (Unaudited)	-	-	-	(235,400)	(35,717)	(14,956)	-	(286,073)	(116,217)	(402,290)
Acquisition of non-controlling interests (note b) (Unaudited)	-	-	-	80,869	-	-	-	80,869	(80,869)	-
Capital contribution from shareholders (note 15) (Unaudited)	-	79,465	-	-	-	-	-	79,465	-	79,465
Dividend declared (note 7) (Unaudited)	-	-	-	-	-	(65,700)	-	(65,700)	-	(65,700)
Capitalisation issue (note 15) (Unaudited)	72	(70)	(2)	-	-	-	-	-	-	-
Issue of shares (note 15) (Unaudited)	16	2,858,303	-	-	-	-	-	2,858,319	-	2,858,319
Share issue expenses (note 15) (Unaudited)	-	(128,666)	-	-	-	-	-	(128,666)	-	(128,666)
Share-based payments (note 16) (Unaudited)	-	-	-	15,593	-	-	-	15,593	-	15,593
At 30 June 2020 (Unaudited)	88	2,809,032	(2)	48,894	7,340	96,425	(1,090)	2,960,687	-	2,960,687

Notes:

- (a) As part of the reorganisation, a subsidiary of the Group, Hangzhou Kangji Medical Instrument Co., Ltd. ("Hangzhou Kangji"), reduced its registered capital, capital reserve, statutory surplus reserve and retained profits in a total amount of RMB402,290,000 on 13 March 2020.
- (b) As part of the reorganisation, the Company acquired two subsidiaries, TPG Keyhole Success Holding Pte. Ltd. and LYFE Capital Blue Arch (Hong Kong) Limited, which were the then shareholders of Hangzhou Kangji holding 36% of equity interests in total, by way of share swap on 13 March 2020.

	Attributable to owners of the parent						Non-controlling interests RMB' 000	Total equity RMB' 000
	Share capital RMB' 000	Capital reserve RMB' 000	Statutory surplus reserve RMB' 000	Retained profits RMB' 000	Total RMB' 000			
At 1 January 2019 (Audited)	-	187,832	21,672	100,208	309,712	174,213	483,925	
Profit and total comprehensive income for the period (Unaudited)	-	-	-	83,618	83,618	47,035	130,653	
At 30 June 2019 (Unaudited)	-	187,832	21,672	183,826	393,330	221,248	614,578	

* These reserve accounts comprise the consolidated reserves of RMB2,960,599,000 in the interim condensed consolidated statement of financial position as at 30 June 2020.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June

	Notes	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	16	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
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		95,812	(31,851)
Net cash flows from/(used in) investing activities		116,857	(83,975)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June

	2020 (Unaudited) RMB' 000	2019 (Unaudited) RMB' 000
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	(188,928)	–
Net cash flows from/(used in) financing activities	2,210,047	(3)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,406,492	20,609
Cash and cash equivalents at beginning of period	469,336	64,580
Effect of foreign exchange rate changes, net	52	440
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,875,880	85,629
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	–	319,995
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	2,875,880	85,629

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.

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.

Notes to the Interim Condensed Consolidated Financial Information

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020 (Unaudited) RMB' 000	2019 (Unaudited) 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 (Unaudited) RMB' 000	2019 (Unaudited) 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.

Notes to the Interim Condensed Consolidated Financial Information

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 (Unaudited) RMB'000	2019 (Unaudited) 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 (Unaudited) RMB'000	2019 (Unaudited) 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	–

Notes to the Interim Condensed Consolidated Financial Information

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.

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 (Unaudited) RMB' 000	2019 (Unaudited) 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 up to 30 June 2020 and this amount was 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).

Notes to the Interim Condensed Consolidated Financial Information

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 shares in issue during the period, as adjusted to reflect the capitalisation issue as set out in note 15(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.

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

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent	80,742	83,618
	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
<u>Shares</u>		
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

Notes to the Interim Condensed Consolidated Financial Information

9. PROPERTY, PLANT AND EQUIPMENT

	30 June 2020 (Unaudited) RMB' 000	31 December 2019 (Audited) 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)
Carrying amount at end of period/year	59,167	56,526

10. TRADE RECEIVABLES

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

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
	91,135	73,012

Notes to the Interim Condensed Consolidated Financial Information

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
	2,876,289	566,588
Less: Pledged time deposits:		
Pledged for potential transactions on financial assets at fair value through profit or loss	(409)	(1,440)
Cash and cash equivalents	2,875,880	565,148
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	2,875,880	565,148

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.

Notes to the Interim Condensed Consolidated Financial Information

13. COMMITMENTS

The Group had the following capital commitments as at the end of the reporting period:

	30 June 2020 (Unaudited) RMB' 000	31 December 2019 (Audited) RMB' 000
Contracted, but not provided for:		
Buildings	–	29
Plant and machinery	1,667	85
	1,667	114

14. RELATED PARTY TRANSACTIONS

The Group's principal related parties are as follows:

Company	Relationship
LYFE Capital Fund-A, L.P.	Shareholder
ARDIAN DIRECT ASIA III L.P.	Shareholder
Axiom Asia IV, L.P.	Shareholder
LYFE Capital Fund, L.P.	Shareholder
Keyhole Holding Limited	Shareholder

(a) In addition to the transactions detailed elsewhere in this financial information, the Group had the following transactions with related parties during the six months ended 30 June 2020 and 2019:

	For the six months ended 30 June	
	2020 (Unaudited) RMB' 000	2019 (Unaudited) RMB' 000
<u>Payment on behalf of the Group</u>		
LYFE Capital Fund-A, L.P.	30	–
ARDIAN DIRECT ASIA III L.P.	36	–
Axiom Asia IV, L.P.	57	–
LYFE Capital Fund, L.P.	183	–
Keyhole Holding Limited	2,041	–
	2,347	–

The payment on behalf of the Group are certain expenses related to the reorganisation, which are unsecured, interest-free and repayable on demand.

Notes to the Interim Condensed Consolidated Financial Information

14. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
<u>Due to shareholders</u>		
LYFE Capital Fund-A, L.P.	30	–
ARDIAN DIRECT ASIA III L.P.	35	–
Axiom Asia IV, L.P.	57	–
LYFE Capital Fund, L.P.	182	–
	304	–

The balance is unsecured, interest-free and has no fixed terms of repayment.

(c) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Short term employee benefits	2,234	1,382
Share-based payment expense	15,593	–
Total compensation paid to key management personnel	17,827	1,382

15. 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 that date.

Notes to the Interim Condensed Consolidated Financial Information

15. 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:

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

- (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**”) (note 16).
- (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.

Notes to the Interim Condensed Consolidated Financial Information

16. SHARE-BASED PAYMENTS

On 6 May 2020, the Company approved and adopted the restricted share unit plan (the “**RSU Plan**”) and the Pre-IPO Share Option Plan (the “**Option Plan**”) to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to selected employees, directors, and consultants and to promote the success of the Company’s business by granting these individuals RSUs and share options.

The RSU Plan and Option Plan shall be subject to the administration of the board (the “**Administrator**”) whose decision shall be final and binding on all parties. The board may by resolution authorise a committee comprising of any three directors to exercise any or all of its powers in administration of the RSU Plan and Option Plan.

The participants of the RSU and Option Plan (the “**Participants**”) are the employees, directors and consultants of the Company and/or any of its subsidiaries as selected by the Administrator at its discretion.

The maximum number of underlying shares of the RSU Plan are ordinary shares held by the ESOP BVI. The maximum number of RSUs that may be granted under the RSU Plan in aggregate shall be such number of shares held or to be held by the ESOP BVI (excluding the underlying shares reserved for the Option Plan) from time to time. The maximum number of underlying shares that may be granted and sold under the Option Plan is 4,120,000 with a par value of US\$0.00001 each. The number of shares that are subject to options outstanding under the Option Plan at any time shall not exceed the aggregate number of shares that then remain available for issuance under the Option Plan.

The RSU Plan and Option Plan will expire on, and no RSU and option may be granted pursuant to the RSU Plan and Option Plan thereafter, the sixth anniversary of the date that the RSU Plan and Option Plan are adopted and approved by the shareholders of the Company. In addition, the term of any RSU and option granted under the RSU Plan and Option Plan shall not exceed six years. All the granted but unvested RSUs and unexercised options shall expire on the sixth anniversary of the grant date.

RSUs granted under the RSU Plan shall only be vested at such time and upon such terms and conditions as determined by the RSU Plan and the RSU agreement and/or subject to the approval of the Administrator. No shares or cash corresponding to the granted RSUs will be issued to any Participant prior to the global offering, regardless of whether the purchase consideration has been paid or not. Options granted under the Option Plan shall only be exercisable at such time and upon such terms and conditions as may be determined by the option agreement. An exercisable option may be exercised in whole or in part. However, an option shall not be exercisable with respect to fractional shares and the Administrator may require that, by the terms of the option agreement, a partial exercise must be with respect to a minimum number of shares.

Pursuant to the terms of the RSU Plan, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the RSUs, notwithstanding the vesting of the RSUs. The shares underlying the Option Plan shall rank pari passu in all respects with the other fully paid shares in issue.

The overall limit on the number of underlying shares to be granted under the RSU Plan is expected to be 26,810,000 shares, which have been reserved by the ESOP BVI. No additional shares will be issued by the Company under the RSU Plan upon or after the global offering. The overall limit on the number of shares to be issued under the Option Plan is 4,120,000 shares, representing approximately 0.33% of the total issued shares.

Notes to the Interim Condensed Consolidated Financial Information

16. SHARE-BASED PAYMENTS *(Continued)*

- (a) Movements in the number of RSUs during the period are as follows:

	Number of RSUs
Outstanding at 1 January 2019, 31 December 2019 and 1 January 2020	–
Granted during the period	21,190,000
Outstanding at 30 June 2020	21,190,000

- (b) Movements in the number of options outstanding and their related weighted average exercise prices are as follows:

	Number of options	Weighted average exercise price RMB
Outstanding at 1 January 2019, 31 December 2019 and 1 January 2020	–	–
Granted during the period	4,120,000	6.787
Outstanding at 30 June 2020	4,120,000	6.787

The fair value of the RSUs and options granted during the period was RMB22,673,000, of which the Group recognised a share-based payment expense of RMB15,593,000 (the six months ended 30 June 2019: nil).

The fair value of the RSUs and options granted during the period were estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the RSUs and options were granted. The following table lists the inputs to the model used:

	RSUs	options
Dividend yield (%)	0.00	0.00
Expected volatility (%)	43.00	37.00
Risk-free interest rate (%)	0.46	0.58
Forfeiture rate (%)	10.00	10.00

Notes to the Interim Condensed Consolidated Financial Information

17. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 30 June 2020 and 31 December 2019 are as follows:

AS AT 30 JUNE 2020 (UNAUDITED)

Financial assets

	Financial assets at fair value through profit or loss RMB' 000	Financial assets at amortised cost RMB' 000	Total RMB' 000
Trade receivables	–	91,135	91,135
Financial assets included in prepayments, other receivables and other assets	–	795	795
Financial assets at fair value through profit or loss	15,590	–	15,590
Pledged deposits	–	409	409
Cash and cash equivalents	–	2,875,880	2,875,880
	15,590	2,968,219	2,983,809

Financial liabilities

	Financial liabilities at amortised cost RMB' 000
Trade payables	7,159
Financial liabilities included in other payables and accruals	78,002
Due to shareholders	304
Dividend payable	23,635
	109,100

Notes to the Interim Condensed Consolidated Financial Information

17. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at 30 June 2020 and 31 December 2019 are as follows: (continued)

AS AT 31 DECEMBER 2019 (AUDITED)

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	73,012	73,012
Financial assets included in prepayments, other receivables and other assets	–	3,331	3,331
Financial assets at fair value through profit or loss	34,910	–	34,910
Pledged deposits	–	1,440	1,440
Cash and cash equivalents	–	565,148	565,148
	34,910	642,931	677,841

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	9,318
Financial liabilities included in other payables and accruals	27,525
Dividend payable	188,928
	225,771

Notes to the Interim Condensed Consolidated Financial Information

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, due to shareholders and dividend payable approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group invests in unlisted investments, which represent certain financial products issued by commercial banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using the valuation technique based on the sum of principal and interest receivable.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

ASSETS MEASURED AT FAIR VALUE:

As at 30 June 2020 (Unaudited)

	Fair value measurement using			Total RMB' 000
	Quoted prices in active markets (Level 1) RMB' 000	Significant observable inputs (Level 2) RMB' 000	Significant unobservable inputs (Level 3) RMB' 000	
Financial assets at fair value through profit or loss	–	15,590	–	15,590

As at 31 December 2019 (Audited)

	Fair value measurement using			Total RMB' 000
	Quoted prices in active markets (Level 1) RMB' 000	Significant observable inputs (Level 2) RMB' 000	Significant unobservable inputs (Level 3) RMB' 000	
Financial assets at fair value through profit or loss	–	34,910	–	34,910

The Group did not have any financial liabilities measured at fair value as at the end of the reporting period.

During the reporting period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

19. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved and authorised for issue by the board of directors on 25 August 2020.

Definitions

“Audit Committee”	the audit committee of the Board
“Board of Directors” or “Board”	the board of directors of our Company
“CAGR”	compound annual growth rate
“CDE”	the Center for Drug Evaluation of NMPA (國家藥品監督管理局藥品審評中心)
“CG Code”	Corporate Governance Code and Corporate Governance Report
“China,” “mainland China” or “PRC”	People’s Republic of China, excluding, for the purposes of this report and for geographical reference only and except where the context requires otherwise, Hong Kong, Macau and Taiwan
“Company”	Kangji Medical Holdings Limited (康基医疗控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on February 12, 2020, and, except where the context otherwise requires, all of its subsidiaries
“COVID-19”	an infectious disease caused by a newly discovered coronavirus (severe acute respiratory syndrome coronavirus 2)
“Director(s)”	the directors of our Company, including all executive, non-executive and independent non-executive directors
“FVTPL”	fair value through profit or loss
“GFA”	gross floor area
“Group”	our Company and all of its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
“Hangzhou Kangji”	Hangzhou Kangji Medical Instrument Ltd. (杭州康基醫療器械有限公司), a limited liability company established in the PRC on August 24, 2004
“HK\$” or “HK Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IPO”	initial public offering
“Jiangxi Kanghuan”	Jiangxi Kanghuan Medical Instrument Co., Ltd. (江西省康歡醫療器械有限公司), a limited liability company established in the PRC on May 22, 2017
“KOLs”	key opinion leader(s)
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange on June 29, 2020

Definitions

“Listing Date”	June 29, 2020, being the date on which dealings in our Shares first commenced on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market of the Stock Exchange
“MISIA”	minimally invasive surgical instruments and accessories
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“NMPA”	National Medical Products Administration (國家藥品監督管理局), the successor of the CFDA and the SFDA
“OBGYN”	obstetrics and gynecology
“ODM”	original design manufacture
“Pre-IPO Share Option Plan”	the employees’ share incentive plan of the Company as adopted on May 6, 2020.
“R&D”	research and development
“RAT”	robotic assisted technology
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reporting Period”	the six-month period from January 1, 2020 to June 30, 2020
“RSU(s)”	restricted share unit(s)
“RSU Plan”	the restricted share unit plan of the Company as adopted on May 6, 2020
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary shares in the share capital of our Company of US\$0.00001 each
“Shareholder(s)”	holder(s) of our Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchange and Clearing Limited
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction