康基
KANGJI

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 9997)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2020

The Board of Directors is pleased to announce the audited consolidated annual results of the Group for the year ended December 31, 2020, together with the comparative figures for the corresponding period in 2019 as follows.

FINANCIAL HIGHLIGHTS

	Year ended December 31,		
	2020	2019	Changes
	RMB'000	*RMB'000*	*%*
Revenue	**511,490**	503,467	1.6
Gross profit	**431,470**	423,175	2.0
Profit for the year	**259,150**	326,735	-20.7
Non-HKFRS adjusted profit for the year	**334,504**	324,375	3.1
Profit attributable to owners of the parent	**250,296**	206,444	21.2
Earnings per share			
– Basic (RMB)	**26.27 cents**	20.11 cents	30.6
– Diluted (RMB)	**25.97 cents**	20.11 cents	29.1

For the year ended December 31, 2020 (the "**Reporting Period**"), Kangji Medical Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") realized revenue of RMB511.5 million, representing a slight increase of 1.6% as compared to 2019. Our sales was mostly affected by COVID-19 in the first quarter of 2020, offset by the gradual recovery in the remainder of the year.

The Group's profit for the year ended December 31, 2020 decreased by 20.7% mainly due to non-recurring and non-operating expenses. Excluding the listing expense of RMB32.3 million, share-based payment expense of RMB18.0 million, and net foreign exchange loss impact of RMB25.0 million, the non-HKFRS adjusted profit for the year ended December 31, 2020 increased by 3.1% to RMB334.5 million as compared to 2019. Profit attributable to owners of the parent increased by 21.2% mainly due to the elimination of non-controlling interest (approximately 36.0%) as a result of our restructuring in March 2020 in preparation for the listing on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The board of directors (the "**Board**") has resolved to recommend the payment of a final dividend of HK4.4 cents per ordinary share of the Company (the "**Share**") for the year ended December 31, 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	4	**511,490**	503,467
Cost of sales		**(80,020)**	(80,292)
Gross profit		**431,470**	423,175
Other income and gains	4	**57,100**	53,601
Selling and distribution expenses		**(48,894)**	(41,355)
Administrative expenses		**(78,002)**	(25,645)
Research and development costs		**(25,220)**	(17,377)
Other expenses		**(26,337)**	(1,205)
Finance costs		**(42)**	–
PROFIT BEFORE TAX	5	**310,075**	391,194
Income tax expense	6	**(50,925)**	(64,459)
PROFIT FOR THE YEAR		**259,150**	326,735
Attributable to:			
Owners of the parent		**250,296**	206,444
Non-controlling interests		**8,854**	120,291
		259,150	326,735
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the foreign operations		**(457)**	–
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(457)**	–
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the Company's financial statements into presentation currency		**(196,459)**	–
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		**(196,459)**	–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

Year ended 31 December 2020

	Notes	**2020** *RMB'000*	2019 *RMB'000*
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(196,916)**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**62,234**	326,735
Attributable to:			
Owners of the parent		**53,380**	206,444
Non-controlling interests		**8,854**	120,291
		62,234	326,735
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*8*	**RMB26.27 cents**	RMB20.11 cents
Diluted	*8*	**RMB25.97cents**	RMB20.11 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	**2020** **RMB'000**	2019 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**63,251**	56,526
Prepayment for property, plant and equipment		**3,375**	–
Right-of-use assets		**21,571**	17,024
Intangible assets		**33**	66
Deferred tax assets		**2,004**	1,901
Total non-current assets		**90,234**	75,517
CURRENT ASSETS			
Inventories		**51,442**	36,922
Trade receivables	*9*	**87,407**	73,012
Prepayments, other receivables and other assets		**9,643**	5,833
Financial assets at fair value through profit or loss	*10*	**548,428**	34,910
Pledged deposits	*11*	**1,061**	1,440
Cash and cash equivalents	*11*	**2,232,046**	565,148
Total current assets		**2,930,027**	717,265
CURRENT LIABILITIES			
Trade payables	*12*	**11,407**	9,318
Other payables and accruals		**51,521**	47,131
Lease liabilities		**1,465**	–
Deferred income		**636**	636
Dividend payable		**–**	188,928
Tax payable		**10,417**	21,359
Total current liabilities		**75,446**	267,372
NET CURRENT ASSETS		**2,854,581**	449,893
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,944,815**	525,410

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2020

	Note	2020 RMB'000	2019 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,944,815**	525,410
NON-CURRENT LIABILITIES			
Lease liabilities		**3,585**	–
Deferred income		**1,908**	2,544
Deferred tax liabilities		**2,711**	7,406
Total non-current liabilities		**8,204**	9,950
Net assets		**2,936,611**	515,460
EQUITY			
Equity attributable to owners of the parent			
Share capital	*13*	**88**	–
Reserves		**2,936,523**	327,228
Equity attributable to owners of the parent		**2,936,611**	327,228
Non-controlling interests		**–**	188,232
Total equity		**2,936,611**	515,460

NOTES TO FINANCIAL STATEMENTS

1. Corporate information

The Company is a limited liability company incorporated in the Cayman Islands on 12 February 2020. The registered office address 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 year, the Company's subsidiaries were principally involved in the 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 on 29 June 2020.

2.1 Basis of presentation

To rationalise the corporate structure in preparation for the listing of the Company's shares on the Stock Exchange, the Company underwent a group reorganisation (the "Reorganisation"), further details of which are set in the Company's prospectus dated 16 June 2020. Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 13 March 2020. As the Reorganisation only involved acquisitions of companies under the common control of the controlling shareholders before and after the Reorganisation, the consolidated financial statements for the year ended 31 December 2019 have been presented by applying the principles of merger accounting. Accordingly, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Company and its subsidiaries for the year ended 31 December 2019 have been prepared as if the current group structure had been in existence throughout that year. The consolidated statement of financial position as at 31 December 2019 has been prepared to present the assets and labilities of the companies now comprising the Group, as if the current group structure had been in existence at that date.

2.2 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.2 Basis of preparation (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 Changes in accounting policies and disclosures

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

2.3 Changes in accounting policies and disclosures (continued)

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

The Group has early adopted the amendment on 1 January 2020. The amendment did not have any impact on the financial position and performance of the Group as the Group does not have any Covid-19-Related rent concessions for the year ended 31 December 2020.

(e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

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.

Geographic information

(a) Revenue from external customers

	2020	2019
	RMB'000	*RMB'000*
Mainland China	**475,756**	467,644
Other	**35,734**	35,823
Total	**511,490**	503,467

The revenue information is based on the locations of the customers.

(b) Non-current assets

	2020	2019
	RMB'000	*RMB'000*
Mainland China	**87,434**	73,616
Other	**796**	–
Total	**88,230**	73,616

The non-current asset information above is based on the locations of assets excludes deferred tax assets.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the year is set out below:

	2020	2019
	RMB'000	*RMB'000*
Customer A	**131,063**	122,918
Customer B	**51,186**	26,011

4. Revenue, other income and gains

An analysis of revenue is as follows:

	2020 *RMB'000*	2019 *RMB'000*
Revenue from contracts with customers	**511,490**	503,467

Revenue from contracts with customers

(a) Disaggregated revenue information

	2020 *RMB'000*	2019 *RMB'000*
Type of goods		
Sale of medical instruments	**511,490**	503,467
Geographical markets		
Mainland China	**475,756**	467,644
Other	**35,734**	35,823
	511,490	503,467
Timing of revenue recognition		
Goods transferred at a point in time	**511,490**	503,467

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2020 *RMB'000*	2019 *RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of medical instruments	**444**	560

4. **Revenue, other income and gains** (continued)

Revenue from contracts with customers (continued)

(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.

An analysis of other income and gains is as follows:

	2020	2019
	RMB'000	*RMB'000*
Other income		
Bank interest income	**11,777**	12,560
Government grants*	**36,226**	34,495
Investment income from financial assets at fair value through profit or loss	**5,367**	4,136
Foreign exchange gains, net	**–**	2,360
Others	**787**	50
	54,157	53,601
Gains		
Fair value gains on financial assets at fair value through profit or loss	**2,943**	–
	2,943	–
	57,100	53,601

* The government grants mainly represent subsidies received from the local governments for the purposes of compensation for 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):

	2020	2019
	RMB'000	*RMB'000*
Cost of inventories sold	**79,761**	80,231
Depreciation of property, plant and equipment	**7,474**	6,398
Depreciation of right-of-use assets	**697**	413
Amortisation of intangible assets*	**33**	34
Impairment of trade receivables, net**	**1,388**	578
Write-down of inventories to net realisable value***	**259**	61
Lease payments not included in the measurement of lease liabilities	**73**	66
Auditor's remuneration	**3,020**	959
Research and development costs	**25,220**	17,377
Government grants	**(36,226)**	(34,495)
Bank interest income	**(11,777)**	(12,560)
Investment income from financial assets at fair value through profit or loss	**(5,367)**	(4,136)
Foreign exchange differences, net	**25,039**	(2,360)
Losses on disposal of items of property, plant and equipment	**100**	–
Listing expenses	**32,314**	–
Fair value gains on financial assets at fair value through profit or loss	**(2,943)**	–
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**42,342**	36,645
Pension scheme contributions	**361**	3,508
Staff welfare expenses	**5,220**	6,748
Share-based payment expense	**13,498**	–
	61,421	46,901

* The amortisation of intangible assets is included in "Administrative expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

** The impairment of trade receivables is included in "Administrative expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

*** The write-down of inventories to net realisable value is included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income.

6. Income tax expense

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.

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% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. The first HK$2,000,000 (2019: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 16.5%).

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 year.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concessions and are taxed at preferential tax rates.

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations, preferential tax treatment is available to Hangzhou Kangji Medical Instrument Co., Ltd ("Hangzhou Kangji"), since it was recognised as a High and New Technology Enterprise and was entitled to a preferential tax rate of 15% (2019: 15%) during the year. 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% (2019: 5%) during the year.

The income tax expense of the Group is analysed as follows:

	2020	2019
	RMB'000	*RMB'000*
Current – Mainland China		
Charge for the year	**48,423**	57,020
Deferred tax	**2,502**	7,439
Total tax charge for the year	**50,925**	64,459

7. Dividends

On 8 April 2020, the Company declared a cash dividend of RMB65,700,000 to its shareholders, among which, RMB42,048,000 was offset by capital contribution payable by certain shareholders as part of the reorganisation, as agreed by the Company and certain shareholders. The rest of the dividend, which amounted to RMB23,652,000, was fully paid in July 2020.

On 30 October 2019, Hangzhou Kangji declared a cash dividend of RMB295,200,000 to its then shareholders, among which, RMB106,272,000 was declared and paid to its non-controlling shareholders. The dividend of RMB106,272,000 was paid during the year ended 31 December 2019 and the rest was paid during the year ended 31 December 2020.

	2020	2019
	HK$'000	*HK$'000*
Proposed final – HK4.4 cents (2019: Nil) per ordinary share	**55,097**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the parent of RMB250,296,000 (2019: RMB206,444,000), and the weighted average number of shares of 952,797,910 shares in issue during the year, as adjusted to reflect the capitalisation issue as set out in note 13(f) (2019: 1,026,707,319 ordinary shares, which were deemed to have been issued by way of capitalisation throughout the year ended 31 December 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 10,978,558 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 granted by the Company.

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

	2020	2019
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**250,296**	206,444

	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**952,797,910**	1,026,707,319
Effect of dilution-weighted average number of ordinary shares arising from share options and restricted share units	**10,978,558**	–
	963,776,468	1,026,707,319

9. Trade receivables

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**90,947**	75,164
Impairment	**(3,540)**	(2,152)
	87,407	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:

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**66,645**	57,993
3 to 6 months	**11,836**	10,287
6 to 12 months	**6,777**	3,684
1 to 2 years	**2,117**	979
Over 2 years	**32**	69
	87,407	73,012

10. Financial assets at fair value through profit or loss

	2020	2019
	RMB'000	*RMB'000*
Unlisted investments, at fair value	**548,428**	34,910

The unlisted investments represented certain financial products issued by commercial banks or financial institutions. They were classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

11. Cash and cash equivalents and pledged deposits

	2020	2019
	RMB'000	*RMB'000*
Cash and bank balances	**744,071**	388,336
Time deposits	**1,489,036**	178,252
	2,233,107	566,588
Less: Pledged time deposits:		
Pledged for potential transactions on financial assets at fair value through profit or loss	**(1,061)**	(1,440)
Cash and cash equivalents	**2,232,046**	565,148
Denominated in RMB	**94,053**	509,781
Denominated in US$	**2,048,303**	54,766
Denominated in HK$	**89,690**	–
Denominated in other currencies	**–**	601
Cash and cash equivalents	**2,232,046**	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 14 days and six 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:

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**11,404**	9,232
3 to 6 months	**–**	10
6 to 12 months	**2**	3
Over 12 months	**1**	73
	11,407	9,318

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

13. Share capital

	2020
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.

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 award arrangement** *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		–	–	(128,878)	–
At 31 December 2020		1,252,207,500	88	2,808,820	(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 ("YG B"), 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. Those preferred shares were converted into ordinary shares on a one to one basis by way of re-designation to ordinary shares on 29 June 2020.

(d) On 19 May 2020, 2,681 shares were allotted and issued to Fortune Spring KangJi 1 Limited.

13. **Share capital** (continued)

(e) As part of the reorganisation, certain shareholders re-injected capital of RMB79,465,000 in the Company on 20 May 2020, among which, RMB42,048,000 was offset by capital contribution payable by certain shareholders, as agreed by the Company and certain shareholders.

(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.

14. **Events after the reporting period**

On 12 January 2021, Kangji Medical (Hong Kong) Limited ("Kangji Hong Kong"), a wholly-owned subsidiary of the Company entered into an investment agreement with Shenzhen Jingfeng Medical Technology Co., Ltd. ("Jingfeng Medical"), pursuant to which, Kangji Hong Kong agreed to invest RMB80,000,000 to subscribe for approximately 2.03% of the enlarged registered share capital of Jingfeng Medical in its round B financing. Jingfeng Medical focuses on developing surgical robotic products and instruments for laparoscopic surgery in China.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

We are the largest domestic platform with a vertically integrated business model to provide primarily surgical instruments and accessories with a focus on minimally invasive surgery market in China.

In 2020, the outbreak and spread of COVID-19 and the ongoing pandemic affected the global economy and put the global medical system and resources, including our domestic market, to its test. We had a short suspension of operation but resumed with measures to ensure a safe work environment for all our employees as well as safe products for all our customers. The pandemic has reduced market demand and usage of certain of our products mainly due to the deferment of elective procedures. Certain ongoing preventative government and restrictive measures at the hospitals also limited our marketing activities. Despite the recovery of market demand starting in the second quarter of 2020, the anticipated recovery was slower and less steady than we had expected, resulting in limited growth for the second half of 2020 and for the full year. For the year ended December 31, 2020, we achieved revenue of RMB511.5 million, representing a 1.6% increase from 2019.

Another impact of COVID-19 pandemic was the delay in registration approval of new products such as for our ultrasonic scalpel products, which we had expected to receive sooner. Nevertheless, we did receive registration approval on ultrasonic scalpel and stapler products in the fourth quarter of 2020 and subsequently received registration approval on 4K-ultra resolution endovision camera system in January 2021. These new products will help drive and diversify our growth, and further penetrate our target markets.

Following the first national volume-based procurement (VBP) for DES product, which was conducted in November 2020, the government's internal guideline was circulated shortly after for additional centralized procurement of high-value medical consumables such as staplers, and potentially other surgical supplies in the future. We see the implementation of such policies present both challenges and opportunities for the industry as a whole and us as a leading player in the industry. However our strategy is to continue to enrich and diversify our product portfolio, focus on R&D to build new pipeline products, leverage our advantages in manufacturing scale, sales and distribution network, and adapt our sales model to this environment of ongoing uncertainties.

Since we became a listed company on the Stock Exchange in June 2020, we have continued to improve our management infrastructure by identifying areas we need to strengthen, recruiting talent, building teams and training employees in order to support our future growth and development.

Research and Development

We adopt a clinical demand driven and highly responsive R&D strategy that consists of continuous upgrade and improvement of our existing products to offer differentiated clinical value as well as development of pipeline products that meet unmet needs of the market. We have made the following progress in 2020:

- In 2020, we obtained new registration approvals (including renewal registrations) for four Class I, eight Class II, and six Class III products, including most notably disposable ultrasonic scalpel and laparoscopic stapler products. On January 25, 2021, we received registration approval for 4K-ultra resolution endovision camera system. As of December 31, 2020, we had registered a total of 43 Class I, 18 Class II, and 10 Class III products. In 2020, we registered a total of 32 new patents in China which include 29 utility patents and 3 design patents.

- For our product pipeline, we made progress and advancements in several areas and expect to enter the regulatory registration process in 2021 for several candidate products such as endoscopic multiple titanium clips & reposable clip applier, disposable powered articulating endoscopic stapler and multi- articular laparoscopic instruments. We also researched and explored further in energy product solutions as well as robotics technology assisted instruments and consumables that are compatible with surgical robots. We intend to improve our technical expertise in these target areas which represent significant clinical needs in the future.

- In the fourth quarter of 2020, we identified a location in Xiaoshan District of Hangzhou to build our new R&D center. Key terms including short-term rental space and purchase of land-use rights have been agreed with the local government and construction will commence in 2021. This new R&D center will focus on enhancing our R&D capability for innovative and advanced technologies. It will allow us to better recruit, train, and retain top talent, and further enhance our collaboration effort with external parties.

Sales and Distribution

Despite the impact of the pandemic on surgery volume and marketing activities, we maintained stable relationships with all our core distributors and our distribution network covered over 3,000 hospitals including approximately 1,000 Class IIIA hospitals in 2020.

In order to enhance our distributor management infrastructure and further improve our academic promotion capability, we established a new sales and distribution management center in Beijing and hired a new head of domestic sales in November 2020. In the past few months, we re-aligned our distribution coverage, set new sales target and performance evaluation method, and put in place new policies for marketing, payment and receivables, as well as end market data monitoring. Preparation work for launch of new products as well as recruitment of new distributors was also well under way. We had seen the growth potential of numerous products in our portfolio such as single-site trocar or disposable electrocoagulation forceps that have a relatively small base and are still underpenetrated in the market, but with targeted academic promotion effort, they can become meaningful growth drivers in the future.

Forward Outlook

With the global effort to control the pandemic via the vaccination program, it is expected that surgery volume will return to the pre-pandemic level once hospital capacity is restored and economic activity will recover both inside and outside of China. Against the backdrop of potential future rounds of national VBP or regional tendering process of high value medical consumables, there will be some uncertainties on the potential impact of VBP on certain product revenue and profitability. However, we believe in the long term, these policies will likely drive rising import substitution of medical devices, benefitting quality domestic players with cross specialty product portfolio like our Company.

Our key strategy encompasses the following aspects: (1) continue to diversify our sales mix by expanding and deepening our market penetration through enhanced distributor management and targeted academic promotion activities, while remaining flexible to adapt to a more direct sales model for certain products; (2) continue to invest in R&D to enhance our overall capability to drive innovation and enrich our product portfolio, which in turn can reduce our product sales concentration and mitigate potential impact from VBP; and (3) continue to seek strategic acquisition or partnership opportunities to add complementary products or more advanced technologies to our platform in order to accelerate our future growth.

FINANCIAL REVIEW

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

Revenue

	For the year ended December 31,		
	2020	2019	Changes
	RMB'000	*RMB'000*	*%*
Disposable products			
Disposable trocars	**238,176**	251,398	-5.3
Polymer ligation clips	**156,141**	141,638	10.2
Disposable electrocoagulation forceps	**43,197**	32,501	32.9
Ultrasonic scalpels	**1,468**	–	–
Other disposable products(1)	**10,284**	8,213	25.2
Sub-total	**449,266**	433,750	3.6
Reusable products(2)	**62,224**	69,717	-10.7
Total	**511,490**	503,467	1.6

Notes:

(1) Other disposable products primarily include disposable suction and irrigation sets and retrieval bags, among others.

(2) Reusable products primarily include reusable trocars, reusable forceps and other reusable products.

Our revenue amounted to RMB511.5 million for the year ended December 31, 2020, representing an increase of 1.6% as compared to RMB503.5 million for the year ended December 31, 2019. Our overall sales was mostly adversely affected by the outbreak of COVID-19 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 since the second quarter of 2020, demand for our products also bounced back and we had positive year-on-year growth for the second and third quarters of 2020. However, we had a year-on-year decline in revenue in the fourth quarter of 2020 due to resurgence of local outbreaks and more cautiousness of distributors to build up the inventory by the end of the year.

Disposable Products

Our disposable products include disposable trocars, polymer ligation clips, disposable electrocoagulation forceps, ultrasonic scalpels, and other disposable products. Our disposable products recorded revenue of RMB449.3 million for the year ended December 31, 2020, representing an increase of 3.6% as compared to RMB433.8 million for the year ended December 31, 2019. Such increase was mainly attributable to the double-digit year-on-year growth in polymer ligation clips, disposable electrocoagulation forceps, and other disposable products, partially offset by a year-on-year decline for disposable trocars. Demand for disposable products recovered much faster than for reusable products, as there is a more immediate need for product replenishment as surgery volume recovers. During the Reporting Period, sales of disposable products accounted for 87.8% of our total revenue as compared to 86.2% for the same period in 2019.

Disposable trocars recorded revenue of RMB238.2 million for the year ended December 31, 2020, representing a decrease of 5.3% as compared with RMB251.4 million for the year ended December 31, 2019. Disposable trocars accounted for approximately 46.6% of our total revenue in 2020 as compared to 49.9% in 2019.

Sales of polymer ligation clips recovered more quickly mainly because a higher proportion 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.

Disposable electrocoagulation forceps and other disposable products experienced faster recovery of demand and posted higher sales growth than polymer ligation clips in 2020 despite the pandemic. This can be attributed to our relatively lower base and low market penetration for these product segments.

Reusable Products

Our reusable products recorded revenue of RMB62.2 million for the year ended December 31, 2020, representing a decrease of 10.7% as compared with RMB69.7 million for the year ended December 31, 2019. Such decrease was mainly due to the impact of COVID-19 on demand for reusable products as well as the fact that face-to-face marketing activities at hospitals, which are essential for these non-standardized products, were curtailed by COVID-19 related restrictions.

Sales Channel

Most of our revenue comes from sales to domestic customers. During the Reporting Period, we primarily sold our products to domestic distributors. To a lesser extent, we also sold to hospitals and other customers (primarily including trading companies that sell our products to overseas original design manufacture (ODM) customers) in China, as well as to overseas distributors and ODM customers.

Our revenue from overseas markets was approximately RMB35.7 million for the year ended December 31, 2020, representing a decrease of 0.2% 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 from the second quarter of 2020 even as the condition in China gradually improved. Revenue from overseas markets accounted for 7.0% of our total revenue for the year of 2020 as compared to 7.1% for the same period in 2019.

The following table sets forth our revenue by geographic market and sales channel for the periods indicated:

	For the year ended December 31,		
	2020	2019	Changes
	RMB'000	*RMB'000*	*%*
Domestic			
– Distributors	**460,633**	450,908	2.2
– Hospitals and other customers	**15,123**	16,736	-9.6
Sub-total	**475,756**	467,644	1.7
Overseas			
– ODM customers	**32,153**	33,074	-2.8
– Distributors	**3,581**	2,749	30.3
Sub-total	**35,734**	35,823	-0.2
Total	**511,490**	503,467	1.6

Cost of Sales

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

For the year ended December 31, 2020, our cost of sales was RMB80.0 million, representing a decrease of 0.3% as compared with RMB80.3 million for the year ended December 31, 2019. The decrease in cost of sales was primarily due to the decrease in raw material costs and manufacturing costs. The decrease was partially offset by the increase in direct labor cost.

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

	For the year ended December 31,			
	2020		2019	
	Amount	**% of total**	Amount	% of total
	RMB'000 (except percentages)			
Raw materials cost	**34,647**	**43.3%**	36,321	45.2%
Direct labor costs	**25,792**	**32.2**	20,896	26.0
Manufacturing costs[(1)]	**19,581**	**24.5**	23,075	28.7
Total	**80,020**	**100.0%**	80,292	100.0%

Note:

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

Gross Profit and Gross Margin

Our gross profit increased by 2.0% to RMB431.5 million for the year ended December 31, 2020 from RMB423.2 million for the year ended December 31, 2019, due to an increase in sales.

Our gross margin was 84.4% for the year ended December 31, 2020, up from 84.1% for the year ended December 31, 2019, which was primarily due to (1) a slightly higher proportion of sales under the "two-invoice" system, i.e. mainly in Shanxi and Fujian provinces, and such sales have higher gross margins due to higher ex-factory prices; and (2) a higher proportion of disposable products which have higher gross margins than reusable products.

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

	For the year ended December 31,			
	2020		2019	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
	RMB'000 (except percentages)			
Disposable products	**392,452**	**87.4%**	378,182	87.2%
Reusable products	**39,018**	**62.7**	44,993	64.5
Total	**431,470**	**84.4%**	423,175	84.1%

Other Income and Gains

Other income and gains for the year ended December 31, 2020 was RMB57.1 million, while for the year ended December 31, 2019, it was RMB53.6 million. The increase was primarily due to (1) an increase of RMB1.7 million in government grants representing subsidies received from the local governments for the purposes of compensation for expenses arising from research and development activities, reward for financial contribution and capital expenditure incurred on certain projects; and (2) an increase of RMB1.2 million in investment income, and RMB2.9 million in fair value gain arising from short-term financial products we purchased from banks for the purpose of hedging foreign exchange risk.

Selling and Distribution Expenses

Selling and distribution expenses were RMB48.9 million for the year ended December 31, 2020, representing an increase of 18.2% as compared with RMB41.4 million for the year ended December 31, 2019. The increase was primarily due to share-based payment expenses associated with our restricted share unit plan adopted on May 6, 2020 ("**RSU Plan**"). Excluding share-based payment expenses, our selling and distribution expenses remained relatively stable for the Reporting Period.

Administrative Expenses

Administrative expenses amounted to RMB78.0 million for the year ended December 31, 2020, representing an increase of 204.2% as compared with RMB25.6 million for the year ended December 31, 2019. The increase was mainly due to the listing expenses of RMB32.3 million and share-based payment expenses of RMB8.4 million. Excluding the listing expenses and share-based payment expenses, our administrative expenses increased by RMB11.7 million or approximately 45.7% for the Reporting Period as compared to 2019 mainly due to an increase in staff costs and external audit and consultants' fees, and a moderate tax expense primarily due to the stamp duty associated with the restructuring in March 2020.

Research and Development Expenses

Research and development expenses for the year ended December 31, 2020 was RMB25.2 million, representing an increase of 45.1% as compared with RMB17.4 million for the year ended December 31, 2019, which was mainly due to share-based payment expenses. Excluding the share-based payment expenses, our research and development expense increased by RMB4.4 million or approximately 25.3% for the Reporting Period as compared to 2019 due to an increase in the purchase of raw materials and the expansion of our research and development team.

Other Expenses

Other expenses primarily consist of donation, foreign exchange loss, and loss on disposal of assets. During the Reporting Period, we recorded other expenses of RMB26.3 million for the year ended December 31, 2020, which was primarily attributable to foreign exchange loss arising from our export sales and the remeasurement of United States Dollar ("**USD**") denominated cash balances held by our operating entities in the PRC due to the depreciation of USD against RMB during the second half of 2020. Other than foreign exchange loss, we also made donations of RMB1.2 million primarily in supporting the government's containment of the COVID-19 outbreak.

Income Tax Expenses

Income tax expenses were RMB50.9 million for the year ended December 31, 2020, representing a decrease of 21.0% as compared with RMB64.5 million for the year ended December 31, 2019. The decrease in income tax expenses was primarily due to: (1) the decrease in profit before tax of our PRC subsidiaries, and (2) the decrease in deferred tax charge attributable to PRC withholding tax on the Group's distributable profit as the Group would be entitled to the preferential withholding tax rate of 5% for dividends distributed by our PRC subsidiary to Hong Kong holding company pursuant to the relevant tax treaty between mainland China and Hong Kong.

Non-HKFRS Adjusted Net Profit for the Year

To supplement our audited consolidated statement of profit or loss and other comprehensive income which is presented in accordance with the HKFRSs, we also use adjusted net profit as a non-HKFRS measure, which is not required by, or presented in accordance with, HKFRS. 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 foreign exchange difference, 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 years indicated:

	For the year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Profit for the year	**259,150**	326,735
Add:		
Foreign exchange difference	**25,039**	(2,360)
Listing expenses	**32,314**	–
Share-based payment expenses	**18,001**	–
Non-HKFRS adjusted net profit for the year	**334,504**	324,375

Notes:

(1) Foreign exchange difference is non-operational in nature which mainly arises from the currency fluctuation of USD against RMB for the periods, the amount of which may not directly correlate with the underlying performance of our business operations.

(2) 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.

(3) Listing expenses are one-off expenses in relation to the listing of our Shares on the Stock Exchange. 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 it should not be considered in isolation from, or as a substitute for or superior to analysis of, our results of operations or financial condition as reported under HKFRS. In addition, the non-HKFRS financial measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures presented by other companies.

Liquidity and Capital Resources

During the Reporting Period, we financed our operations and other capital expenditure requirements primarily through cash generated from our operations and proceeds from the Company's initial public offering ("**IPO**"). On June 29, 2020, 225,397,500 Shares with par value 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 "**Global Offering**").

As of December 31, 2020, we had cash and cash equivalents of RMB2,232.0 million, as compared with RMB565.1 million as of December 31, 2019.

Net Current Assets

We had net current assets of RMB2,854.6 million as of December 31, 2020, representing an increase of RMB2,404.7 million as compared with RMB449.9 million as of December 31, 2019. Such increase primarily represents the cash proceeds received from the Global Offering.

Foreign Exchange Exposure

During the Reporting Period, the Group's operations were primarily based in the PRC. Assets, liabilities and transactions in the PRC are mainly denominated in RMB, while overseas assets and transactions are mainly denominated in USD. We are exposed to foreign currency risks, primarily including accounts receivables, accounts payables and cash balances that are denominated in a foreign currency, i.e., a currency other than our functional currency. For the year ended December 31, 2020, the Group recorded an exchange loss of RMB25.0 million, as compared to an exchange gain of RMB2.4 million for the year ended December 31, 2019, primarily due to the depreciation of USD against RMB that resulted in the foreign exchange loss arisen from USD denominated cash balances held by our operating entities in the PRC.

As at December 31, 2020, certain assets and liabilities of the Group held outside the mainland China (mainly consisting of cash and cash equivalents deposited in banks in Hong Kong) were denominated in USD or HK$. Such amount was translated into RMB at the exchange rate applicable as at the end of the Reporting Period. Due to the depreciation of USD and HK$ against RMB during the second half of 2020, the Group recorded a net decrease in exchange fluctuation reserve of RMB196.9 million during the Reporting Period (for the year ended December 31, 2019: Nil) which partially offset the increase of the Group's net assets as at December 31, 2020.

The Group has been actively monitoring and overseeing its foreign exchange risks and mitigating its risk exposure with the use of short-term financial products. During the Reporting Period, the Group purchased dual-currency products issued by financial institutions with the aim of hedging against potential depreciation of USD against RMB for a small portion of the net proceeds received from the Global Offering that were temporarily standing idle.

Capital Expenditure

For the year ended December 31, 2020, the Group's total capital expenditure amounted to approximately RMB14.3 million, which was primarily used in purchasing machinery and equipment and motor vehicles. The Group's capital expenditure for the year ended December 31, 2019 was approximately RMB10.3 million.

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

	For the year ended December 31,	
	2020	2019
	RMB'000	
Plant and machinery	**6,238**	5,820
Construction in progress	**1,984**	3,323
Furniture and fixtures	**822**	786
Motor vehicles	**5,276**	233
Buildings	**–**	115
Total	**14,320**	10,277

Charge of Assets/Pledge of Assets

As of December 31, 2020, we did not have any charge of assets or pledge of assets.

Borrowings

As of December 31, 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, and lease liabilities. As of December 31, 2020, the gearing ratio of the Group was 2.3% (as of December 31, 2019: 7.1%).

Contingent Liabilities

As of December 31, 2020, we did not have any outstanding contingent liabilities.

Major Investments, Acquisition and Disposal

On January 12, 2021, Kangji Medical (Hong Kong) Limited ("**Kangji Hong Kong**"), a wholly-owned subsidiary of the Company entered into an investment agreement with Shenzhen Jingfeng Medical Technology Co., Ltd.*（深圳市精鋒醫療科技有限公司）("**Jingfeng Medical**"), pursuant to which, Kangji Hong Kong agreed to invest RMB80 million to subscribe for approximately 2.03% of the enlarged registered share capital of Jingfeng Medical in its round B financing. Jingfeng Medical focuses on developing surgical robotic products and instruments for laparoscopic surgery in China.

Save as above and as of the date of this announcement, the Group did not hold any major investments in the equity interests of any other companies, or have any other major acquisition or disposal.

* *For identification purpose only*

Future Plans for Material Investments and Capital Assets

The Group intends to utilize the net proceeds raised from the Global Offering to pursue strategic investment and to fund acquisition of capital assets for our expansion in the manner set out in the prospectus of the Company dated June 16, 2020 (the "**Prospectus**") and further explained in section headed "Use of Proceeds from Listing" below. Save as disclosed in this announcement, the Group did not have any plan for material investments and capital assets.

Employee and Remuneration Policy

As of December 31, 2020, the Group had 637 employees (December 31, 2019: 599 employees). Total staff remuneration expenses including remuneration of the directors of the Company (the "**Director(s)**") and share-based payment expenses for the year ended December 31, 2020 amounted to RMB69.6 million (for the year ended December 31, 2019: RMB47.8 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. On May 19, 2020, Fortune Spring KangJi 1 Limited ("**ESOP BVI**") was established to hold the incentive Shares under the RSU Plan. This ESOP BVI is controlled by the Company and managed by an independent trustee.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

In connection with the Company's initial public offering, 225,397,500 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 related fees and expenses, of approximately HK$2,952.5 million (equivalent to RMB2,697.1 million). Dealings in the Shares on the Stock Exchange commenced on June 29, 2020 (the "**Listing Date**").

The net proceeds from the Global Offering (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in that same manner, proportion and the expected timeframe as set out in the Prospectus under the section headed "Future Plans and Use of Proceeds". The table below sets out the planned applications of the net proceeds and actual usage up to December 31, 2020:

Use of proceeds	Percentage of total net proceeds *(%)*	Planned applications (HK$ million)	Planned applications (RMB million)	Revised application of total net proceeds[1] (RMB million)	Actual usage up to December 31, 2020 (RMB million)	Unutilized net proceeds as at December 31, 2020 (RMB 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	9.8	273.5	249.9	264.3	0.4	263.9	within the next three to five years
to build up production capabilities for pipeline products	10.2	284.7	260.1	275.1	5.2	269.9	within the next six years
For funding our R&D activities, including:							
to establish R&D centers	17.0	474.5	433.5	458.5	–	458.5	within the next four years
to develop and expand our product pipeline	8.0	223.3	204.0	215.8	13.0	202.8	within the next five to six years
For investing in our sales and marketing activities, including:							
to be used in our domestic sales and marketing activities[2]	15.0	418.6	382.5	404.5	6.1	398.4	within the next four to five years
to increase our overseas sales	5.0	139.6	127.5	134.9	–	134.9	within the next three to five years
For funding potential strategic investment and acquisitions	25.0	697.8	637.5	674.3	–	674.3	within the next five years
For our working capital and general corporate purposes	10.0	279.1	255.0	269.7	21.3	248.4	within the next four to six years
Total	**100.0**	**2,791.1**	**2,550.0**	**2,697.1**	**46.0**	**2,651.1**	

Notes:

(1) By excluding the underwriting commissions and related fees and expenses, the actual net proceeds planned for applications amounted to RMB2,697.1 million. Net proceeds were received in HK$ and translated to RMB for application planning.

(2) On March 25, 2021, the Board resolved to change the location of the sales and marketing center to be established from our headquarters to Beijing, which is in line with our latest business strategy and does not deviate from our originally planned application of the net proceeds as described in the Prospectus. Other than this minor change, no amendment has been made to the disclosure in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

OTHER INFORMATION

Compliance with the Corporate Governance Code (the "CG Code")

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

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 Board is of the view that the Company has complied with all applicable code provisions of the CG Code from the Listing Date to December 31, 2020, except for a deviation from the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company are not separate and are both performed by Mr. ZHONG Ming. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. 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.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Guidelines for Securities Transactions by Directors (the "**Written Guidelines**") on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Written Guidelines from the Listing Date to December 31, 2020. No incident of non-compliance of the Written Guidelines by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

Purchase, Sale or Redemption of the listed Securities of the Company

Except for the Company's Global Offering (including the exercise of over-allotment options) as described in the Prospectus, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed Shares from the Listing Date to December 31, 2020.

Annual General Meeting (the "AGM")

The AGM of the Company will be held on May 26, 2021. The notice of the AGM will be sent to the Shareholders at least 20 clear business days before the AGM.

Final Dividend

The Board has resolved to recommend the payment of a final dividend of HK4.4 cents per Share for the year ended December 31, 2020 to the Shareholders whose names appear on the register of members of the Company on June 1, 2021, subject to the approval of the Shareholders at the AGM. Once the relevant resolution is passed at the AGM, the proposed final dividend is expected to be paid on or about June 29, 2021.

Closure of Register of Members

(a) For the purpose of determining the Shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from May 21, 2021 to May 26, 2021 both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on May 20, 2021.

(b) For determining the entitlement to the proposed final dividend for the year ended December 31, 2020 subject to the approval by the Shareholders at the AGM, the register of members of the Company will be closed from June 1, 2021 to June 4, 2021 both days inclusive. In order to qualify for the proposed final dividend, all transfer documents should be lodged for registration with Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on May 31, 2021.

Review of Annual Results

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 chairman of the Audit Committee is Mr. CHEN Weibo. The Audit Committee has reviewed the annual results of the Group for the year ended December 31, 2020 and has recommended for the Board's approval thereof.

The Audit Committee has reviewed together with the management the accounting principles and policies adopted by the Group and the consolidated financial statements for the year ended December 31, 2020. The Audit Committee considered that the annual results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

This annual results announcement is based on the audited consolidated financial statements of the Group for the year ended December 31, 2020.

Events after the Reporting Period

Save as disclosed in the section headed "Major Investments, Acquisition and Disposal" above, there are no significant events occurred after the end of the Reporting Period.

Publication of Annual Results and Annual Report

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.kangjimedical.com). The annual report for the year ended December 31, 2020 containing all the information in accordance with the requirements under the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees, business partners and customers of the Group for their support and contribution to the Group.

By order of the Board
Kangji Medical Holdings Limited
ZHONG Ming
Chairman

Hangzhou, PRC, March 25, 2021

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