



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



2020

ANNUAL REPORT

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## Chairman's Statement



We are the largest domestic minimally invasive surgical instruments and accessories (MISIA) platform in China. Our mission is to enable physicians and improve health and wellness of patients through providing high performing and accessible products and services. The MISIA market is a segment of the medical device market and is undergoing rapid growth. The growth of China's MISIA industry is driven by the increasing number of surgeries, growing popularity of minimally invasive surgery, increasing usage of disposable products, and increasing import substitution.

During the Reporting Period, facing the unprecedented outbreak and spread of the epidemic globally, China's medical industry and medical staff have experienced severe tests. Since the outbreak of the epidemic, the Company has quickly adopted prevention and control measures against the epidemic, resumed production in the shortest time, adopted prevention and control measures to ensure the safety of employees' work and life, overcome difficulties in operation and marketing activities, and actively conducted business to gradually resume growth by leveraging the strength of our brand, our extensive distribution network and a diversified product portfolio. In the second half of 2020, resurgence of regional outbreaks had a certain impact on the Company's product demand recovery, resulting in limited annual growth. However, we are confident that we will increase market penetration through a diversified product portfolio in the next few years, continue to drive innovation, and gradually return to the historical growth trajectory.

## Chairman's Statement

During the Reporting Period, the Company recorded sales revenue of RMB511.5 million, representing an increase of 1.6% as compared to the same period of 2019. 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.

During the Reporting Period, we launched more high-end products such as ultrasonic scalpels and disposable laparoscopic staplers as well as introducing upgraded products in order to further diversify our broad product portfolio. This will also enrich the sources of income and enable the Company to maintain sustainable growth. We continued to strengthen our academic promotion capabilities and marketing strategies by establishing a new sales and distribution management center in Beijing. One of the important objectives is to leverage this strategic location to better serve and manage a nationwide distribution network and better interact with major academic leaders, doctors, hospitals and medical associations to further develop a multi-dimensional academic promotion capability enabling us to deepen our relationships with our end-users.

During the Reporting Period, the Company actively sought and evaluated strategic investments and acquisitions. In January 2021, the Company completed its strategic equity investment in Jingfeng Medical. It is an integral part of the Company's strategic investment in the field of intelligent surgical equipment and instruments sector and participation in the development of surgical robots

industry in China. As of the date of this annual report, we have also announced a strategic cooperation agreement with B. Braun Medical (Shanghai) International Trading Co., Ltd., a subsidiary of B. Braun Group, with the aim of cooperating extensively in product development, manufacturing, sales and marketing, and academic promotion in China and some overseas markets.

Looking to the future, there is still strong momentum for the rapid development of China's medical device market, and great potential for further product penetration in the MISIA market. We believe that, as the largest domestic MISIA platform in China, the Company can take advantage of the favorable MISIA market trends such as the increasing use of disposable products, the growing popularity of domestic products, product upgrades and innovations, and market consolidation to continue to gain market share.

On behalf of the Board of Directors, I would like to extend my sincere gratitude to our Shareholders, management team, employees, distributors, physicians and surgeons, agents and business partners for their hard work and support. The Company will execute the development strategies and improve corporate management to reward the trust of shareholders.

## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Mr. ZHONG Ming (*Chairman of the Board*)

Ms. SHENTU Yinguang

Ms. Frances Fang CHOVANEC

#### 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

*Registered Public Interest Entity Auditor*

22/F, CITIC Tower

1 Tim Mei Avenue Central

Hong Kong

### COMPLIANCE ADVISER

Somerley Capital Limited

20/F, China Building

29 Queen's Road Central

Hong Kong

### REGISTERED OFFICE

Maples Corporate Services Limited

P.O. Box 309

Ugland House

Grand Cayman KY1-1104

Cayman Islands

### CORPORATE HEADQUARTERS

No. 1668 Chunjiang East Road

Tonglu Economic Development Zone

Hangzhou

Zhejiang Province

PRC

### HONG KONG LEGAL ADVISER

Kirkland & Ellis

26/F, Gloucester Tower

The Landmark

15 Queen's Road Central

Central

Hong Kong

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat 1007B, 10/F, Harbour Crystal Centre

100 Granville Road, Kowloon

Hong Kong

### HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

### INVESTOR RELATIONS

T: +86 571 69900020

E: ir@hzkangji.com

### WEBSITE

www.kangjimedical.com

### STOCK CODE

9997



## Financial Highlights

A summary of the results and of the assets and liabilities of the Group for the last four\* financial years, as extracted from the audited financial information and financial statements is set out below:

	Year ended December 31,			
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
<b>Revenue</b>	<b>511,490</b>	503,467	353,670	247,506
Gross profit	<b>431,470</b>	423,175	289,297	199,705
Profit for the year	<b>259,150</b>	326,735	223,793	138,477
Non-HKFRS adjusted profit for the year **	<b>334,504</b>	324,375	218,819	142,120
Profit attributable to owner of the parent	<b>250,296</b>	206,444	146,701	117,705
<b>Earnings per share</b>				
– Basic (RMB)	<b>26.27 cents</b>	20.11 cents	N/A	N/A
– Diluted (RMB)	<b>25.97 cents</b>	20.11 cents	N/A	N/A
	As at December 31,			
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Non-current assets	<b>90,234</b>	75,517	72,836	65,598
Current assets	<b>2,930,027</b>	717,265	462,394	230,604
Non-current liabilities	<b>8,204</b>	9,950	3,180	3,837
Current liabilities	<b>75,446</b>	267,372	48,125	32,233
Non-controlling interests	–	188,232	174,213	39,020
Total equity	<b>2,936,611</b>	515,460	483,925	515,460

\* The shares of the Company were listed on the Main Board of the Stock Exchange on June 29, 2020.

\*\* For details, please see section headed “Management Discussion and Analysis – Non-HKFRS Adjusted Net Profit for the Year”.

For the year ended December 31, 2020, the Company, and together with its subsidiaries, realized revenue of RMB511.5 million, representing a slight increase of 1.6% as compared to 2019. Our sales were 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.

The Board has resolved to recommend the payment of a final dividend of HK4.4 cents per ordinary share of the Company for the year ended December 31, 2020.

## 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 REVIEW

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.

## Management Discussion and Analysis

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 & 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; (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; and (4) expand our international market actively.



## Management Discussion and Analysis

### FINANCIAL REVIEW

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

#### Revenue

	For the year ended December 31,		
	2020 RMB' 000	2019 RMB' 000	Changes %
<b>Disposable products</b>			
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 <sup>(1)</sup>	10,284	8,213	25.2
Sub-total	449,266	433,750	3.6
<b>Reusable products<sup>(2)</sup></b>	62,224	69,717	-10.7
<b>Total</b>	<b>511,490</b>	<b>503,467</b>	<b>1.6</b>

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 were 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 the strict controls in response to the epidemic and limitations on the provision of medical services by hospitals.

#### 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.

## Management Discussion and Analysis

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 complicated surgeries such as cancer, 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 RMB' 000	2019 RMB' 000	Changes %
<b>Domestic</b>			
– 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
<b>Overseas</b>			
– 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

## Management Discussion and Analysis

### 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 <sup>(1)</sup>	19,581	24.5	23,075	28.7
<b>Total</b>	<b>80,020</b>	<b>100.0%</b>	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
<b>Total</b>	<b>431,470</b>	<b>84.4%</b>	423,175	84.1%

## Management Discussion and Analysis

### 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 re-measurement of 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.

## Management Discussion and Analysis

### 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	
<b>Profit for the period</b>	<b>259,150</b>	326,735
Add:		
Foreign exchange difference	<b>25,039</b>	(2,360)
Listing expenses	<b>32,314</b>	–
Share-based payment expenses	<b>18,001</b>	–
Non-HKFRS adjusted net profit for the period	<b>334,504</b>	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.



## Management Discussion and Analysis

### 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 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 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.

## Management Discussion and Analysis

### 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
<b>Total</b>	<b>14,320</b>	<b>10,277</b>

### 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 Hong Kong, a wholly-owned subsidiary of the Company entered into an investment agreement with 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 report, the Group did not hold any major investments in the equity interests of any other companies, or have any other major acquisition or disposal.

## Management Discussion and Analysis

### 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 and further explained in section headed “Use of Proceeds from Listing” under the “Report of the Directors”. Save as disclosed in this report, 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 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.

The table below sets forth our employees by function as disclosed:

	Number	% of total employees
Production	446	70.02%
Research and development	82	12.87%
Sales and marketing	44	6.91%
Management and administrative	21	3.30%
Quality control	21	3.30%
Warehouse management	19	2.98%
Procurement	4	0.63%
<b>Total</b>	<b>637</b>	<b>100.0%</b>

## Directors and Senior Management

### DIRECTORS

#### Executive Directors

**Mr. ZHONG Ming (鍾鳴)**, aged 45, is one of the founders of our Group. He was appointed as a Director on February 12, 2020 and was re-designated as an executive Director on March 7, 2020. Mr. Zhong has also served as the Chairman of the Board and the chief executive officer of our Company. Mr. Zhong is mainly responsible for overall management of the business, strategy and corporate development of the Group.

Mr. Zhong has been working in our Group for more than 15 years. Since he founded our Group together with Ms. Shentu in August 2004, he has held the positions of the general manager and the chairman of the board at Hangzhou Kangji. Mr. Zhong also serves as an executive director of Kangyin Investment since June 2015. Mr. Zhong has served as a vice president at Surgery Medical Equipment Branch of China Association of Medical Equipment (中國醫學裝備協會外科醫學裝備分會) since July 2016.

Prior to establishing Hangzhou Kangji with Ms. Shentu, Mr. Zhong was primarily engaged in selling and distribution of MISIA produced by other manufacturers. In December 2001, Mr. Zhong established a company called Tonglu Kangpu Medical Device Co., Ltd. (“**Tonglu Kangpu**”, 桐廬康普醫療器械有限公司) in the PRC, the principal business of which was to sell and distribute MISIA. Tonglu Kangpu was held by Mr. Zhong and Mr. Shentu Shaojian (申屠紹建, father of Ms. Shentu) as to 60% and 40%, respectively, and was voluntarily dissolved in November 2004 shortly after establishment of Hangzhou Kangji.

Mr. Zhong received his bachelor’s degree in business administration (part-time) from China University of Geosciences (中國地質大學) in the PRC in January 2006. Mr. Zhong was awarded the Outstanding Hangzhou Entrepreneur (傑出杭商) by World Hangzhou Entrepreneur Convention (世界杭商大會) held by The People’s Government of Hangzhou City (杭州市人民政府) in 2018, and was awarded Outstanding T-Merchants (傑出桐商) by Conference of T-Merchants (桐商大會) held by The People’s Government of Tonglu County (桐廬縣人民政府) in 2016.

Mr. Zhong is the spouse of Ms. Shentu, the executive Director.

**Ms. SHENTU Yinguang (申屠銀光)**, aged 41, is one of the founders of our Group. She was appointed as an executive Director on March 7, 2020. Ms. Shentu has also served as the vice general manager of our Company. Ms. Shentu is mainly responsible for overall management of the business, strategy and corporate development of the Group.

Ms. Shentu has been working in our Group for more than 15 years. Since the inception of our Group in August 2004, Ms. Shentu has held the positions of the vice general manager and the vice chairman of the board at Hangzhou Kangji. Ms. Shentu also serves as a supervisor of Kangyin Investment since June 2015.

Ms. Shentu received her college degree in accounting (part-time) from China University of Geosciences (中國地質大學) in the PRC in August 2005. Ms. Shentu was awarded the Top Ten Innovation Women in Zhejiang (浙江十大創新女傑) by Zhejiang High-tech Enterprise Association (浙江省高新技術企業協會), Zhejiang Women Entrepreneur Association (浙江省女企業家協會), Zhejiang Scientific and Technological Innovation Entrepreneur Promotion Association (浙江省科技新浙商促進會), Zhejiang Technological and Innovative Enterprise Association (浙江省科技創新企業協會) and Sci-tech and Finance Times (科技金融時報) in 2019, the Tonglu Entrepreneur of the Year (年度桐廬企業家) by The People’s Government of Tonglu County (桐廬縣人民政府) in December 2019, and the Outstanding Hangzhou Entrepreneur Award (風雲杭商獎) by Hangzhou Internationalization Innovation Forum (杭州國際化創新論壇) jointly held by Hang Zhou Culture Radio Television Group (杭州文廣集團), Hangzhou Federation of industry and Commerce (杭州市工商業聯合會), Hangzhou Municipal Bureau of Commerce (杭州市商務局) and several other governmental entities in January 2020. Ms. Shentu has also been a member of Chinese People’s Political Consultative Conference of Tonglu County (桐廬縣政協) since January 2007.

Ms. Shentu is the spouse of Mr. Zhong, the executive Director, Chairman of the Board and the chief executive officer of the Company.

## Directors and Senior Management

**Ms. Frances Fang CHOVANEC**, aged 42, was appointed as our executive Director on November 5, 2020. Ms. Chovanec has also served as the chief financial officer of our Company. Ms. Chovanec is primarily responsible for the management of financial affairs and investor relations of our Group.

Ms. Chovanec has extensive experience in the finance industry and worked at well-known investment banks for more than 12 years. From 2000 through 2014, Ms. Chovanec had successively served as an analyst at JPMorgan Chase & Company, as an associate and then a vice president at Morgan Stanley Asia Limited and an executive director in the investment banking division of Goldman Sachs & Company, where she had extensively involved in investment banking transaction execution and client coverage. From October 2014 to October 2015, Ms. Chovanec served as a director at Teneo Capital, LLC, a company engaged in investment banking, where she focused on M&A transaction execution. From November 2015 to December 2016, Ms. Chovanec was employed as a managing director by Evercore Management Corporation of Fosun Group where she was mainly focused on private equity investment and portfolio management. Since January 2017, Ms. Chovanec provided consulting services to clients through her own firm, Bird's Nest Advisors, LLC, and mainly advised on strategic partnership, licensing and business development projects.

Ms. Chovanec received her bachelor's degree in finance from University of Bridgeport in the U.S. in May 2000 and master's degree in business administration from the Wharton School of the University of Pennsylvania in the U.S. in May 2005. Ms. Chovanec is a Chartered Financial Analyst (CFA) and she obtained the qualification from the Chartered Financial Analyst Institute in July 2003.

### Non-Executive Directors

**Ms. CAI Li (蔡俐)**, aged 37, was appointed as a non-executive Director of our Company on March 13, 2020. Ms. Cai is primarily responsible for participating in decision making of important matters of our Group.

From 2007 through 2008, Ms. Cai worked as a research analyst at Credit Suisse AG (New York), where she was responsible for equity research for large cap of medical supplies and devices companies. From March 2009 to July 2011, Ms. Cai worked as an investment associate at HAO Capital (Haotian Jinsheng Investment Management (Beijing) Limited), focusing on growth stage healthcare investments. Ms. Cai joined TPG Capital, a leading global alternative asset firm, in August 2011 and with her latest position being a managing director.

Ms. Cai also concurrently holds the following positions outside our Group:

- a supervisor at Shanghai Deyu Deqi Enterprise Management Consulting Co., Ltd. (上海德虞得起企業管理諮詢有限公司) since November 2016;
- a director at OPC Holding Company (Cayman) since August 2017, OPC Intermediate Holding Company (Cayman) since August 2017, PPC K.K. (Japan) since September 2017, Apluscro Pte. Ltd (Singapore) since August 2017, PPC Korea since August 2017, PPC China Corporation Limited (上海百利佳生醫藥科技有限公司) since November 2017, PPC China Clinical Research Corporation Limited (上海立興佳生醫藥科技有限公司) since February 2018, Jiasheng (Shanghai) Pharmaceutical Consulting Co., Ltd. (佳生(上海)醫藥諮詢有限公司) since September 2017, APLUS Pharmaceutical Consulting (Shanghai) Co., Ltd. (佳永醫藥諮詢(上海)有限公司) since August 2017, Bailixing (Xiamen) Equity Investment Co., Ltd. (百立興(廈門)股權投資有限公司) since August 2017, Acrostar Pharmservices Corporation (徐州立順康達醫藥科技有限公司) since August 2017, Acrostar Site Management Co., Ltd. (南京立順康達醫藥科技有限公司) since January 2019, Biosuntek Laboratory Co., Ltd. since December 2019, respectively, which are all member companies of OPC Holding Company (Cayman) invested by TPG;
- a non-executive director at Zhaoke Ophthalmology Limited since October 2020;
- a non-executive director at Shanghai Bio-heart Biological Technology Co., Ltd. (上海百心安生物技術股份有限公司) since September 2020; and
- a director at Zhejiang Choisun Tea Development Co., Ltd. (浙江久晟油茶科技股份有限公司) since December 2015, whose shares were once traded on the NEEQ (stock code: 837518).

Ms. Cai received her bachelor's degree in biomedical engineering and economics from Yale University in the U.S. in May 2007.



## Directors and Senior Management

**Mr. CHEN Gang (陳剛)**, aged 37, was appointed as a non-executive Director on March 13, 2020. Mr. Chen has also served as a director of Hangzhou Kangji since June 2018. Mr. Chen is primarily responsible for participating in decision-making of important matters of our Group.

From 2007 to 2011, Mr. Chen served as a project leader at L.E.K. Consulting (Shanghai) Co., Ltd. (艾意凱諮詢(上海)有限公司), where he was primarily responsible for business strategy, merger & acquisition advisories for healthcare and life sciences client. From 2013 to 2015, Mr. Chen served as a principal at Vivo Capital Equity Investment Management (Shanghai) Co., Ltd. (維梧股權投資管理(上海)有限公司) where he was primarily responsible for investment due diligence, deal executions and portfolio management. From July 2015 to October 2019, Mr. Chen successively served as a director of international business development at Shanghai Aland Nutrition Co., Ltd. (上海艾蘭得營養品有限公司, formerly known as 上海艾蘭得電子商務有限公司) and a director at Cardiolink Science (Shenzhen) Medical Technology Development Co., Ltd. (科睿馳(深圳)醫療科技發展有限公司), a company primarily engaged in minimally invasive medical equipment.

Mr. Chen is concurrently serving the following positions outside our Group:

- a Principal since March 2017 and a partner since March 2019 at LYFE Equity Investment Management (Shanghai) Co., Ltd. (濟峰股權投資管理(上海)有限公司), an investment company focused on growth stage healthcare company investments in China and U.S.;
- a director at Beijing Baicare Biotechnology Co., Ltd. (北京百康芯生物技術有限公司), a company primarily engaged in molecular diagnosis products for infectious disease, since January 2018; a director at Beijing Angeen Biotechnology Co., Ltd. (北京安智因生物技術有限公司), a company primarily engaged in genetic testing, since July 2018; a director at Nanjing Yoko Biology Pharmaceuticals Co., Ltd. (南京優科生物醫藥集團股份有限公司), Shanghai Zhenge Biotech Co., Ltd. (上海臻格生物技術有限公司), Birdo (Shanghai) Biotech Co., Ltd. (都創(上海)醫藥科技有限公司), Shanghai HeartCare Medical Technology Corporation Limited (上海心瑋醫療科技有限公司); Shanghai Shenqi Medical Technology Co., Ltd. (上海申淇醫療科技有限公司); Shenzhen Reetoo Biotech Co., Ltd. (深圳市瑞圖生物技術有限公司), Hangzhou Sciwind Biotech Co., Ltd. (杭州先為達生物技術有限公司), Jingfeng Medical; and a supervisor of Jiangsu Rec-Biotechnology Co., Ltd. (江蘇瑞科生物技術有限公司).

Mr. Chen received his bachelor's degree in clinical medicine from Shanghai Medical School of Fudan University (復旦大學上海醫學院) in the PRC in July 2007 and master's degree in business administration from Northwestern University Kellogg School of Management in the U.S. in June 2013.

## Directors and Senior Management

### Independent Non-Executive Directors

**Mr. JIANG Feng (姜峰)**, aged 58, was appointed as an independent non-executive Director on March 7, 2020 with effect from June 4, 2020. Mr. Jiang is primarily responsible for supervising and providing independent judgement to our Board.

Mr. Jiang has 34 years of experience in medical and medical device industry. From 1985 to 2010, Mr. Jiang successively worked as a clinician and served managerial positions at several Hospitals and pharmaceutical companies. From December 2010 to August 2016, Mr. Jiang served as an independent director at Dirui Industrial Co., Ltd. (迪瑞醫療科技股份有限公司, formerly known as 長春迪瑞醫療科技股份有限公司), a medical technology company whose shares are listed on the Shenzhen Stock Exchange (stock code: 300396). From May 2014 to September 2017, Mr. Jiang served as an independent director at Guan hao Biotech Co., Ltd. (冠昊生物科技股份有限公司), a biotech company whose shares are listed on the Shenzhen Stock Exchange (stock code: 300238). From July 2005 to March 2017, Mr. Jiang also served as the head of China Medical Device Information Magazine (《中國醫療器械信息》雜誌社). From June 2015 to February 2017, Mr. Jiang worked as a non-executive director at Kaisa Health Group Holdings Limited (佳兆業健康集團控股有限公司, formerly known as 美加醫學科技有限公司), a company specialized in dental medical products with its shares being listed on the Stock Exchange (stock code: 0876). From March 2016 to April 2019, Mr. Jiang served as an independent director at Zhongzhu Healthcare Holding Co., Ltd. (中珠醫療控股股份有限公司, “Zhongzhu”), whose shares are listed on the Shanghai Stock Exchange (stock code: 600568). Mr. Jiang also served as an independent director at a medical consumables company, Guangdong Baihe Medical Technology Co., Ltd. (廣東百合醫療科技股份有限公司) until March 2016.

Mr. Jiang is concurrently serving positions in the following entities outside our Group:

- a non-executive director since April 2014 at Lifetech Scientific (Shenzhen) Co., Ltd. (先健科技(深圳)有限公司), a medical device company whose shares are listed on the Stock Exchange (stock code: 01302);
- an executive director since November 2010 at Yixu Investment Management (Beijing) Co., Ltd. (醫旭投資管理(北京)有限公司), a company primarily engaged in investment and asset management;
- an executive director since January 2012 at Beijing Yimingxin Venture Capital Management Co., Ltd. (北京醫銘新創投資管理有限公司), a company primarily engaged in investment and asset management;
- an executive director since July 2020 at Frontier (Suzhou) Medical Technology Innovation Service Co., Ltd. (前沿(蘇州)醫學技術創新服務有限公司);
- an executive director since December 2017 at Suzhou Innomd Medical Technology Service Co., Ltd. (蘇州英諾邁醫學科技服務有限公司), a company primarily engaged in provision of integrated solutions in respect of medical devices;
- a director since October 2017 at Xian Glodmag Nano Biotechnology Co., Ltd. (西安金磁納米生物技術有限公司), a company primarily engaged in development of nanomedicine; and
- a director since December 2017 at Diabesen (Beijing) Technology Co., Ltd. (戴雅貝森(北京)科技有限公司).

Mr. Jiang also served as the president from March 2003 to January 2010 and later an executive vice president at China Association for Medical Devices Industry (中國醫療器械行業協會), the president since June 2009 at China Strategic Alliance of Medical Device Industry (中國醫療器械產業技術創新戰略聯盟), a deputy director of Biomedical Engineering Education Steering Committee of the Ministry of Education (教育部生物醫學工程專業教學指導委員會) since March 2018, and a director of Chinese Society of Biomedical Engineering (中國生物醫學工程學會) since December 2012.

Mr. Jiang received his master's degree in respiratory medicine in July 1992 and doctor's degree in cardiothoracic surgery in July 1995 from Air Force Medical University (空軍軍醫大學, formerly known as 第四軍醫大學) in the PRC. Mr. Jiang also obtained his second master's degree in business administration in Tsinghua University (清華大學) in the PRC in July 2006.

## Directors and Senior Management

**Mr. GUO Jian (郭建)**, aged 64, was appointed as an independent non-executive Director on March 7, 2020 with effect from June 4, 2020. Mr. Guo is primarily responsible for supervising and providing independent judgement to our Board.

Since 1985, Mr. Guo has been employed as a teaching faculty by Law School of Fudan University (復旦大學), and now being a professor of Law School of Fudan University. Since September 2017 and April 2016 respectively, Mr. Guo has been working as an independent director at Zhejiang Changsheng Sliding Bearing Co. Ltd. (浙江長盛滑動軸承股份有限公司), a sliding bearings manufacturing company whose shares are listed on the Shenzhen Stock Exchange (stock code: 300718), and Ailex Technology Group Co., Ltd (藍怡科技集團股份有限公司, formerly known as Shanghai Ailex Technology Co., Ltd.), a medical technology company whose shares were listed on the NEEQ (stock code: 834099).

Mr. Guo received his bachelor's degree in history from East China Normal University (華東師範大學) in the PRC in January 1982 and master's degree in history of law from Fudan University (復旦大學) in the PRC in September 1985.

**Mr. CHEN Weibo (陳衛波)**, aged 47, was appointed as an independent non-executive Director on March 7, 2020 with effect from June 4, 2020. Mr. Chen is primarily responsible for supervising and providing independent judgement to our Board.

Mr. Chen has more than 20 years of experience in accounting and financial management. From September 1995 to May 2006, Mr. Chen served as an accountant at overseas department of Zhejiang Construction Investment Group Company Limited (浙江省建設投資集團有限公司). Mr. Chen was employed by Sanchuan Holding Group Limited (三川控股集團有限公司, formerly known as 三川控股有限公司 or 浙江中大三川水電發展有限公司) and served as a manager of audit department from July 2006 to June 2007 and the chief financial officer from July 2007 to August 2009. From September 2009 to June 2016, Mr. Chen served as a teacher at Hangzhou Wanxiang Polyteaching College (杭州萬向職業技術學院) and later re-joined the overseas division of Zhejiang Construction Investment Group Company Limited (浙江省建設投資集團有限公司) as a deputy manager of overseas finance department. Mr. Chen has been serving as a joint secretary and a secretary to the board at Sunlight Technology Holdings Limited (深藍科技控股有限公司), a material technology company whose shares are listed on the Stock Exchange (stock code: 1950), and Zhejiang Sunlight Material Technology Co., Ltd. (浙江深藍新材料科技有限公司) since April 2019 and July 2016, respectively.

Mr. Chen received his bachelor's degree in accounting from Zhejiang University of Finance & Economics (浙江財經大學, formerly known as 浙江財經學院) in the PRC in July 1995. Mr. Chen was conferred the qualification of senior accountant by the Zhejiang Province Human Resources and Social Security Department (浙江省人力資源和社會保障廳) in April 2009. Mr. Chen has also been a non-practicing member of the Zhejiang Institute of Certified Public Accountants (浙江省註冊會計師協會) since December 2009. Mr. Chen obtained his ACCA Advanced Diploma in Accounting and Business from the Association of Chartered Certified Accountants in June 2017.

## Directors and Senior Management

### SENIOR MANAGEMENT

**Mr. ZHONG Ming (鍾鳴)**, aged 45, was appointed as our chief executive officer on August 24, 2004. Mr. Zhong is responsible for overall management of the business of our Group. See above for his biography.

**Ms. SHENTU Yinguang (申屠銀光)**, aged 41, was appointed as our vice general manager on November 8, 2016. Ms. Shentu is responsible for human resources and administration of our Group. See above for her biography.

**Ms. Frances Fang CHOVANEC**, aged 42, was appointed as our chief financial officer on March 7, 2020. Ms. Chovanec is primarily responsible for the management of financial affairs and investor relations of our Group. See above for her biography.

**Mr. CHENG Da (程達)**, aged 43, was appointed as our vice general manager on March 1, 2011. Mr. Cheng joined our Group in March 2011 and has worked as a vice general manager at Hangzhou Kangji. Mr. Cheng is primarily responsible for product registration and international business of our Group.

Before joining our Group, Mr. Cheng served as a department head at Terumo Medical Products (Hangzhou) Co., Ltd. (泰爾茂醫療產品(杭州)有限公司) from July 2001 to February 2006, where he was mainly responsible for technology management and product development. From March 2006 to February 2011, Mr. Cheng served as a vice general manager at Hangzhou Fushan Medical Appliances Co., Ltd. (杭州富善醫療器械有限公司), where he was primarily responsible for establishing and maintaining company quality control system and managing technology and quality department.

Mr. Cheng received his bachelor's degree in chemistry from Nankai University (南開大學) in the PRC in June 2001.

**Mr. YUE Jiqiang (岳計強)**, aged 41, was appointed as our vice general manager on May 16, 2009. Mr. Yue joined our Group in May 2009 and has worked as a vice general manager at Hangzhou Kangji. Mr. Yue is mainly responsible for research and development of our Group.

From September 2002 to February 2004, Mr. Yue served as a manager at Hangzhou Kangyou Medical Equipment Co., Ltd. (杭州康友醫療設備有限公司), where he was primarily responsible for research and development. From December 2004 to April 2009, Mr. Yue served as a manager at Hangzhou Optcla Medical Instrument Co., Ltd. (杭州光典醫療器械有限公司), where he was primarily responsible for research and development.

Mr. Yue received his college degree in machine manufacturing from Huabei Mechanical and Electrical Secondary School (華北機電學校) in the PRC in June 2001.

**Mr. TANG Wenpeng (唐文鵬)**, aged 46, was appointed as our vice general manager on March 5, 2018. Mr. Tang joined our Group in March 2017 and has worked as a vice general manager and manager of quality control department at Hangzhou Kangji. Mr. Tang is mainly responsible for production and quality control of our Group.

Mr. Tang served as a department head at Terumo Medical Product (Hangzhou) Co., Ltd. (泰爾茂醫療產品(杭州)有限公司), where he was primarily responsible for quality control, from April 2000 to September 2009. From October 2009 to March 2017, Mr. Tang served as a vice general manager at Jiangxi Fenglin Medical Device Co., Ltd. (江西豐臨醫用器械有限公司), where he was mainly responsible for production and quality control.

Mr. Tang received his bachelor's degree in polymer materials from Shanghai Jiao Tong University (上海交通大學) in the PRC in July 1996.

## Directors and Senior Management

**Mr. YIN Zixin (尹自鑫)**, aged 35, was appointed as our vice general manager and one of our joint company secretaries on March 7, 2020. Mr. Yin joined our Group in September 2016 as a general manager assistant and has acted as the secretary to the board since November 8, 2016 at Hangzhou Kangji. Mr. Yin is mainly responsible for investor relationships, investment and corporate governance matters of our Group.

Before joining our Group, from July 2008 to October 2010, Mr. Yin served as a department manager at Hangzhou Yingce Enterprise Management and Consultation Co., Ltd. (杭州英策企業管理諮詢有限公司), where he was primarily responsible for product and business development. From November 2010 to August 2016, Mr. Yin worked as an investment manager and assistant to the chairman of the board at Wanma United Holding Group Co., Ltd. (萬馬聯合控股集團有限公司), where he was primarily responsible for investment and M&A.

Mr. Yin received his bachelor's degree in economics and management from Zhejiang University of Finance & Economics (浙江財經大學) in the PRC in June 2008.

**Mr. JU Jianyong (雒建勇)**, aged 45, joined the Group on January 1, 2021 as head of domestic sales and marketing. Mr. Ju began his career as a clinician in pediatrics, and then moved to work in sales in the medical industry.

Mr. Ju has extensive expertise in academic promotions across multiple specialties such as obstetrics and gynaecology, Urology, Oncology, and Pediatrics. Prior to joining the Group, Mr. Ju worked in Nanjing Dongyuan Pharmaceutical Co., Ltd. (南京東元製藥有限公司), Beecham Group, Hainan Zambon Pharmaceutical Co., Ltd (海南贊邦製藥有限公司), Beijing Biote Pharmaceutical Co., Ltd (北京博恩特藥業有限公司) and served a series of sales positions, including sales representative, district sales manager, regional manager, sales director and head of sales and marketing, mainly responsible for leading sales team and product promotion and marketing work.

Mr. Ju graduated from Anhui Medical University (安徽醫科大學) with a bachelor's degree in clinical medicine in 1998.

### COMPANY SECRETARIES

**Mr. YIN Zixin (尹自鑫)**, aged 35, was appointed as one of our joint company secretaries on March 7, 2020. See his biography above for details.

**Ms. LEUNG Shui Bing (梁瑞冰)**, aged 43, one of our joint company secretaries, was appointed on March 7, 2020. Ms. Leung currently serves as a manager of listing services department at TMF Hong Kong Limited (達盟香港有限公司), a global corporate services provider. She has over 15 years of experience in corporate secretarial field. Ms. Leung is currently a joint company secretary of Shanghai Kindly Medical Instruments Co., Ltd. (上海康德萊醫療器械股份有限公司) (stock code: 1501) and IntelliCentrics Global Holdings Ltd. (stock code: 6819), both of which are companies listed on the Stock Exchange.

Ms. Leung obtained her bachelor's degree in business and management studies (accounting and finance) from the University of Bradford in the United Kingdom in July 2008, and master's degree in corporate governance from the Open University of Hong Kong in August 2017. Ms. Leung is an associate member of both of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.



## Report of the Directors

The Board is pleased to present this Directors' Report together with the consolidated financial statements of the Group for the year ended December 31, 2020.

### GENERAL INFORMATION

Our Company was incorporated in the Cayman Islands on February 12, 2020, as an exempted company with limited liability under the Cayman Companies Law. With the approval from the Registrar of Companies in Hong Kong on April 3, 2020, the Company started to operate business under the name of “Kangji Medical Holdings Limited 康基医疗控股有限公司” in Hong Kong.

The Company was listed on the Main Board of the Stock Exchange on June 29, 2020 with stock code 9997.

### PRINCIPAL ACTIVITIES

The principal activities of the Company are to design, develop, manufacture and sell a comprehensive suite of MISIA that are focused on the surgical specialties of OBGYN, urology, general surgery and thoracic surgery. There were no significant changes in the nature of the Company's principal activities during the Reporting Period.

### BUSINESS REVIEW AND RESULTS

A review of the business of the Group during the Reporting Period is provided in the section headed “Business Review” under “Management Discussion and Analysis” of this annual report. An analysis of the Group's performance during the Reporting Period is provided in the section headed “Financial Review” under “Management Discussion and Analysis” of this annual report.

The results of the Group for the Reporting Period are set out in the consolidated financial statements of this annual report.

### PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

#### Market Risks

In recent years, the healthcare regulatory framework in China has undergone significant changes, including, with respect to quality control, supply, pricing and tender process for medical devices. The medical device's centralized procurement process and execution of other regulatory policies at national or regional level may put pressure on the retail prices of our products and adversely affect our business, financial condition and results of operations. There have been and may continue to be proposals from legislators, regulators and third party payors to lower medical costs. Legislators, regulators, and third-party payors have attempted and may continue to attempt to control costs by limiting the scope of reimbursement schemes and/or the amount of reimbursement for medical devices. If such policies affect our products, we will analyze each situation based on key factors such as potential decline in retail price, ex-factory price, market share, distributor network and coverage of the local markets, in order to decide on the best sales course of action for the Company to take advantage of opportunities and mitigate potential impact on our business.

#### Financial Risks

The Group's principal business operations are exposed to a variety of financial risks including but not limited to credit risk, currency risk, interest rate risk, and liquidity risks. The Group's financial risk management objectives and policies are set out in note 34 to the consolidated financial statements.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

## Report of the Directors

### MAJOR CUSTOMERS AND SUPPLIERS

For the Reporting Period,

- (i) the Group's largest supplier accounted for 8.4% (2019: 12.4%) of its total purchases, and the five largest suppliers accounted for 27.5% of its total purchases (2019: 38.9%); and
- (ii) the Group's largest customer accounted for 25.6% (2019: 24.4%) of its total sales, and the five largest customers accounted for 44.8% of its total sales (2019: 42.2%).

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 13 to the consolidated financial statements.

### SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 25 to the consolidated financial statements.

### DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to the shareholders of the Company as at December 31, 2020 amounted to RMB2,786.8 million.

### BANK AND OTHER BORROWINGS

As of December 31, 2020, the Group did not record any bank and other interest bearing borrowings.

### EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Pre-IPO Share Option Plan and RSU Plan" below, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Reporting Period or subsisted at the end of the Reporting Period.

## Report of the Directors

### DIRECTORS

The Directors during the Reporting Period and up to the date of this Directors' Report were:

#### Executive Directors

Mr. ZHONG Ming (Chairman of the Board)

Ms. SHENTU Yinguang

Ms. Frances Fang CHOVANEC\*

#### Non-executive Directors

Ms. CAI Li

Mr. CHEN Gang

#### Independent Non-executive Directors

Mr. JIANG Feng

Mr. GUO Jian

Mr. CHEN Weibo

\*Note: Ms. Frances Fang CHOVANEC was appointed as one of the Company's executive directors with effect from November 5, 2020.

### DIRECTORS' BIOGRAPHICAL DETAILS

Details of Directors are set out in "Director and Senior Management" of this annual report. Save as disclosed in that section, up to the date of this annual report, there were no changes to information which are required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

### DIRECTORS' SERVICE CONTRACTS

Except for Ms. Frances Fang CHOVANEC, each of the executive Directors has entered into a three-year service contract with the Company and effective from their respective appointment dates and subject to retirement by rotation and re-election at annual general meetings of the Company. The appointment of Ms. Frances Fang CHOVANEC was effective from her appointment date to the date of the next general meeting of the Company, and subject to retirement by rotation and re-election at annual general meetings of the Company. Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company which commenced from their respective appointment dates for an initial term of three years.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## Report of the Directors

### COMPETING INTEREST AND OTHER INTEREST

Save for their respective interests in the Group, none of the Directors, and the Controlling Shareholders were interested in any business which competes or is likely to compete with the businesses of the Group during the Reporting Period.

During the Reporting Period, no Directors had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party.

During the Reporting Period, the Group has not entered into any other contract of significance with the Controlling Shareholders or any of their respective subsidiaries (other than the service contracts of Directors and senior management).

### CONNECTED TRANSACTIONS

Details on related party transactions for the year ended December 31, 2020 are set out in note 31 to the consolidated financial statements. There was no connected transaction nor continuing connected transaction of the Group which has to be disclosed in accordance with the Chapter 14A of the Listing Rules and the Company has complied with the requirements in the Chapter 14A of the Listing Rules during the Reporting Period.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

### REMUNERATION POLICY

The Remuneration Committee of the Company was set up for reviewing the Company's emolument policy and structure for all remuneration of the Directors and senior management of the Company, having regard to the Company's operating results, individual performance of the Directors and senior management and comparable market practices.

### REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors or other individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

### EMPLOYEES AND REMUNERATION POLICIES

A review of the employees and remuneration policies of the Group during the year are set out in the section headed "Management Discussion and Analysis" on page 15 of this annual report.

## Report of the Directors

### ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility in promoting a sustainable and environmental-friendly environment. We strive to minimize our environmental impact and to build our corporation in a sustainable way.

We are subject to environmental protection and occupational health and safety laws and regulations in China. In 2020, we complied with the relevant environmental and occupational health and safety laws and regulations in China and we did not have any incidents or complaints, which had a material and adverse effect on our business, financial condition or results of operations.

The environmental, social and governance report of the Company prepared in accordance with Appendix 27 of the Listing Rules is set out on pages 50 to 85 of this annual report.

### THE GROUP'S SUBSIDIARIES AND FACILITIES

During the Reporting Period, we conduct our business mainly through two subsidiaries in the PRC and one in Hong Kong. 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
Kangji Hong Kong	Hong Kong, PRC	December 21, 2015	100%	Wholesale, retail and distribution and business development and strategic investment

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. The total gross floor area of our manufacturing facilities amounted to 28,699 square meters (“sq.m.”).

As of December 31, 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 gross floor area of approximately 37,145.91 sq.m. Our buildings are primarily used as office buildings and manufacturing facilities.

As of December 31, 2020, we leased various properties in Beijing, Hangzhou, Jiangxi and Hong Kong with a total gross floor area of approximately 1,571.07 sq.m., which have been used as our office premises.

## Report of the Directors

### 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 <sup>(Notes 2)</sup>	408,500,000 (L)	32.62 (L)
	Interest of spouse <sup>(Notes 4)</sup>	231,500,000 (L)	18.49 (L)
Ms. Shentu Yinguang	Beneficiary of a trust <sup>(Notes 3)</sup>	231,500,000 (L)	18.49 (L)
	Interest of spouse <sup>(Notes 4)</sup>	408,500,000 (L)	32.62 (L)
Ms. Chovanec Frances Fang	Beneficial owner <sup>(Notes 5)</sup>	4,120,000 (L)	0.33 (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.
- (5) Ms. Chovanec is interested in the share options in respect of 4,120,000 underlying Shares granted to her in accordance with the Pre-IPO Share Option Plan adopted on May 6, 2020.

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.

## Report of the Directors

### 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>	55,065,000 (L)	4.39 (L)
LYFE Capital Fund-A, L.P.	Beneficial owner <i>(Notes 5)</i>	9,185,000 (L)	0.73 (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, under the SFO. 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 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.



## Report of the Directors

### 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 year ended December 31, 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

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.

### 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.

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

The following is a summary of the principal terms of the Pre-IPO Share Option Plan approved and adopted pursuant to the written resolutions of Shareholders of the Company dated May 6, 2020. The terms of the Pre-IPO Share Option Plan are not subject to the provisions of Chapter 17 of the Listing Rules.

##### (i) Purpose of the Option Plan

The purpose of the Option Plan is 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 or to increase this interest, by granting them options to purchase Shares (the “**Options**”, and each of them, an “**Option**”).

##### (ii) Who May Join

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

##### (iii) Maximum Number of Shares

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.

## Report of the Directors

### (iv) Term of the Option Plan and the Options

The Option Plan will expire on, and no Option may be granted pursuant to the Option Plan thereafter, the sixth anniversary of the date that the Option Plan is adopted and approved by the Shareholders of the Company and the remaining life of the Option Plan is around 5 years. In addition, the term of any Option granted under the Option Plan shall not exceed six years. All the granted but unexercised Options shall expire on the sixth anniversary of the grant date.

### (v) Exercise Price and Payment

The exercise price per Option shall be determined by the Administrator and set forth in the Option Agreement and subject to the rules or requirements of any applicable securities exchange (if any) which may be a fixed or variable price related to the fair market value of the Shares.

The Administrator shall determine the methods of payments by any Participant with respect to the exercise price of any Option granted under the Option Plan, including without limitation: (i) cash, check or cash equivalent; (ii) at the discretion of the Administrator and to the extent permitted by applicable laws, consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Option Plan; (iii) wire transfer; or (iv) other form of legal consideration acceptable to the Administrator.

### (vi) Exercise of Options

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.

All or a portion of exercisable Options shall be deemed exercised upon delivery of all of the notice, representations, foreign exchange registration files (if applicable) and certificate of payments, etc. as set out in the Option Plan, to the secretary of the Company, or such other person or entity designated by the Board, or his, her or its office, as applicable.

As of December 31, 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.

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 December 31, 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	Executive Director and 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%

## Report of the Directors

### (b) RSU Plan

The following is a summary of the principal terms of the Restricted Share Unit Plan (the “**RSU Plan**”) approved and adopted pursuant to the written resolutions of Shareholders of the Company dated May 6, 2020. The terms of the RSU Plan are not subject to the provisions of Chapter 17 of the Listing Rules.

#### (i) Purpose of the RSU Plan

The purpose of the RSU Plan is 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 or to increase this interest, by issuing them certain units of Shares with restrictive rights (the “**RSUs**”, and each of them, an “**RSU**”).

#### (ii) Who May Join

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

#### (iii) Maximum Number of Underlying Shares pursuant to the RSU Plan

The underlying Shares of the RSU Plan are ordinary Shares held by Fortune Spring KangJi 1 Limited (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 from time to time.

#### (iv) Term of the RSU Plan and the RSUs

The RSU Plan will expire on, and no RSU may be granted pursuant to the RSU Plan thereafter, the sixth anniversary of the date that the RSU Plan is adopted and approved by the Shareholders of the Company and the remaining life of the RSU Plan is around 5 years. In addition, the term of any RSU granted under the RSU Plan shall not exceed six years. All the granted but unvested RSUs shall expire on the sixth anniversary of the grant date.

#### (v) Vesting and Payment

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.

The consideration for vesting the RSUs shall be determined by the Administrator and set forth in the RSU Agreement and subject to the rules or requirements of any applicable securities exchange on which the Shares are listed (if any) which may be a fixed or variable price related to the fair market value of the underlying Shares.

All or a portion of granted RSUs shall be deemed vested upon delivery of all of the notice, representations, foreign exchange registration files (if applicable) and certificate of payments, etc. as set out in the RSU Plan, to the Secretary of the Company, or such other person or entity designated by the Administrator, or his, her or its office, as applicable.

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 ESOP BVI. As of December 31, 2020, 6 management team members and employees were approved by the Board to be grantees under the RSU Plan with a total of 21,190,000 underlying Shares under the RSU Plan.

## Report of the Directors

### MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year ended December 31, 2020, we did not have any material acquisition and disposal of subsidiaries.

### USE OF PROCEEDS FROM LISTING

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 the Listing Date.

Use of proceeds	Percentage of total net proceeds (%)	Planned applications (HK\$ million)	Planned applications (RMB million)	Revised application of total net proceeds <sup>(1)</sup> (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
<b>For expanding our production capacity and strengthen our manufacturing capabilities, including:</b>							
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
<b>For funding our R&amp;D activities, including:</b>							
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
<b>For investing in our sales and marketing activities, including:</b>							
to be used in our domestic sales and marketing activities <sup>(2)</sup>	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
<b>For funding potential strategic investment and acquisitions</b>	25.0	697.8	637.5	674.3	–	674.3	within the next five years
<b>For our working capital and general corporate purposes</b>	10.0	279.1	255.0	269.7	21.3	248.4	within the next four to six years
<b>Total</b>	<b>100.0</b>	<b>2,791.1</b>	<b>2,550.0</b>	<b>2,697.1</b>	<b>46.0</b>	<b>2,651.1</b>	

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.

## Report of the Directors

### LITIGATION AND COMPLIANCE

The Company is a holding company incorporated in the Cayman Islands with major operations in Mainland China and Hong Kong. To the best knowledge of the Board, during the Reporting Period, the Group has complied with all relevant laws and regulations in Mainland China, the Cayman Islands and Hong Kong in all material aspects. No litigation or claim of material importance is pending or threatened against any member of our Group.

### ANNUAL GENERAL MEETING

The AGM 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.

### 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.

### 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.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Memorandum and Articles of Association or the Cayman Companies Law which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

### TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's listed securities. If any of the Shareholders is unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares, he or she is advised to consult an expert.

## Report of the Directors

### PERMITTED INDEMNITY PROVISION

The Company has maintained appropriate liability insurance policies for its Directors and senior management since the Listing Date.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as of the date of this annual report, the Company has maintained the prescribed percentage of public float under the Listing Rules.

### AUDITOR

The financial statements for the year ended December 31, 2020 has been audited by Ernst & Young. A resolution for the re-appointment of Ernst & Young as the auditors of the Company for the 2021 financial statements will be proposed at the AGM.

### DONATION

During the year ended December 31, 2020, the Group made charitable and other donations amounting to RMB1,160,000.

### EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurred after the end of the Reporting Period are set out in note 35 to the consolidated financial statements.

### 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  
**ZHONG Ming**  
*Chairman of the Board*

Hangzhou, PRC  
April 26, 2021

## Corporate Governance Report

### CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report contained in the Company's annual report for the year ended December 31, 2020.

### CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders (“**Shareholders**”) of the Company and to enhance corporate value and accountability. The Company has adopted the code provisions of the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance from the Listing Date.

Save as disclosed in the section headed “Chairman and Chief Executive Officer” below, the Company has complied with all the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.



## Corporate Governance Report

### THE BOARD

#### Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee (the "**Audit Committee**"), the nomination committee (the "**Nomination Committee**") and the remuneration committee (the "**Remuneration Committee**") (together, the "**Board Committees**"). The Board has delegated to these Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal action against the Directors, and will conduct annual review on such insurance coverage.

### BOARD COMPOSITION

During the year ended December 31, 2020 and at the date of this annual report, the Board comprised three executive Directors, two non-executive Directors and three independent non-executive Directors as follows:

#### Executive Directors

Mr. ZHONG Ming (*Chairman*) (appointed on February 12, 2020)  
 Ms. SHENTU Yinguang (appointed on March 7, 2020)  
 Ms. Frances Fang CHOVANEC (appointed on November 5, 2020)

#### Non-executive Directors

Ms. CAI Li (appointed on March 13, 2020)  
 Mr. CHEN Gang (appointed on March 13, 2020)

#### Independent Non-executive Directors

Mr. JIANG Feng (appointed on June 4, 2020)  
 Mr. GUO Jian (appointed on June 4, 2020)  
 Mr. CHEN Weibo (appointed on June 4, 2020)

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

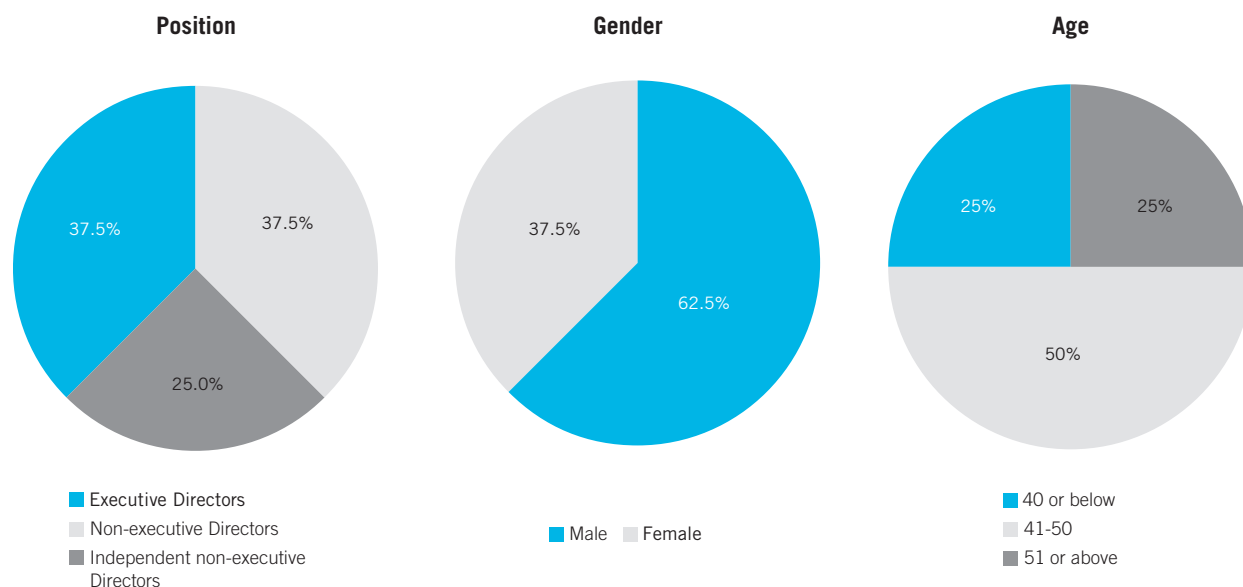
## Corporate Governance Report

During the period from the Listing Date to December 31, 2020, the Board has met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive Directors representing one-third of the Board. Each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

We have adopted the Board Diversity Policy which sets out the approach to achieve diversity on our Board in order to enhance the quality of its performance. The Board Diversity Policy provides that our Company should endeavour to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy. Pursuant to the Board Diversity Policy, we seek to achieve Board diversity through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. After Listing, our Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness and monitor and report annually in our corporate governance report about the implementation of the Board Diversity Policy.

As at December 31, 2020, the diversity profile of the Board is analyzed as follows:



Save as disclosed in the biographies of the Directors as set out in the section headed “Directors and Senior Management” of this annual report, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Directors or any chief executive.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and expertise to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

## Corporate Governance Report

As regards the code provision under the CG Code requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as their identity and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

### INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

All newly appointed Directors would be provided with necessary induction and information to ensure that they have a proper understanding of the Company's operations and businesses as well as their responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide the Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

The Company encourages continuous professional development training for all the Directors to develop and refresh their knowledge and skills. The joint company secretaries of the Company update and provide the Directors with written training materials in relation to their roles, functions and duties from time to time.

According to the information provided by the Directors, the training received by the Directors during the year ended December 31, 2020 is summarized as follows:

Name of Directors	Nature of continuous professional development courses
<b>Executive Directors</b>	
Mr. ZHONG Ming ( <i>Chairman</i> )	A
Ms. SHENTU Yinguang	A
Ms. Frances Fang CHOVANEC	A, B
<b>Non-executive Directors</b>	
Ms. CAI Li	A
Mr. CHEN Gang	A
<b>Independent Non-executive Directors</b>	
Mr. JIANG Feng	A
Mr. GUO Jian	A
Mr. CHEN Weibo	A

Notes:

A: attending training provided by lawyers or training related to the Company's business

B: reading materials on various topics, including corporate governance, responsibilities of directors, the Listing Rules and other related regulations

## Corporate Governance Report

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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.

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of our executive Directors, except Ms. Frances Fang CHOVANEC, has entered into a service agreement with our Company with an initial term of three years commencing from the Listing Date, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Ms. CHOVANEC has entered into a service contract with the Company for her appointment as an executive Director for an initial term from the date of appointment until the next general meeting of the Company, and is eligible for re-election at that meeting.

Each of our non-executive Directors and independent non-executive Directors has entered into an appointment letter with our Company for the initial term of three years commencing from March 13, 2020/June 4, 2020 (subject to re-election as and when required under the Articles of Association), and are subject to termination in accordance with the terms and conditions of the appointment letters.

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board's composition, and for making recommendations to the Board on the appointment, re-election and succession planning of Directors.

## Corporate Governance Report

### BOARD MEETINGS

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of no less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board meetings and Board Committee meetings, reasonable notice is generally given by the Company. The agenda and accompanying Board papers are dispatched at least three days before the Board meetings or Board Committee meetings to ensure that the Directors have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings shall be kept by the joint company secretary with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail on the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are open for inspection by all Directors.

During the Reporting Period, four Board meetings were held and the attendance of individual Director at the Board meetings are set out in the table below:

<b>Directors</b>	<b>Number of Actual Attendance at Board Meetings/ Number of Required Attendance at Board Meetings</b>
Mr. ZHONG Ming	4/4
Ms. SHENTU Yinguang	4/4
Ms. Frances Fang CHOVANEC	0/0
Ms. CAI Li	3/3
Mr. CHEN Gang	3/3
Mr. JIANG Feng	3/3
Mr. GUO Jian	3/3
Mr. CHEN Weibo	3/3

During the Reporting Period, no general meetings had been held and the Shareholders considered and approved the Company's affairs by way of written resolutions.

### COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Replying to the specific enquiry by the Company, all the Directors confirmed that they have fully complied with the requirements as set out in the Model Code from the Listing Date to December 31, 2020.

## Corporate Governance Report

### DELEGATION BY THE BOARD

The Board reserves for its decision on all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense. Directors are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

### CORPORATE GOVERNANCE FUNCTIONS

The Board confirmed that corporate governance should be the collective responsibility of the Directors, which includes:

- (a) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;
- (b) to review and monitor the training and continuous professional development of the Directors and senior management;
- (c) to develop, review and monitor the codes of conduct and compliance manuals applicable to employees and the Directors;
- (d) to develop and review the Company's corporate governance policies and practices, make recommendations and report on related issues to the Board; and
- (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

### BOARD COMMITTEES

Our Company has established three committees under the Board pursuant to the corporate governance practice requirements under the Listing Rules, including the Audit Committee, Remuneration Committee and Nomination Committee.

## Corporate Governance Report

### AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive Directors Mr. CHEN Weibo and Mr. JIANG Feng and one non-executive Director Ms. CAI Li. Mr. CHEN Weibo, being the chairman of the Audit Committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company. The Audit Committee's major duties and powers include:

1. make recommendations to the Board on the appointment, re-appointment, and/or removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and consider any questions of resignation or dismissal of that auditor;
2. monitor the integrity of financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;
3. oversee the Company's financial reporting system, risk management and internal control procedures; and
4. perform the Company's corporate governance functions, including reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and the training and continuous professional development of Directors and senior management.

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.

During the period from the Listing Date to December 31, 2020, the Audit Committee held two meetings to discuss and consider the following: review the report on the 2020 audit plan; review the interim financial statements for the six months ended June 30, 2020; review the Company's financial reporting process, risk management, internal control system and internal audit function; and meet separately with the external auditor to discuss any issues.

The attendance of these meetings by the Audit Committee members is set out in the table below:

Name of Directors	Number of attendance/ required attendance
Mr. CHEN Weibo	2/2
Mr. JIANG Feng	2/2
Ms. CAI Li	2/2



## Corporate Governance Report

### NOMINATION COMMITTEE

The Nomination Committee comprises one executive Director Mr. ZHONG Ming and two independent non-executive Directors Mr. JIANG Feng and Mr. GUO Jian. Mr. ZHONG Ming is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company. The Nomination Committee has the following duties and powers:

1. review the structure, number and composition (including the skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's strategy;
2. identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
3. assess the independence of independent non-executive Directors;
4. make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer;
5. review the Board Diversity Policy and any measurable objectives for implementing such Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives; and
6. where the Board proposes a resolution to elect an individual as an independent non-executive Director at the general meeting, the reasons why the Board believe he/she should be elected and the reasons why the Board consider the individual to be independent should be set out in the circular to Shareholders and/or an explanatory statement accompanying the notice of the relevant general meeting.

The Nomination Committee assesses, selects, and recommends candidates for directors to the Board on criteria such as credibility, success, and experience in the Company's industry, time available to be invested, benefits of sectors represented by the candidates, and the diversity the candidates will bring to the Board. The recommendations of the Nomination Committee will then be put to the Board for decision.

During the period from the Listing Date to December 31, 2020, the Nomination Committee held one meeting to discuss and consider the following: make recommendation to the Board on the appointment of Ms. Frances Fang CHOVANEC as an executive Director.

The attendance of the meeting by the Nomination Committee members is set out in the table below:

<b>Name of Directors</b>	<b>Number of attendance/ required attendance</b>
Mr. ZHONG Ming	1/1
Mr. JIANG Feng	1/1
Mr. GUO Jian	1/1

## Corporate Governance Report

### REMUNERATION COMMITTEE

The Remuneration Committee comprises two independent non-executive Directors, namely Mr. CHEN Weibo and Mr. GUO Jian, and one executive Director, namely Ms. SHENTU Yinguang. Mr. CHEN Weibo is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company. The Remuneration Committee shall have the following duties and powers:

1. make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
2. review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
3. determine, with delegated responsibility from the Board, the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
4. make recommendations to the Board on the remuneration of non-executive Directors;
5. consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group, assess performance of executive Directors, approve the terms of executive Directors and service contracts;
6. review and approve the compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
7. review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
8. ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration.

During the period from the Listing Date to December 31, 2020, the Remuneration Committee held one meeting to discuss and consider the following: review and approve the remuneration structure of the executive Directors.

Attendance of the members of the Remuneration Committee at the meeting is set out in the table below:

Name of Directors	Number of attendance/ required attendance
Mr. CHEN Weibo	1/1
Ms. SHENTU Yinguang	1/1
Mr. GUO Jian	1/1

## Corporate Governance Report

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the Directors of the Company during the year ended December 31, 2020 is set out in note 8 to the consolidated financial statements.

The remuneration of senior management of the Company (their biographies are set out on pages 21 to 22 of this annual report) for the year ended December 31, 2020 falls under the following bands:

<b>Band of remuneration</b>	<b>Number of individuals</b>
HK\$500,001 to HK\$1,000,000	2
HK\$1,000,001 to HK\$1,500,000	1
HK\$3,000,001 to HK\$3,500,000	1
HK\$4,000,001 to HK\$4,500,000	2
HK\$7,500,001 to HK\$8,000,000	1

### DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibilities for the preparation of the financial statements for the year ended December 31, 2020 which give a true and fair view of the state of affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided the Board with such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 86 to 89 of this annual report.

### DIVIDEND POLICY

The Company does not have a specific dividend policy or a predetermined dividend payout ratio. The determination to pay dividends in the future would be made at the discretion of the Board and would be based on the Group's profits, cash flows, financial condition, capital requirements and other conditions that the Board deems relevant. The payment of dividends may be limited by other legal restrictions and agreements that the Group may enter into in the future.

## Corporate Governance Report

### INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard Shareholders' investments and the Group's assets and reviewing the effectiveness of such system on an annual basis. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance that there will be no material misrepresentation or losses.

The Board takes responsibilities for the risk management and internal control systems and is responsible for reviewing the effectiveness of such systems. The Audit Committee, as delegated by the Board, has reviewed the effectiveness of the internal control systems of the Group for the Reporting Period, which covered all material controls, including financial, operational and compliance controls and risk management functions.

The relevant departments of the Company are responsible for the implementation of the risk management policies and daily risk management practices. In order to standardize the risk management across the Group and establish standards of transparency and risk management performance, the relevant departments are responsible to (i) collect data on risks related to their operation and work; (ii) conduct risk assessment, including the identification, prioritization, measurement and categorization of all major risks which may have potential impacts on achieving their objectives; (iii) regularly report to management on the implementation of risk management and internal control policies; (iv) continuously monitor major risks related to the Company's operations; (v) implement appropriate risk response measures where necessary; and (vi) formulate and implement appropriate mechanisms to facilitate the application of the risk management framework.

The Company has developed and adopted various risk management procedures and internal control process with defined rights and responsibilities for each key business and function department, including sales and collection management, procurement and payment management, inventory management, fixed assets management, human resources and remuneration management, capital management, contract management and information system management.

The implementation of risk management of the Group is assisted by the Group's internal audit function so that the Group could ensure emerging risks relevant to the Group's operation are promptly identified by the management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. The management of the Group reviews all significant control policies and procedures and highlights all significant matters to the Board and the Audit Committee.

The Company has set up policies for information disclosure, providing comprehensive guidance to Directors, senior management and relevant employees of the Company on handling confidential data, overseeing data disclosure and responding to enquiries. The Company has implemented control procedures to ensure that unauthorized access to and use of inside information are strictly prohibited.

The Board has reviewed the effectiveness of the Group's risk management and internal control systems through the Audit Committee, including the adequacy of resources, staff qualifications and experience of the above systems and accounting and financial reporting and internal auditing functions of the Company, as well as the adequacy of training programmes and budget for the above staffs. The Board was of the view that the Group's risk management and internal control systems, including financial, operational and compliance control, were effective and adequate during the Reporting Period. The Board also plans to further make personnel supplement and upgrades to related function units.

## Corporate Governance Report

### AUDITOR'S REMUNERATION

The auditor's approximate remuneration in respect of the audit and non-audit services provided to the Company for the year ended December 31, 2020 is as follows:

Type of services (Note)	Amount (RMB' 000)
Audit services	2,600
Non-audit services:	
– Tax advisory	270
– Environmental, social and corporate governance advisory	150
Total	3,020

Note: The services do not include those rendered by the auditor as reporting accountants in connection with the initial public offering of the Company during the year.

### JOINT COMPANY SECRETARIES

Mr. YIN Zixin (“**Mr. Yin**”), a joint company secretary and vice general manager of the Company, is responsible for making recommendations to the Board on corporate governance matters, and ensuring compliance with the policies and procedures of the Board and applicable laws, rules and regulations.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. LEUNG Shui Bing (“**Ms. Leung**”), TMF Hong Kong Limited (a company secretarial service provider), as another joint company secretary to assist Mr. Yin in performing his duties as the company secretary of the Company. Her primary contact person in the Company is Mr. CHEN Jiale, a securities affair specialist.

For the year ended December 31, 2020, Mr. Yin and Ms. Leung had undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

### COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONSHIP

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance, and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information on the Company for the Shareholders and investors to make informed investment decisions.

The AGMs provide opportunity for Shareholders to communicate directly with the Directors. The chairman of the Company and the chairmen of the Board Committees of the Company will attend the AGMs to answer Shareholders' questions. The auditor will also attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies, and auditor's independence.

To promote effective communication and to build an inter-relationship and communication channel between the Company and the Shareholders, the Company adopts a Shareholders' communication policy and maintains a website at [www.kangjimedical.com](http://www.kangjimedical.com), where the up-to-date information on the Company's business operations and developments, financial information, corporate governance practices, and other information are available for public access.

## Corporate Governance Report

### SHAREHOLDERS' RIGHTS

To safeguard the Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

The Articles of the Company has been amended and restated with effect from the Listing Date.

### CONVENING AN EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

According to the Articles of Association, the Shareholders may put forward proposals at the general meetings of the Company for consideration. Any one or more Shareholder(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the joint company secretaries of the Company, to require an extraordinary general meeting to be convened by the Company for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to convene such general meeting shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

### ENQUIRIES TO THE BOARD

Shareholders who intend to put forward their enquiries about the Company to the Board may send their enquiries to the Office of the Board at the Company's headquarters through telephone at +86 571 6990 0020 and email at [ir@hzkangji.com](mailto:ir@hzkangji.com).

### AMENDMENTS TO CONSTITUTIONAL DOCUMENT

Save for the Articles of Association of the Company conditionally adopted on June 8, 2020 with effect from the Listing Date, there was no change in the constitutional documents of the Company since the Listing Date and up to December 31, 2020.

# Environmental, Social and Governance Report

## ABOUT THE REPORT

### Report Overview

This Report is the first environmental, social and governance (hereinafter referred to as “ESG”) report issued by Kangji Medical Holdings Limited (hereinafter referred to as “the Company” or “Kangji Medical”), focusing on disclosing the ESG management and performance of Kangji Medical and its subsidiaries (hereinafter referred to as the “Group” or “we”). This Report is an annual report covering the work from January 1, 2020 to December 31, 2020 (hereinafter referred to as the “Reporting Period”).

### Preparation Basis

This Report was prepared in accordance with the revised Environmental, Social and Governance Reporting Guide published in December 2015 as set out in Appendix 27 to the Listing Rules of The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Hong Kong Stock Exchange”). The content of this Report was determined in accordance with a set of systematic procedures. Such procedures include identifying and ranking key stakeholders, identifying and ranking key ESG-related issues, determining the coverage of ESG report, collecting relevant materials and data, and preparing report based on the materials, examining the information in the report, etc.

### Scope and Coverage of the Report

The policy documents, statements and data in this Report cover the headquarters of the Company and the subsidiaries and holding companies actually controlled by the Company, unless otherwise specified. The previous data quoted in this Report are the final statistics, and the financial data in this Report are denominated in RMB.

### Reliability Guarantees

After being confirmed by the management, this Report was adopted by the Board of Directors on March 25, 2021. The Group ensures that this Report contains no false records, misleading statements or material omissions. We undertake to be responsible for the authenticity, accuracy and completeness of this Report.

### Access and Response to the Report

Traditional Chinese and English versions of this Report are available. The electronic version of this Report can be obtained from the “Financial Statements/Environmental, Social and Governance Information” category of Kangji Medical on the Stock Exchange’s website and the “Investor Relations” section of the Group’s official website (<http://www.kangjimedical.com/>). If you have any questions or suggestions on the content of this Report, please contact us by following means:

Tel: (+86) 571 69900020

E-mail: [ir@hzkangji.com](mailto:ir@hzkangji.com)



## Environmental, Social and Governance Report

### 1. Being Pragmatic and Earnest, and Responsible for the Future

#### 1.1 About us

Founded in August 2004, the Group is a high-tech enterprise specializing in R&D, production and sales of minimally invasive surgical instruments and accessories (MISIA). Adhering to the mission of “enable physicians and improve health and wellness of patients through providing high performing and accessible products and services”, the Group provides one-stop solutions for minimally invasive surgery across surgical specialities such as gynaecology and obstetrics, general surgery, urology and thoracic surgery through its extensive product portfolio.

In 2020, the Group’s products have been sold to more than 3,000 hospitals (including more than 1,000 Grade IIIA hospitals) in China through its extensive sales network, covering all provinces, municipalities and autonomous regions in the Chinese mainland. The products were also sold to 33 other countries and regions outside of China. On June 29, 2020, the Company was successfully listed on the Main Board of the Hong Kong Stock Exchange.



Listing of Kangji Medical on the Main Board of the Hong Kong Stock Exchange

## Environmental, Social and Governance Report

### Major Honors

The list of the Group's honors received in 2020 is as follows:

No.	Honours Received	Issuing Organization	Time of Issuance
1	Per-Mu Benefit Pacemaker of Zhejiang Manufacturing Enterprises	Leading Group of "Per-Mu Hero" Reform in Zhejiang (浙江省深化“畝均論英雄”改革工作領導小組)	February 2020
2	Top 10 Industrial Enterprises in Tonglu County in 2019	People's Government of Tonglu County	March 2020
3	Top 10 Industrial Enterprises for Per-Mu Contribution in Tonglu County in 2019	People's Government of Tonglu County	March 2020
4	Enterprise with a Tax Contribution of over RMB100 Million in Tonglu County for the First Time in 2019	People's Government of Tonglu County	March 2020
5	Zhejiang AAA-rated "Contract-abiding and Credit-valuing" Enterprise	Administration for Market Regulation of Zhejiang Province	August 2020
6	Enterprise Contributing to Epidemic Containment	Zhejiang Provincial Association for Medical Equipment Industry	August 2020

### 1.2 ESG management

The Group has embedded the concept of social responsibility into our strategic development objectives and implemented it in the daily operation management and innovation activities of the Group. To ensure the effectiveness of ESG management, the Group has formed a top-down ESG management structure. The ESG management structure consists of the Board of Directors, the ESG Working Committee and the ESG Working Group, with a clear division of responsibilities and coordination at all levels. Among which, the ESG Working Committee of the Group, comprising Frances Fang Chovanec, executive director and chief financial officer of the Group, Tang Wenpeng, deputy general manager and Yin Zixin, deputy general manager and company secretary, directly participate in the Group's ESG management work from the perspective of Directors and senior management.

#### Stakeholder Communication

The Group believes that making progress together with stakeholders is the long-term driving force for our development. In order to fully understand the needs of stakeholders and listen to the expectations and requirements on the Group from all walks of life, the Group identifies stakeholders closely related to the development of the Company based on its business scope and nature of production and operation. The Group has built diversified communication channels, established a real-time, effective and long-term communication mechanism, and responded to stakeholders with concrete actions. During the Reporting Period, the Group promoted the participation of stakeholders in the process of major decision-making and other strategic adjustments through various offline and online channels, so as to make more effective management decisions.

## Environmental, Social and Governance Report

The types of stakeholders that are important to the Group's business operation, issues that stakeholders are concerned about, and the Group's communication channels are shown in the table below:

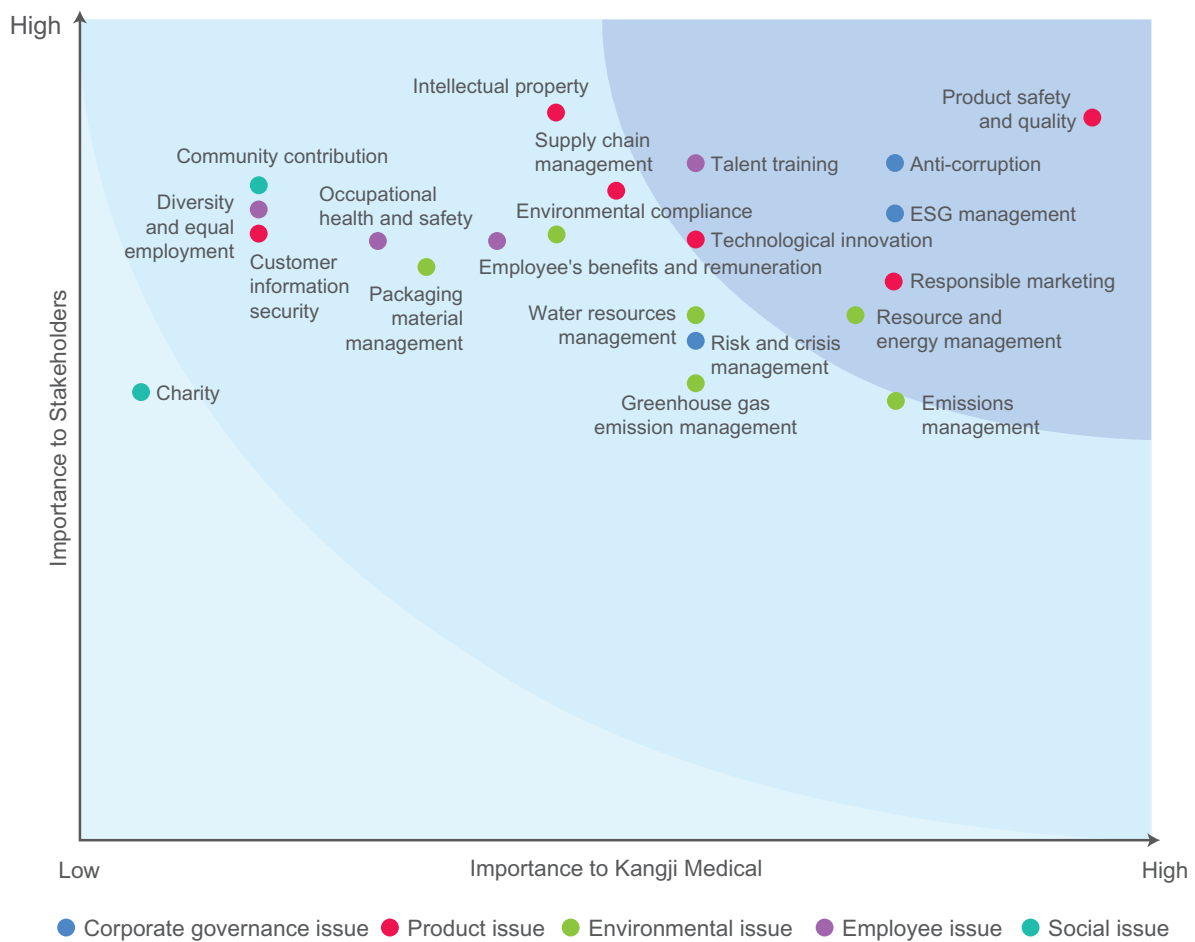
Stakeholders	Major Issues of Concern	Ways of Communication and Response	Frequency
Shareholder/ investor	Economic performance	– Shareholders' general meeting	Shareholders' general meeting is held at least once a year
	Legal and regulatory compliance	– Investor's meeting	
	Risk management	– Earnings call	Investor meetings and site visits are held from time to time
		– Press release/announcement	
		– On-site visit and meeting	
Government/ regulators	Legality and compliance	– On-site visit and meeting	Occasional
	Information security	– Talks	
	Anti-corruption		
Partners	Intellectual property rights management	– On-site visit and meeting	Occasional
	Information security	– Conferences	
	Industrial exchanges		
Customers/ medical institutions	Information security	– Online promotion	Occasional
	Quality of customer service	– Phone/e-mail	
	Management of sensitive customer information	– WeChat/microblog	
		– Questionnaires	
		– Symposium	
Employees	Remuneration and benefits	– Employee interview	Occasional
	Staff health and safety	– Internal e-mail	
	Staff development and training	– Internal WeChat public account	
Media	Legality and compliance	– Press release/announcement	Occasional
	Impact of business on society	– Interview	
		– Meeting	
Community public	Community contribution	– On-site visit and meeting	Occasional
	Charity	– Conferences	

# Environmental, Social and Governance Report

## Analysis of Major Issues

During the Reporting Period, we ranked the priorities of various issues based on the results of media analysis, industry benchmarking and questionnaires from internal and external stakeholders, from the perspectives of impact on the strategic operation of the Group and the impact on stakeholders. We identified seven ESG issues of high importance, 13 ESG issues of medium importance and one ESG issue of relatively lower importance to the Group. The ESG issues of high priority constitute a key part of this Report.

Matrix of Major Issues



Issues of high importance (7)		Issues of medium importance (13)			Issue of low importance (1)
Anti-corruption	ESG management	Occupational health and safety	Employee's benefits and remuneration	Diversity and equal employment	Charity
Product safety and quality	Responsible marketing	Supply chain management	Intellectual property	Customer information security	
Resource and energy management	Technological innovation	Environmental compliance	Greenhouse gas emission management	Packaging material management	
Talent training		Emissions management	Water resources management	Risk and crisis management	
		Community contribution			

## Environmental, Social and Governance Report

### 1.3 Anti-Corruption

The Group strictly complies with the Criminal Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China and other laws and regulations, establishes multiple effective channels for reporting and appealing, continuously promotes integrity education and strictly prevent the occurrence of corruption events to ensure the Group's compliance and sustainable operation.

During the Reporting Period, the Group had no corruption cases transferred to the judiciary.

#### Reporting and Appealing

A good and smooth complaint reporting channel can ensure the enthusiasm and initiative of the public in reporting issues. The Group announces its telephone number and e-mail to receive letters and visits from the public to ensure smooth reporting of issues by the public. In addition, in the process of promoting integrity, the Group requires the signing of the Letter of Commitment on Anti-Commercial Bribery with suppliers and distributors to regulate cooperation with them through two-way supervision.

#### Integrity Training

Driven by the characteristics of the industry, the Group puts great emphasis on supervising and implementing best practices necessary for promoting sound development. We adopt a combination of positive guidance and negative warning, and make extensive use of various means to actively carry out anti-corruption publicity and education and to improve the effectiveness of education. During the Reporting Period, the Group provided education and training to all employees involved in sales function to enhance their anti-corruption awareness.

## 2. Quality Products and Attentive Services

The Company has always made its mission to enable physicians and improve health and wellness of patients through providing high performing and accessible products and services, and continuously optimizes the quality management system and integrates a culture of quality into the daily work of its employees. At the same time, we continue to improve our professional service capacity, optimize customer service experience, and further improve customer satisfaction.

### 2.1 Product Quality

We believe that the quality, safety and reliability of our products are essential to our continued success. We stick to the principle of quality first. In the process of production and operation, we fully implement such regulations as the Regulation on the Supervision and Administration of Medical Devices, the Regulations of Medical Devices and the Administrative Measures on the Production of Medical Devices, the Administrative Measures for the Registration of Medical Devices, the Production Measures and the Standards on Production and Quality Management of Medical Devices and the Good Clinical Practice for Medical Devices Trials.

#### Quality Management Systems

We have established a high-standard quality management system to carry out comprehensive quality control throughout the product life cycle from R&D to raw material management, product production, quality control, product supply chain management and product post-launch tracking. We have passed ISO 9001 quality management system, ISO 13485 medical device quality management system and CE certification. Meanwhile, we have formulated the Product Monitoring and Measurement Control Procedure 《產品監視和測量控制程序》 to standardize the inspection and test management standards and procedures for the whole life cycle of products, and define the responsibilities of relevant implementers and responsible persons.

## Environmental, Social and Governance Report

### Quality Control Plan across Product Life Cycle

Tracking system of raw materials and production process	Suppliers and raw materials	Production	Finished products	Customer complaints
<ul style="list-style-type: none"> <li>Assign a lot number specific to each batch of products</li> <li>Record the following information:                             <ul style="list-style-type: none"> <li>» Date of manufacturing and packaging</li> <li>» Date and result of quality control inspection</li> <li>» Date of shipping</li> <li>» Source of raw materials</li> <li>» Information of suppliers and distributors</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Select qualified suppliers for procurement in accordance with internal supply management policy</li> <li>Conduct sampling inspection on the quality of each batch of delivered raw materials</li> <li>Return raw materials below quality standards to the suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Establish quality control points for key processes</li> <li>Perform functional inspection of products before packaging</li> <li>Periodically inspect and maintain production equipment as per Control Procedure for Monitoring and Measuring Devices</li> <li>Routine and temporary quality inspections</li> <li>Exclude products below standards from production line</li> </ul>	<ul style="list-style-type: none"> <li>The quality control department conducts the last inspection of products before delivery, and its inspection content includes:                             <ul style="list-style-type: none"> <li>» Appearance</li> <li>» Function</li> <li>» Safety</li> <li>» Sterilization</li> </ul> </li> <li>For disposable products, samples shall be stored for no shorter than their design life</li> </ul>	<ul style="list-style-type: none"> <li>Investigate each customer complaint and make recommendations to improve the production process</li> </ul>

### Product Quality Inspection Process

Receiving inspection and test	The inspection, test or verification methods are adopted for the raw materials, packaging materials, parts and components purchased from the suppliers according to the regulations
Process Inspection and Test	Perform required inspections and tests on items in relation to the semi-finished products in the production process
Ex-Factory Inspection and Test	Ex-factory inspections (batch inspections) are made compulsory for each batch of products before leaving the factory, and the items of the ex-factory inspection shall be executed in accordance with regulations
Periodic Inspection	Products that are subject to periodic inspections are inspected as per standards and regulations

## Environmental, Social and Governance Report

We have established quality control points in the key processes of product manufacturing. Intermediate products can only be granted access to the next process after being sample tested. In this case, potential quality issues in the key process can be identified and prevented in a timely manner, which effectively ensures and improves the quality of the finished products and consistency of product quality.

### Sub-standard Product Management

The Group has established the Control Procedures for Sub-standard Products and Control Procedures for Corrective and Preventive Measures. When sub-standard products are identified in various inspections and tests, regulations have been strictly followed to address the sub-standard products, and corrective and preventive measures have been taken. In case of product accidents or serious consequences caused by products suspected of quality defects, we will issue notices and recall products in accordance with the Control Procedures for Medical Device Notification and Recall formulated by the Group to prevent the recurrence of similar accidents and potential harm, so as to mitigate the impact and consequences of the accident.

Meanwhile, we have formulated the Control Procedure for Adverse Event Reporting to control the monitoring and reporting of quality accidents and adverse events to ensure that, for products that are approved for marketing and under normal use, any occurrence or possible occurrence of harmful incidents that are not in relation to the expected use effect of the products are effectively controlled.

During the Reporting Period, the Group had no product recalls in relation to product quality defects.

### Quality Culture Cultivation

We focus on the improvement of employees' quality awareness and operational performance, and carry out intensive quality training. We require all inspectors and testers to acquire relevant qualification certificates before they can take up their posts.

## Environmental, Social and Governance Report

### 2.2 Quality Services

The Company always adheres to the “Customer-Oriented” service concept, discovers and caters to customer needs, improves service quality, to gain the long-term support and trust of customers. We strictly abode by the Law of the People’s Republic of China on the Protection of the Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), and formulated Sales and Customer Management System (《銷售客戶管理制度》), Customer-Related Control Procedures (《與顧客有關控制程序》) and other relevant systems and management measures, which were based on our own operations, to strengthen the Group’s sales and customer management, clarify the responsibilities in customer management, and prevent related legal risks. Meanwhile, we have strictly controlled network data security and continuously improved the information security management system to protect customer privacy and information security. During the Reporting Period, the Group did not experience any customer privacy breach.

#### Pre-sale Services

The compliant marketing of products is an important prerequisite for us to practice responsible marketing. We strictly abide by the Regulations on the Supervision and Administration of Medical Devices and implemented the filing administration on Class I medical devices, and the registration administration of Class II and Class III medical devices to ensure the marketing compliance of the Group’s medical device products.

Meanwhile, we also strictly comply with the Advertising Law of the People’s Republic of China in the process of promoting and marketing, strictly prohibit exaggerated or false publicity, and safeguard a transparent sales promotion environment. During the Reporting Period, the Company did not receive any complaints or enter into legal proceedings in relation to misleading or deceiving consumers in terms of the content of promotional information.

To further cultivate a positive marketing environment, we pay great attention to the various qualifications and credit conditions of the distributors and conducted location-based classified access.

### Distributor Access Management Measures

Domestic Distributors	<ul style="list-style-type: none"> <li>• Select, evaluate and determine domestic distributors based on the market expansion plan and annual sales targets formulated by the Group</li> <li>• Perform comprehensive independence evaluations on prospective distributors of the Group</li> <li>• Assess the future credit period, credit limit, required deposit of prospective distributors of the Group</li> <li>• Conduct annual evaluation of domestic distributors based on various specific indicators of the distributors’ operation authorized by the Group during the contract period</li> </ul>
Overseas Distributors	<ul style="list-style-type: none"> <li>• Obtain the demand information of overseas distributors through exhibitions, online platforms, etc.</li> <li>• Evaluate the basic status, qualifications, business capabilities, independence and compliance information of potential distributors. Meanwhile, determine the product price policy and credit rating by referring to the requirements of “Pricing Management” and “Credit Management” in the Sales and Customer Management System (《銷售客戶管理制度》)</li> </ul>



## Environmental, Social and Governance Report

In the Sales and Customer Management System, we have taken strict precautions against potential violations in the marketing process from three aspects: pricing management, credit management, and sales expense management. We continuously provided distributors with educational trainings on anti-corruption and other misconducts, required distributors to fully understand the terms and conditions in the distribution agreement in relation to anti-unfair competition and anti-commercial bribery, and require them to sign the Anti-Commercial Bribery Commitment to actively build a positive and honest business environment.

### Distributor Compliance Management Measures

Pricing Management	<ul style="list-style-type: none"> <li>• If the quotation set by the Company is not applicable due to product customization needs, the unit price of the customized product should be evaluated with reference to the Product Customization Management Procedures 《產品定制管理程序》</li> <li>• If adjustment is needed for the published product quotation due to business expansion needs, a written Price Adjustment Application/Confirmation Form should be submitted</li> <li>• Strictly control the bidding price in the centralized nationwide procurement bidding for medical consumables</li> </ul>
Access and Credit Management	<ul style="list-style-type: none"> <li>• Develop a clear annual credit management system</li> <li>• Establish and improve the credit files of customers</li> <li>• Organize and carry out regular customer credit management meetings</li> <li>• Continuously monitor customer credit status and establish customer credit emergency response mechanism</li> </ul>
Sales Expense Management	<ul style="list-style-type: none"> <li>• Relevant departments should formulate annual sales expense budgets</li> <li>• The employees of the Group must strictly abide by the financial reimbursement policy</li> <li>• The employees of the Sales Department shall not directly or indirectly represent or act in the name of Kangji Medical to promise to pay (or authorize the payment of) any economic compensation or give away any valuable items to customers, distributors, or other stakeholders</li> </ul>

## Environmental, Social and Governance Report

### After-sales Services

We value the after-sales experience of our customers and believe that customers' feedback and suggestions are an important driving force for continuous improvement. During the Reporting Period, we have formulated and continuously improved the Customer Feedback Control Procedures and Customer-Related Control Procedures, established and enhanced the customer feedback system, collected and analysed customer-related information, provided early warnings for quality issues, and took corrective measures to prevent any harm to customers and users due to quality issues.

During the Reporting Period, we received 8 complaints from customers. Relevant departments immediately analysed the causes, interacted and communicated with customers, and all of the case resulted in timely and proper rectification.

During the Reporting Period, we carried out the 2020 customer satisfaction survey in a comprehensive manner in accordance with the relevant regulations on customer satisfaction surveys in the Customer-Related Control Procedures. By issuing questionnaires and conducting telephone interviews, this survey covered 96 customers, recording a 95.7% overall customer satisfaction rate. In the survey, indicators such as product quality, after-sales repairs, maintenance services, consulting, customer use, and maintenance training have been highly recognized by customers. In view of the data and content of this customer satisfaction survey, the Group will combine customers' opinions and suggestions to continuously improve and enhance product and service quality.

## Environmental, Social and Governance Report

### 3. Cooperation for Innovation

The Company believes that efficient R&D capabilities and an open and inclusive cooperation attitude are the foundation for an enterprise to gain a strong foothold in the market. By cultivating a strong R&D team, establishing an innovative network of industry-university-research cooperation, a mutually beneficial partnership, and a fair and transparent supplier management system, we have created an open cooperation system and developed products and technologies with the Company's own features.

#### 3.1 Research, Development and Innovation

The Group implements a clinical demand-oriented and highly responsive R&D strategy and regards R&D innovation as an important driving force for our sustainable development. We have established and strictly abode by the R&D Technology Department Management Regulation (《研發技術部管理制度》), R&D Investment Management Regulation (《研發投入管理制度》), Intellectual Property Management Regulation (《知識產權管理制度》), New Product R&D Management Regulation (《新產品研發管理制度》), Technical Document Approval Management Regulation (《技術文件簽核管理制度》), Product and Drawing Numbering Management Regulation (《產品、圖紙編號管理制度》), R&D Technology Department Performance Appraisal Regulation (《研發技術部績效考核制度》), and other regulations. Now, an established and complete design and development management process has been formed, which covers the entire process from market research to product registration, and clarifies the responsibilities of each department at each stage to help promote the high-quality and efficient R&D of the Group.

##### R&D Capability

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. As of December 31, 2020, we had an internal R&D team composed of 82 members, with professional fields covering mechanical engineering, electrical engineering, mechanics, material sciences, etc.

Meanwhile, we have been adhering to an open cooperation policy and established various interactive channels with a large number of physicians, hospitals and medical associations where they work, including provincial academician expert workstations, provincial enterprise research institutes, enterprise high and new technology research centers, and other production-academy-research platforms.

##### Kangji Medical Academic Research Platform

The Kangji Medical academic research platform (學術研究平台) was established in 2013, is the only research platform established by scholar Lang Jinghe of the Chinese Academy of Engineering and a Chinese medical device company. The platform is dedicated to the integration of resources and coordinated development in strategic decision-making, technological innovation, product development and talent training. It was recognized as a Hangzhou municipal enterprise academician expert platform in August 2013 and a Zhejiang provincial enterprise academician expert platform in March 2015.

Since the establishment of the platform, the Company has strongly supported the construction of the platform and has actively carried out activities such as annual work conferences, academicians and experts' enterprise trips, medical-industrial integration seminars, and engineers' clinical follow-ups. Moreover, we have taken scientific research topics and clinical feedback as the starting point to integrate the platform and our R&D centre into twin engines of our innovation and development. As of December 31, 2020, the platform has held a total of six annual academic conferences, with a cumulative total of over 450 key leaders participating in the conference.

## Environmental, Social and Governance Report

### R&D Achievements

During the Reporting Period, our total R&D expenditure reached RMB25.2 million, representing an increase of 45.1% over 2019. In addition, we have successively launched a variety of innovative medical equipment products to reduce patients' surgery risk and bring health and well-being to them.

### R&D Innovation Achievements



#### Hysteromyoma Removal and Isolation Products (子宮肌瘤切除隔離系統)

During the Reporting Period, Kangji Medical launched the hysteromyoma removal and isolation instrument and consumables, which solved the problem of spreading implantation when hysteromyoma were smashed and removed by minimally invasive surgery, and improved the safety of the operation. At the same time, it also provided a safe and reliable surgical method and instrument for the intracavitary resection of large tissues.



#### Breast Minimally Invasive Multifunctional Retractor Product (乳腺微創多功能拉鉤系統)

During the Reporting Period, Kangji Medical launched a breast minimally invasive multi-functional retractor product, further expanding the application of minimally invasive surgery, and benefiting more patients.



#### Single-port Multiple-Access Disposable Trocars

During the Reporting Period, Kangji Medical further upgraded and improved the single-port multi-access disposable trocars, gradually applying single-port surgery to gastrointestinal, robotic surgery, hepatobiliary and other departments, achieving better clinical outcomes in terms of scars.

In addition, oriented to the market demand, we have been actively obtaining and adopting suggestions from KOLs, physicians, hospitals and academic institutions. During the Reporting Period, we improved and upgraded disposable trocars and laparoscopic devices to improve the clinical outcomes of our products.

## Environmental, Social and Governance Report

### Upgrade of the Disposable Trocars

One example of technological innovation was that during the Reporting Period, the Group focused on the issue that endoscopes are prone to secondary contamination by disposable trocars during the exit and insertion of the endoscopes, thereby affecting the surgical field of vision. Our research team analysed the cause of the issue, finalized the improvement plan, and re-designed disposable trocars specifically for endoscope. This trocar adopts an external flap control structure, by controlling the opening and closing of the internal sealing member, the rotation mechanism outside the trocar obstructs the contact between the endoscope and the sealing member when the endoscope enters the cavity and prevents the bloodstains on the sealing members from polluting the endoscope lens. Once the product was introduced in clinical trials, it received positive feedback from clinicians.

### Structural Upgrade of Laparoscopic Instrument

During the Reporting Period, in response to the desire from most hospitals that prefer laparoscopic instruments to be detachable for cleaning, the Company organized engineers to upgrade the structure of some reusable instruments. We redesigned the structure for needle holders, titanium multi-forceps, clip appliers and 3mm instruments such that they can be detached into two or three parts in order to improve convenience and cleaning quality.



3mm Detachable Device



Detachable Needle Holder



Disposable Flap Trocar



Detachable Clip Applier

## Environmental, Social and Governance Report

### Intellectual Property

We have always adhered to the principle of combining “Technical Innovation” and “Intellectual Property”, and underscored the embodiment of the capability of scientific and technological achievements in terms of intellectual property. We have consolidated the foundation of intellectual property management and established the strategy of intellectual property protection barriers, we formulated the Kangji Medical Patent Management Policy and Kangji Medical Trademark Management Policy, clarified the management process of patents, software algorithms and trademarks, and set detailed provisions in relation to the confidentiality management of technical data in the R&D Department Management Policy, including technical data archiving management, borrowing and copying management, electronic file management, document scrapping and destruction management and R&D personnel’s computer management to protect our intellectual property.

### New Patents

During the Reporting Period,

the Group registered **32** new patents in China,



**29** patents  
utility



**3** patents  
design

## Environmental, Social and Governance Report

### 3.2 Industry Exchanges

As a leading domestic medical device company, we take it as our responsibility to promote the continuous advancement of industry technology. We are an active member of various industry associations and chambers of commerce. And we have been working with outstanding peer companies to research and solve key and forward-looking technical issues in the development of the medical device industry, nurturing professional and technical talent in the medical device industry, sharing and exchanging strategic experience and market trends, and promoting continuous innovation and progress.

**List of Industry Associations and Chambers of Commerce that Kangji Medical Joined**

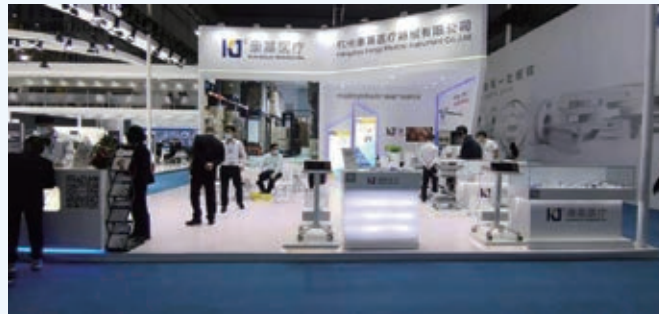
No.	Name of Industry Association/Chamber of Commerce	Kangji Medical's Role
1	China Association for Medical Devices Industry (中國醫療器械行業協會)	Director
2	China Association of Medical Equipment (中國醫學裝備協會)	Director
3	Intelligent Equipment Technology Branch of China Association of Medical Equipment (中國醫學裝備協會智能裝備技術分會)	Member
4	Endoscopic and Minimally Invasive Technology Branch of China Association of Medical Equipment (中國醫學裝備協會腔鏡與微創技術分會)	Vice President
5	Zhejiang Provincial Association for Medical Equipment Industry (浙江省醫療器械行業協會)	Vice President
6	Zhejiang Technological and Innovative Enterprise Association (浙江省科技創新企業協會)	Managing Director
7	Hangzhou Foreign Investment Association (杭州市外商投資協會)	Director
8	Hangzhou Science and Technology Consulting Association (杭州市科技諮詢協會)	Director
9	Tonglu County High-tech Enterprise Association (桐廬縣高新技術企業協會)	President
10	Tonglu Federation of Industry and Commerce, General Chamber of Commerce (桐廬工商聯、總商會)	Vice President
11	Tonglu Enterprise Confederation, Entrepreneur Association (桐廬企業聯合會、企業家協會)	Vice President
12	Tonglu Economic Development Zone Chamber of Commerce (桐廬經濟開發區商會)	Vice President
13	Tonglu County Association for Medical Devices Industry (桐廬縣醫療器械行業協會)	President

During the Reporting Period, we participated in various industry exchange activities, including the 83rd China International Medical Equipment Fair (第83屆中國國際醫療器械博覽會), the 17th Zhejiang Primary Medical Equipment Exhibition (第17屆浙江基層醫療裝備展覽會), and the 24th National Operating Room Nursing Academic Exchange Conference (第24屆全國手術室護理學術交流會議). We are committed to working together with industry leaders to explore the high-quality development of the industry.

## Environmental, Social and Governance Report

### The 83rd China International Medical Equipment Fair (CMEF)

In April 2020, the Company participated in the 83rd China International Medical Equipment Fair (CMEF) with its representative products, technologies and services. This Fair is an international leading global comprehensive service platform covering the entire medical device industry chain, integrating products and technology, new product launches, procurement and trade, brand promotion, scientific research cooperation, academic forums, education and training. It has attracted more than 7,000 medical device companies from more than 30 countries and regions around the world to participate in continuous exhibitions. More than 2,000 industry-academic experts and corporate executives, and 200,000 professional visitors, such as government procurement agencies, hospital buyers and distributor agents from more than 100 countries and regions around the world participated in the event.



Exhibited at the 83rd CMEF

In addition, we have actively promoted the standardization of medical device industry standards. During the Reporting Period, we led the revision of one industry standard, namely Laparoscopic Surgical Instruments – Reusable Abdominal Trocar. We also provided constructive revision comments and assisted in enhancing the industry quality norms for three industry standards including Disposable Abdominal Trocars, Laparoscopic Surgical Instruments, Reusable Abdominal Irrigation Device and Disposable Urinary Occlusion Catheter.



## Environmental, Social and Governance Report

### 3.3 Supply Management

We believe that a stable supply chain system can help us reduce risks, improve product quality, and achieve sustainable development. In order to ensure the quality of the Group's material procurement and standardize procurement procedures, we formulated and implemented a series of internal management policies such as the Procurement Control Procedures, the Procurement Management System, the Guiding Requirements for Procurement of Materials and the Supplier Evaluation Control Procedures, which further clarified the management principles and content of each step in the supply chain.

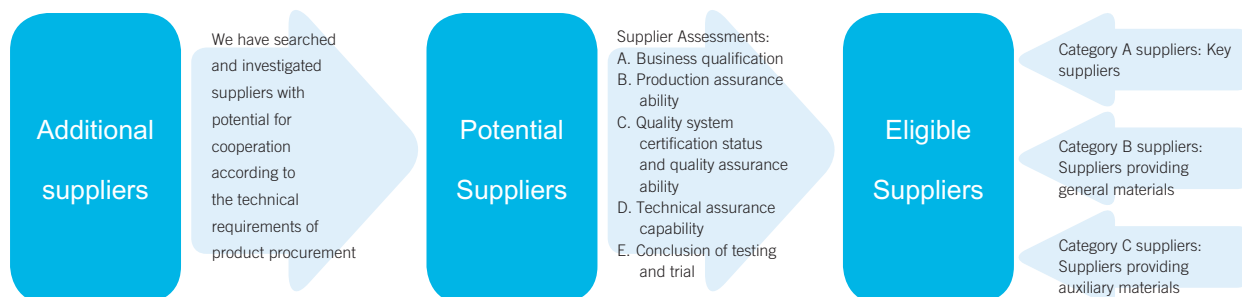
As of December 31, 2020, the Company has established cooperative relationships with approximately 360 suppliers.

#### Supplier Access

We adhered to the principle of “handling things impartially and safeguarding the interests of the Company” (秉公辦事、維護公司利益), actively built a transparent and honest supply chain, and established a strict and standardized supplier access procedure and supplier evaluation system. Through multi-level and multi-type inspection methods to conduct comprehensive inspections on suppliers, we ensure the product quality and service level of suppliers, and that all suppliers meet the requirements of the Group's practice.

In order to ensure the quality of important materials, we have classified them into categories A, B and C according to their degree of importance to the product. New suppliers are identified searched to become potential suppliers according to the material procurement technical requirements, and they must undergo strict comprehensive evaluation before becoming qualified suppliers.

#### Access and Classification of Suppliers



## Environmental, Social and Governance Report

### Supplier Management

We evaluate qualified suppliers annually. The evaluation dimensions include quality, delivery time and coordination, and on-site audits by manufacturers. We divide our suppliers into four classes according to the results of the assessment: A, B, C, D, and focusing on cultivating suppliers with excellent supply quality and establishing a routine communication method with them. For unqualified suppliers, we can re-evaluate when necessary to determine their eligibility.

### Supplier Management

<b>Class A suppliers</b> (Green light: 90-100 scores; no return record)	<b>Class B suppliers</b> (Blue light: 75-89 scores)	<b>Class C suppliers</b> (Yellow light: 60-74 scores)	<b>Class D suppliers</b> (Red light: 59 scores or less; or quality score less than 40 scores)
<ul style="list-style-type: none"> <li>• Priority in receiving purchase orders</li> <li>• For incoming material inspection, may take measures of reduced sampling or inspection-free</li> </ul>	<ul style="list-style-type: none"> <li>• The normal sampling plan shall be used for incoming inspection</li> </ul>	<ul style="list-style-type: none"> <li>• Sampling inspection of incoming materials shall be tightened</li> <li>• Technicians/ inspectors shall be sent to the supplier site for counselling if necessary</li> </ul>	<ul style="list-style-type: none"> <li>• Being prohibited from purchasing its products or outsourcing processing</li> <li>• Its qualification shall be cancelled</li> <li>• If there are special reasons, it must be reported to the general manager for approval, and the supplier shall be required to make improvements within a limited time. If there is no improvement, such suppliers shall be removed from the qualified manufacturer list</li> </ul>

## Environmental, Social and Governance Report

### Supplier Assistance

We are committed to establishing a healthy and good cooperative relationship with our suppliers, and maintaining good and close communication with them. The R&D Department, Quality Department, Registration Department and other relevant departments have provided relevant technical guidance and training to the suppliers when they need it. In addition, we actively carried out supplier assistance activities, such as helping suppliers to renovate their plants, upgrade workshops, and assist in the establishment of laboratories, etc., so as to achieve win-win cooperation.



Plant before Renovation



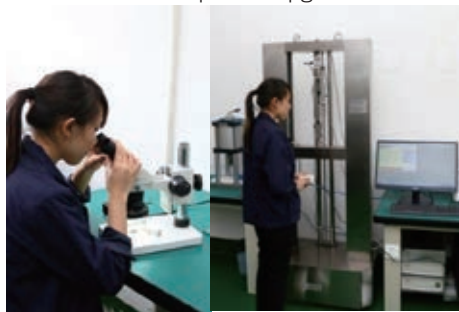
Plant after Renovation



Workshop before Upgrade



Workshop after Upgrade



Newly Built Laboratory

## Environmental, Social and Governance Report

### 4. People-oriented, Gathering Talents

The Company adheres to the employment principle of “Everyone is a talent, and should be judged by their actual capability instead of their appearances (人人是人才,賽馬不相馬)”, and encourages every employee to pursue a suitable career development path and grow with the Company. We actively protect labor rights, improve remuneration and welfare system, value personnel training, ensure the health and safety of employees, considerately care for employees, and have built a stable and high-quality talent team.

#### 4.1 Employee Overview

The Company has strictly abided by laws and regulations, such as the Labor Law of the People’s Republic of China, the Labor Contract Law of the People’s Republic of China, the Law of the People’s Republic of China on Promotion of Employment, the Trade Union Law of the People’s Republic of China, etc., and has formulated a series of personnel management policies to govern the standardized and transparent employee management, such as the Employee Handbook, the Employee Recruitment Management System, the Employee Training System, the Overtime Work Management System, etc. We protect the legitimate rights and interests of employees while ensuring their career development.

##### Labor rights

In the process of recruitment and personnel management, the Company adheres to the development principle of “equality, trust, and friendship”, and prohibits discrimination based on employees’ race, colour, gender, age, family status, ethnic tradition, religion, nationality, etc. We respect every employee and each of our employees enjoys equal rights in recruitment, work, compensation, training and promotion.

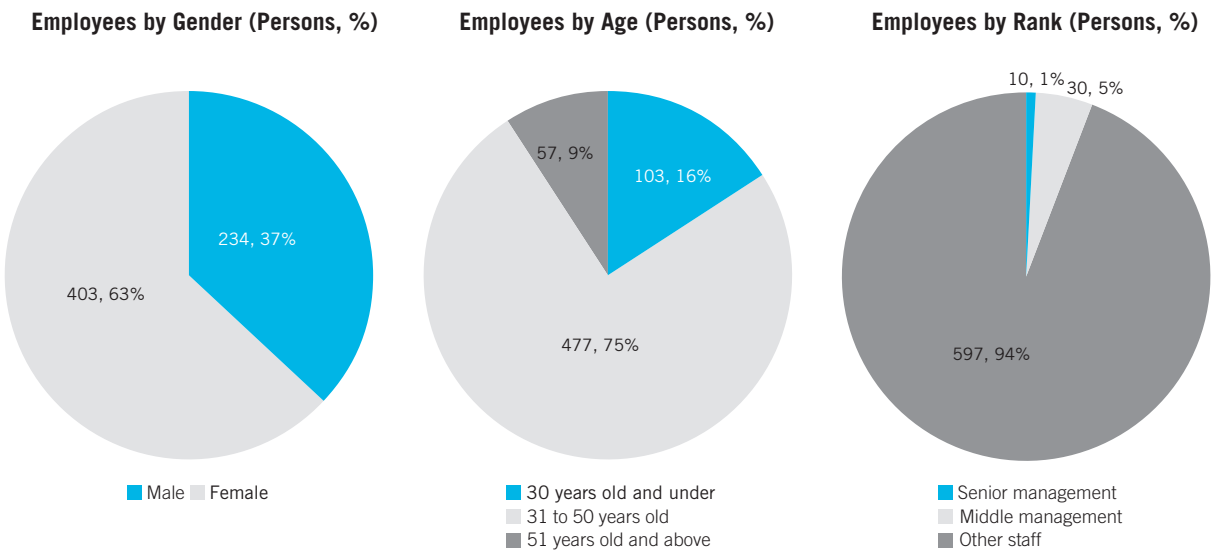
The Company strictly abides by the Provisions on the Prohibition of Using Child Labor and completely eliminates child labor and forced labor. We have adopted strict standards in the recruitment process and prohibit the recruitment of minors under the age of 16.

## Environmental, Social and Governance Report

### Employee Recruitment

The Company has established the Employee Recruitment Management System to further institutionalize and standardize recruitment. We proactively expand the recruitment channels to recruit talents, including local talent markets, labor markets, online recruiting sites, job fairs of colleges and universities, and job-advertisement through media, etc., and are committed to improving employee diversity and recruitment fairness. At the same time, the Company encourages internal recruitment to provide employees with more diverse opportunities.

During the Reporting Period, the Group had a total of 637 employees, all of whom were full-time employees. The detailed breakdown is as follows:



### 4.2 Remuneration and Benefits

The Company undertakes to provide a fair remuneration management system for employees, and provides different types of benefits, enhancing the employees' sense of security and happiness. We have defined the Remuneration System in the Employee Handbook, which establishes a clear salary structure, including base salary, functional salary, special functional salary, bonus, merit pay and allowance. We are committed to providing open and transparent standards and procedures for the evaluation and compensation of every employee.

In addition, we have formulated welfare-related policies and administrative measures, and have made clear regulations on the processes and department responsibilities in respect of benefits distribution, and we offer various welfare benefits to employees. We provide six insurances such as social insurance, provident fund, and employer's liability insurance and one housing fund for employees, and organize an annual health check-up to fully protect the physical and mental health of employees. For female employees, we provide special benefits on March 8 as well as statutory holidays such as maternity leave, antenatal check-up leave, and breastfeeding leave. The Labor Union of the Company also offers birthday and holiday gifts to its members. We provide solatia to employees who encounter financial difficulties or suffer from disabilities, and follow up on their situation in a timely manner.

## Environmental, Social and Governance Report



Group Photo of Employees Holding up Red Envelopes for Lunar New Year

### 4.3 Talent Cultivation

The Company adheres to the philosophy of “prioritizing talent” and implements the talent development mechanism of “exploring, developing, inspiring, and creating”. We value the development and training of talents, and strive to create various conditions for the growth of talents, so as to retain people via career prospects, development and culture.

We have been committed to improving the overall quality of our employees and built a talent echelon that is in line with the Company’s development strategy. We formulated a training system for employees based on the Employee Training System and standardized training management.

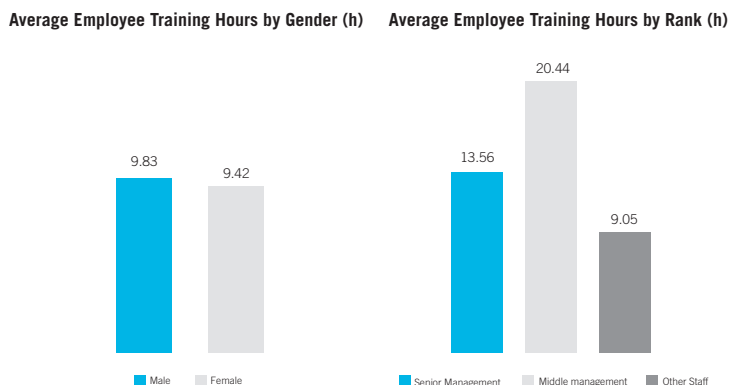
## Environmental, Social and Governance Report

### Training System

Training of management supervisors	Management skills training for ISO 9001 and ISO 13485 standards, Good Manufacturing Practice (GMP) regulations and other quality system documents, such as the responsibilities and roles of front-line managers, and the efficient scene training of front-line supervisors, etc.
Preliminary training of new employees	Training on quality policies, GMP regulations and other quality-related regulations for new employees, such as new employee training in the second production department, refreshment training for regular employees, etc.
Department-wide internal training	The quality-related communication, understanding and training promoted or carried out within the department, such as procurement management practice training, financial management training.
Orientation	Skills training pertinent to professional knowledge required by the posts before professional employees start their jobs, such as transfer technician training on injection moulding, inspector training, etc.
Training for qualification accreditation	Providing trainings related to qualification accreditation for specific employees, such as senior fitter certification training, etc.

After the trainings are completed, we will evaluate and analyse the contents of the training courses, the learning curve of the trainees, whether the expected goals are achieved, etc., and inspect the training effectiveness in time, and further improve the training system. During the Reporting Period, the Company conducted a total of more than 55 trainings of various types, covering all employees. The Company conducted a total of 6,079 hours of employee training, involving 2,780 person-times.

## Environmental, Social and Governance Report

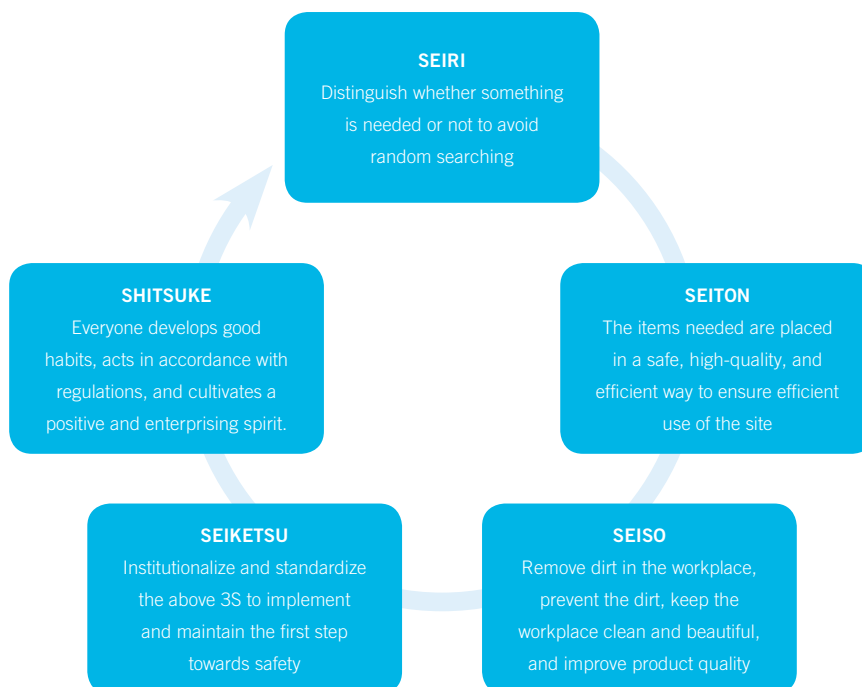


In terms of employee promotion, we have formulated the Professional Aptitude Ranking System to provide framework for promotion. We take into account employees’ annual performance evaluation results and abilities to decide on promotion opportunities.

### 4.4. Health and Safety Management

Ensuring the safety of employees is an important part of realizing our long-term development strategy and efficient development. The Company actively implements the Law of the People’s Republic of China on Work Safety, the Fire Prevention Law of the People’s Republic of China and other laws and regulations. We strictly implement the secondary national safety standardization, and have formulated the Safe Production Inspection System and Site Safety Management System and other safe production management systems. We adhere to the safety and health goal of “zero accidents”, take “safety first, prevention first” as the guideline, introduce the “5S” management approach and comprehensively strengthen the Company’s safety management, to prevent accidents.

#### “5S” Management Framework





## Environmental, Social and Governance Report

The Company has set up a safety, health and disaster prevention team to manage its safe production, labor protection, and health work. We regularly inspect the production site to find and eliminate safety hazards. Safety inspections are divided into safety management inspections, on-site safety inspections and special safety inspections, and inspection plans are formed with different frequencies according to different situations. In response to the discovered safety hazards, the inspection department would issue a Hazard Removal Notice and urge the inspected department to take effective measures to address the hazards, register and file the rectification of the hazards, and conduct a re-inspection to confirm that the hazards are addressed during the next inspection.

### Safety Inspection Program

#### Safety Management Inspection

- Filling of safety records and logs;
- Implementation of various management systems and basic safety measures;
- Safety technologies and safety knowledge education to operators and special operators

#### On-site Safety Inspection

- The production and construction sites are inspected in accordance with the professional standards, specifications and system requirements in terms of processes, equipment, storage and transportation, electric engineering, fire protection, instrumentation, inspection and maintenance, industrial hygiene, etc.
- Implementation of various safe production disciplines and operating procedures by employees
- Implementation of various safety measures in direct operation links such as production, maintenance, and construction
- Safety signs, hazard notifications, protection of various equipment and facilities, use of protective equipment by workers
- Inspection of the certification of the relevant personnel

#### Special Safety Inspection

- Seasonal safety inspection: In the spring, the focus is on lightning protection, anti-static, and preventing leakage resulting from thawing; in the summer, the focus is on preventing overheat and cooling, lightning protection, collapse prevention, food poisoning prevention, and flood prevention; in the autumn, the focus is on fire prevention, antifreezing and heat preservation; in the winter, the focus is on fire prevention, explosion prevention, anti-poisoning, antifreezing, and anti-skid
- Safety inspection prior to holidays on safety, security, fire protection, mechanical equipment, safety equipment and facilities, spare parts, etc.

## Environmental, Social and Governance Report

The Company had two employee injury accidents during the Reporting Period. One accident was a minor traffic accident (the employee was not found at fault) on the way to work, and another incident involved an employee who sprained his left foot when disposing of harmless waste. In order to avoid the recurrence of similar accidents, the Group has taken safety measures and quickly formulated solutions and preventive policies. We also organized to conduct traffic safety trainings for our employees, publicized traffic safety knowledge, and sent materials such as driving rules and precautions to employees' mailboxes to improve their awareness of traffic safety. The injury rate<sup>1</sup> per million working hours of the Group's employees was 1.46 during the Reporting Period.

In order to raise employees' awareness of safe production and ensure they understand the Company's safety precautions, the Company actively organized training and drills related to safe production for employees. Pre-job training for newly recruited, transferred and reinstated personnel was held to ensure their safety when working; training for special operations personnel to get qualified, such as fitter training, ensured that they were certified before taking up the job. We promoted universal safety education and publicity for all employees, which prevented work-related accidents and reduced the probability of work-related injuries. During the Reporting Period, we conducted a total of 1,595.5 hours of safety training, involving 742 employees.

### Special Training on Fire Safety and Management

The Group organized special training on corporate fire protection for relevant persons and managers in July 2020. The training topics covered basic knowledge of fire safety, fire protection laws and regulations, fire safety inspections and fire emergency response, and analysis of typical fire cases. The training enhanced the fire safety awareness of relevant persons and managers, and improved their understanding of fire safety. The Group also conducted routine fire drills.



<sup>1</sup> The injury rate per million working hours = (people injured/total actual working hours) x 1000000

## Environmental, Social and Governance Report

### Occupational Health

The Company has strictly abided by the Law of the PRC on the Prevention and Control of Occupational Diseases, fully protected the occupational health of employees, and actively took measures to provide employees with a safe and healthy working environment. During the Reporting Period, the Company invited a third-party institution to conduct tests on occupational hazard factors and issue a test report to identify potential occupational hazards for employees. The third-party institution also listed the exposure to occupational hazards, and put forward suggestions and measures for improvement based on the on-site sampling.

#### Online Monitoring of the Density of Ethylene Oxide

The Group installed an on-line detection device for the density of ethylene oxide in the sterilization workshop, and installed a monitor at a location where the ethylene oxide gas is prone to leakage and the accumulation of gas has a higher density. The monitoring alarm was installed in the sterilization operation control room, which was convenient for relevant personnel to monitor, timely identify abnormal points of high ethylene oxide density, and eliminate potential operation safety risks.



#### Improvement of Workshop Environment

In 2020, the Group introduced eight CNC engraving and milling machines equipped with oil filter, and sealed processing, which greatly reduced the oil pollution in the workshop, improved the working environment and work efficiency.



Before transformation



After transformation

In 2020, the Company organized health check-ups for all domestic employees and provided occupational health check-ups for 192 employees in special positions. Inspections were carried out for occupational hazards such as noise, welding fumes, welding arc and grinding wheel dust, and the Occupational Health Inspection Report was provided to provide follow-up and support to employees facing potential occupational health hazards.

## Environmental, Social and Governance Report

### 4.5 Care for Employees

On the basis of actively creating a good working environment for employees, we have strengthened and opened up communication channels for employees and listened to their voices. We have advocated work life balance and provided employees with a variety of team building activities to enrich their spare time. During the Reporting Period, the employee turnover of the Group was approximately 11.7%, of which the turnover rate of male employees was 10.3% and the turnover rate of female employees was 12.4%.

#### Employee Communication

The Company has encouraged “direct, simple, pragmatic and open” communication methods, promoted harmony and mutual assistance between employees and sincere mutual trust between employees and the Company, and was committed to creating an equal and smooth communication environment for employees. We have set up WeChat communities, official accounts, and other groups that facilitate employee communication, so that relevant departments could quickly provide solutions after learning about employees’ demands, strengthening the communication between employees in different departments. Regarding communication with senior leaders, we have actively encouraged employees to report problems to department managers, so that senior leaders can better understand the true thoughts of employees about the Company.

The Company conducted a 2020 employee satisfaction survey according to the Employee Satisfaction Survey Management System. We gained a better understanding of the needs and aspirations of employees from the five aspects, i.e. working environment, work tasks and returns, work groups, corporate management and related supplements, and submitted the reflected demands and expectations to relevant departments for improvement and resolution.

#### “Proficient in Proposals” activity

In order to improve the Company’s democratic management level and allow more employees to participate in the Company’s daily management, the Company has organized and carried out “Proficient in Proposals” activity every quarter starting from October 2020. It encouraged employees to put forward opinions and suggestions on improving efficiency, saving manpower, saving resources, reducing costs, and improving quality. Awards are given for outstanding proposals after consideration and selection by the evaluation subcommittee, and these proposals are to be promoted and applied

## Environmental, Social and Governance Report

### Staff Activities

The Company has taken full care of employees' physical and mental health, actively organized various employee activities, and has been committed to enriching employees' spare time, promoting a good working atmosphere, and creating a collegiate work team.

#### Celebration of the 15th anniversary of the Company

The Company held a grand annual meeting on the occasion of its 15th anniversary. Mr. ZHONG Ming, the Chairman, delivered a speech at the annual meeting, encouraging employees to continue to develop and grow together with the Company. The employees showed their innovative spirit and brought a wealth of well-prepared performances such as dances and sketches to the party. They reflected the spirit of unity and cooperation of the Company's employees in the process of preparing the performances. At the party, the Company awarded trophies and honour certificates to outstanding employees, ten-year employees, and fifteen-year employees, thanking them for their hard work. The Company believes that we will work with our employees to create a better era in the future and drive the development of the industry.



#### Employee Development Activity

In 2020, we organized one-day team building activities for employees, including calligraphy and painting, fun relay race, bonfire party, etc. Through these activities, we enhanced the team's collaboration and creativity, and advocated health and fitness..



## Environmental, Social and Governance Report

### 5. Environment Protection

The Company has paid special attention to the impact of enterprises on the environment during its development. We have been committed to applying the green business philosophy to our production and office environment, continuously improving the level of corporate environmental management, implementing the concept of resource conservation, and promoting sustainable green office.

The Company has complied with laws and regulations such as the Environmental Protection Law of the PRC, the Environmental Impact Assessment Law of the PRC and the Law of the PRC on Prevention and Treatment of Water Pollution, initially established an environmental management plan combined with the actual industry norms, and gradually implemented measures to save water and energy and reduce consumption and emissions during operation, striving to protect the environment.

#### 5.1 Resource Conservation

We have always paid attention to the use of resources, and formulated energy-saving and water-saving measures. We have improved energy efficiency and resource use efficiency through management improvement and technological update.

##### Energy-saving measures

The preheating time control of injection moulding machines and other machines in the injection moulding workshop has been improved. A large amount of waiting waste caused by the preheating of the equipment has been avoided by arranging a feeder to come to the workshop 1.5 hours in advance to preheat the equipment and dry the materials. This action has eliminated the waste of waiting for preheating, and the production capacity has been increased by approximately 7% after the improvement.

The use of electric forklifts was added to the sterilization workshop to replace the original internal combustion forklifts. Electric forklifts are more environmentally friendly compared with traditional internal combustion forklifts. The annual average emission reduction has been approximately 14 tons of carbon dioxide and other greenhouse gases and reduces maintenance costs, and noise is lower during operation.

##### Water-saving measures

Reform measures for the secondary use of clean water have been implemented in the water production room. The concentrated water produced by reverse osmosis filtration was introduced into the cooling pool as supplementary water by adding a cooling water storage pool. Equipment that needs water cooling such as injection moulding machines introduce cooling water from the storage tank for recycling, greatly reducing the waste of water resources, and the daily use of tap water for injection moulding machines after the transformation has been reduced by 96%.

##### Recycling of packaging materials

The outer boxes of packaging materials such as blister boxes were cut into lining boards for reuse. A total of 24,374 pieces of approximately 3,050 cartons have been cut since 2020.

## Environmental, Social and Governance Report

Indicator	Unit	2020
<b>Energy Use and Carbon Emissions</b>		
Electricity consumption	kWh	3,385,580
Electricity consumption density	kWh/RMB1 million	6,619.05
Gasoline	Litres	81,438
Diesel	Litres	318.4
Greenhouse gas emissions (Scope I) (direct energy)	tons CO <sub>2</sub> e	180.48
Greenhouse gas emissions (Scope II) (indirect energy)	tons CO <sub>2</sub> e	2,381.76
Total greenhouse gas emissions	tons CO <sub>2</sub> e	2,562.24
Greenhouse gas emission density	CO <sub>2</sub> e – tonnes/RMB1 million	5.01
<b>Water Consumption</b>		
Total water consumption (tap water)	tonnes	78,660
Total amount of recycled water	tonnes	14,400
Water consumption density	tonnes/RMB10,000	1.54

### 5.2 Emission Reduction

The Company has strictly complied with laws and regulations such as the Law of the PRC on Prevention and Treatment of Atmospheric Pollution and Law of the PRC on Prevention and Control of Environmental Pollution Caused by Solid Wastes, followed the requirements for total emission control of key air pollutants, set up water pollution prevention and control facilities, and conducted environmental impact assessments.

During the Reporting Period, we commissioned a third party to conduct environmental protection tests on wastewater, industrial waste gas, canteen oil fume, and plant boundary noise. The third party tested different emission indicators through sampling, and proposed prevention and control measures for various emissions. The Company has implemented the “three simultaneous” system and strictly implemented the various pollution prevention and control measures proposed in the EIA report. All test results have met the international emission standards and concentration requirements.



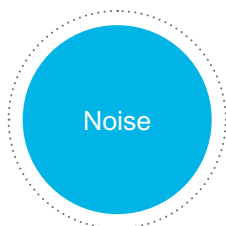
## Environmental, Social and Governance Report

### Emission Management



The mixed dust was discharged at high altitude after being treated by the cloth-bag dust removal device; the rubber refining and vulcanized waste gas were discharged at high altitude after being treated by the photocatalytic oxidation + activated carbon adsorption device; and exhaust gas implemented the Tables 5 and 6 standards of the Emission Standard of Pollutants for Rubber Products Industry (GB27632-2011) and related standards of the Emission Standards for Odour Pollutants (GB14554-93).

There was no production wastewater, and domestic sewage was discharged in sewage collection pipes.



With reasonable layout, low-noise equipment was selected, sound insulation and shock absorption measures were taken, and Class 3 standards under the Emission Standard for Industrial Enterprises Noise at Boundary (GB12348-2008) were implemented for the noise.

All kinds of solid wastes were properly collected and comprehensively disposed, and shall not be dumped at will.

Hazardous solid waste such as waste raw material barrels and waste activated carbon were set up as temporary storage sites for hazardous solid waste in accordance with the requirements of regulations, and a qualified institution was entrusted to dispose of them according to the actual amount of production.



Indicator	Unit	2020
<b>Wastewater discharge</b>		
Integrated sewage discharge	tonnes	78,660
Integrated sewage discharge density	tonnes/RMB10,000	1.54
<b>Waste discharge</b>		
Emissions of non-hazardous waste	tonnes	9
Discharge density of non-hazardous waste	Kg/RMB10,000	0.18
Discharge of hazardous waste	tonnes	7.5
Discharge density of non-hazardous waste	Kg/RMB10,000	0.15

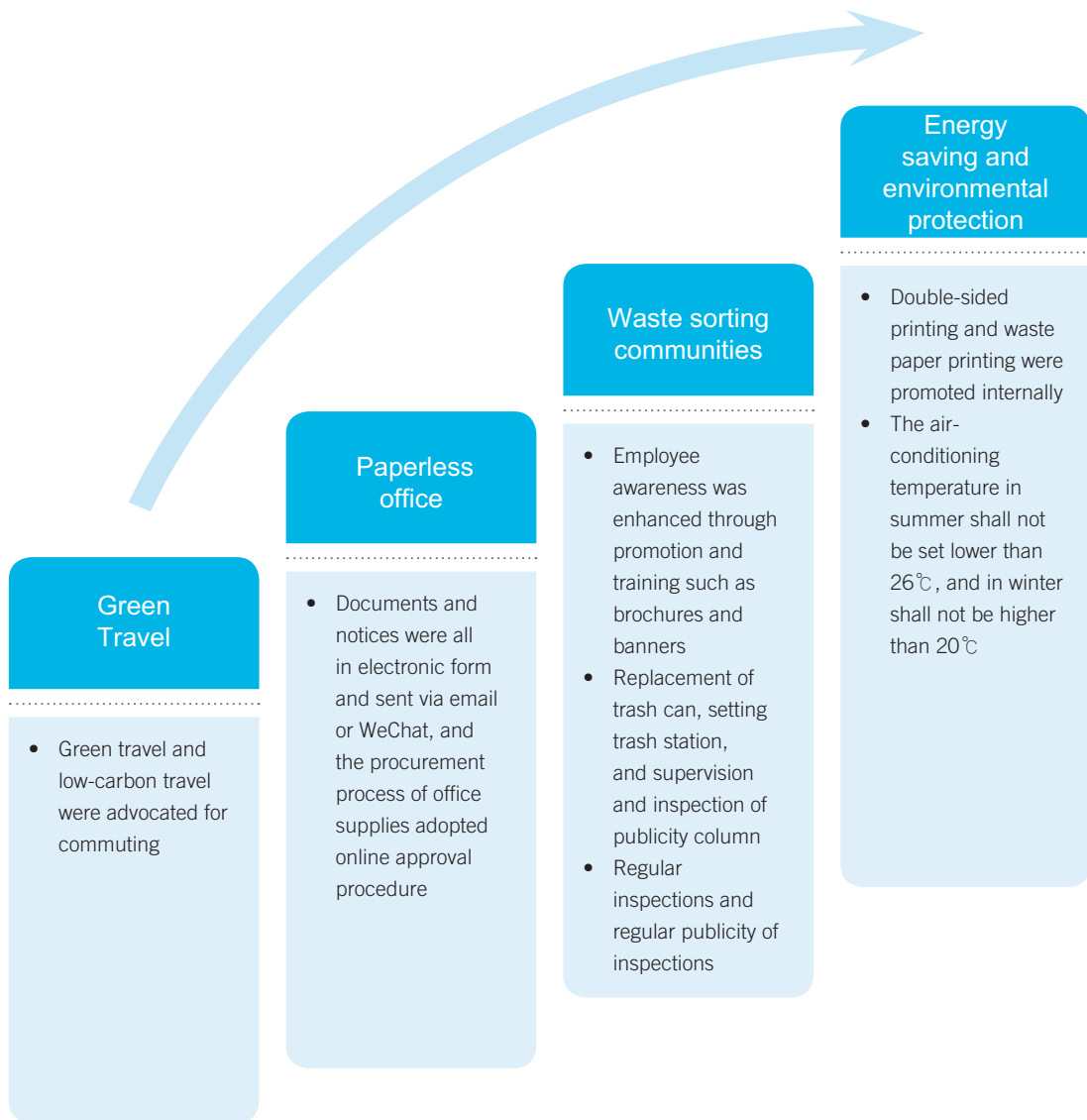


## Environmental, Social and Governance Report

### 5.3 Green Offices

The Company has actively paid attention to the impact of daily work and operation on climate change and the environment, promoted green paperless office, practiced waste classification, and advocated green travel for employees.

#### Green Office Initiatives



## Environmental, Social and Governance Report

### Waste Sorting Advocacy

The Company fully implemented the waste sorting requirements of Tonglu County as one of the pilot enterprises for waste sorting under the administration committee of Hangzhou Tonglu Economic Development Zone. To achieve satisfactory implementation, the Company carried out the work from many aspects:



Fang Zhixin, the minister of the Development Zone administration committee and the leaders of the county-level waste classification office were invited to the Company to offer on-site guidance on waste sorting.



Waste sorting brochures were printed and distributed, and banners and slogans about waste sorting were hanged or posted in locations where they were most seen by employees.



Lecturers were hired to carry out training on waste sorting for management personnel, front-line workers, canteen personnel and cleaning staff.



Trash bins that meet the requirements of the classification were put in place. All employees are required to sort out and dispose of garbage according to regulations, and the collected garbage is stored in the garbage room for timely removal.



The waste sorting bulletin boards were installed, with the manager of each department as the person responsible for waste sorting management. The Administration Department regularly organizes personnel to supervise and inspect the waste sorting of each department, and the inspection results are publicized.

## 6. Contribution to Community

The Group has actively assumed its social responsibilities and helped others realize the ideal of a better life together. In response to the sudden outbreak of epidemic caused by a new coronavirus ("COVID-19") in Hubei, we have actively taken measures to reduce the impact of the epidemic on our business operations, financial performance and prospects. We have maintained a safe and hygienic working environment in our offices and production facilities, and actively used our own strength to contribute to the control of the pandemic.

## Environmental, Social and Governance Report

### 6.1 Epidemic Prevention and Control

We established a committee to handle the COVID-19 emergency soon after the World Health Organization declared the epidemic a public health emergency of international concern. The committee was led by Mr. Zhong, our chairman of the board and chief executive officer, and was composed of six members of the board of directors and senior management and ten department heads. The committee has formulated a COVID-19 emergency response plan covering the entire group, actively prepared anti-epidemic supplies, and implemented the “employee health report twice a day” system.

On February 18, 2020, we officially resumed normal on-site office work and announced the government’s requirements for resumption of production and work and epidemic prevention to all business departments and production lines through the Notice of Work Resumption (《复工通知》). In addition to distributing protective masks to employees and quarantining their residences in a centralized manner, the Group paid salaries to employees who were unable to return to work due to the epidemic. No one in the Group was infected with the joint efforts of the leadership and employees of the Group.

### 6.2 Donation to Community

Help came from all sides when disaster struck. We showed no hesitation in rushing to the aid of Wuhan. On January 28, 2020, the Group donated RMB1 million to various designated hospitals through the Hubei Youth Development Foundation to help prevent and control COVID-19. The donation was to be used in five hospitals committed to fighting against the COVID-19: Tongji Hospital Affiliated to Tongji Medical College of Huazhong University of Science and Technology, Union Hospital Affiliated to Tongji Medical College of Huazhong University of Science and Technology, People’s Hospital of Wuhan University (Hubei Provincial People’s Hospital), Central South Hospital of Wuhan University and Wuhan First Hospital.

In addition, we also donated 20,000 “disposable medical masks” from the Company’s inventory to the Tonglu County Health Bureau, fulfilling its corporate social responsibility and doing everything it can to fight the epidemic. The Group donated a total of approximately RMB1.2 million to the society during the Reporting Period.



Kangji Medical donated 20,000 “disposable medical masks”

## Independent Auditor's Report



Ernst & Young  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

安永會計師事務所  
香港中環添美道1號  
中信大廈22樓

Tel 電話: +852 2846 9888  
Fax 傳真: +852 2868 4432  
ey.com

### To the shareholders of Kangji Medical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

## OPINION

We have audited the consolidated financial statements of Kangji Medical Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 90 to 149, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## Independent Auditor's Report

### KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
<i>Impairment for trade receivables</i>	
<p>As at 31 December 2020, the net carrying value of trade receivables amounted to RMB87,407,000, after netting off a loss allowance for impairment of RMB3,540,000, representing 2.9% of the Group's total assets.</p> <p>The impairment of trade receivables is assessed based on the expected credit loss model which requires significant judgements and estimates from management. In assessing the expected credit loss of the trade receivables, management considered various factors such as the age of the balance, existence of disputes, recent historical payment patterns, any other available information concerning the creditworthiness of counterparties and forward-looking information. The assessment is highly judgmental.</p> <p>The Group's disclosures about impairment of trade receivables are included in notes 2.5, 3 and 17 to the financial statements.</p>	<p>We evaluated the expected credit loss provision methodology used by the Group. We also evaluated management's assessment on the estimates of customers' current financial positions and the forward-looking adjustments by reviewing the detailed analyses of the ageing of the receivables, testing on a sample basis, payments received subsequent to year end and historical payment patterns, reviewing correspondence related to any disputes between the parties involved and market information about the credit status of the counterparties, where available, and evaluating the analyses of influence from macroeconomics on the loss rates of the Group's customers.</p>

### OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Report of the Directors, the Corporate Governance Report and the Environmental, Social and Governance Report, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's Statement, the Report of the Directors, the Corporate Governance Report and the Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

## Independent Auditor's Report

### RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## Independent Auditor's Report

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

*(continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

*Ernst & Young*  
Certified Public Accountants  
Hong Kong  
25 March 2021

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
<b>REVENUE</b>	5	<b>511,490</b>	503,467
Cost of sales		<b>(80,020)</b>	(80,292)
Gross profit		<b>431,470</b>	423,175
Other income and gains	5	<b>57,100</b>	53,601
Selling and distribution expenses		<b>(48,894)</b>	(41,355)
Administrative expenses		<b>(78,002)</b>	(25,645)
Research and development costs		<b>(25,220)</b>	(17,377)
Other expenses		<b>(26,337)</b>	(1,205)
Finance costs	7	<b>(42)</b>	–
<b>PROFIT BEFORE TAX</b>	6	<b>310,075</b>	391,194
Income tax expense	10	<b>(50,925)</b>	(64,459)
<b>PROFIT FOR THE YEAR</b>		<b>259,150</b>	326,735
Attributable to:			
Owners of the parent		<b>250,296</b>	206,444
Non-controlling interests		<b>8,854</b>	120,291
		<b>259,150</b>	326,735
<b>OTHER COMPREHENSIVE LOSS</b>			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<b>(457)</b>	–
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		<b>(457)</b>	–
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		<b>(196,459)</b>	–
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		<b>(196,459)</b>	–
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX</b>		<b>(196,916)</b>	–
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>62,234</b>	326,735
Attributable to:			
Owners of the parent		<b>53,380</b>	206,444
Non-controlling interests		<b>8,854</b>	120,291
		<b>62,234</b>	326,735
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic	12	<b>RMB26.27cents</b>	RMB20.11cents
Diluted	12	<b>RMB25.97cents</b>	RMB20.11cents



## Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 RMB' 000	2019 RMB' 000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	63,251	56,526
Prepayments for property, plant and equipment		3,375	–
Right-of-use assets	14(a)	21,571	17,024
Intangible assets	15	33	66
Deferred tax assets	24	2,004	1,901
<b>Total non-current assets</b>		<b>90,234</b>	75,517
<b>CURRENT ASSETS</b>			
Inventories	16	51,442	36,922
Trade receivables	17	87,407	73,012
Prepayments, other receivables and other assets	18	9,643	5,833
Financial assets at fair value through profit or loss	19	548,428	34,910
Pledged deposits	20	1,061	1,440
Cash and cash equivalents	20	2,232,046	565,148
<b>Total current assets</b>		<b>2,930,027</b>	717,265
<b>CURRENT LIABILITIES</b>			
Trade payables	21	11,407	9,318
Other payables and accruals	22	51,521	47,131
Lease liabilities	14(b)	1,465	–
Deferred income	23	636	636
Dividend payable		–	188,928
Tax payable		10,417	21,359
<b>Total current liabilities</b>		<b>75,446</b>	267,372
<b>NET CURRENT ASSETS</b>		<b>2,854,581</b>	449,893
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,944,815</b>	525,410

continued/...

## Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	14(b)	3,585	–
Deferred income	23	1,908	2,544
Deferred tax liabilities	24	2,711	7,406
Total non-current liabilities		8,204	9,950
Net assets		2,936,611	515,460
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Share capital	25	88	–
Reserves	27	2,936,523	327,228
Equity attributable to owners of the parent		2,936,611	327,228
Non-controlling interests	28	–	188,232
Total equity		2,936,611	515,460

**Mr. Zhong Ming**  
Director

**Ms. Frances Fang CHOVANEC**  
Director

## Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Attributable to owners of the parent						
	Share capital	Capital reserve*	Statutory surplus reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB' 000 (note 25)	RMB' 000 (note 27)	RMB' 000 (note 27)	RMB' 000	RMB' 000	RMB' 000	RMB' 000
At 1 January 2019	-	187,832	21,672	100,208	309,712	174,213	483,925
Profit and total comprehensive income for the year	-	-	-	206,444	206,444	120,291	326,735
Dividend declared (note 11)	-	-	-	(188,928)	(188,928)	(106,272)	(295,200)
Appropriation to statutory surplus reserve	-	-	21,385	(21,385)	-	-	-
At 31 December 2019	-	187,832	43,057	96,339	327,228	188,232	515,460

	Attributable to owners of the parent										
	Share capital	Share premium account*	Share held for award arrangement*	Capital reserve*	Share option and award reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB' 000 (note 25)	RMB' 000	RMB' 000	RMB' 000 (note 27)	RMB' 000 (note 27)	RMB' 000 (note 27)	RMB' 000 (note 27)	RMB' 000	RMB' 000	RMB' 000	RMB' 000
At 1 January 2020	-	-	-	187,832	-	43,057	-	96,339	327,228	188,232	515,460
Profit for the year	-	-	-	-	-	-	-	250,296	250,296	8,854	259,150
Other comprehensive loss for the year: Exchange differences related to foreign operations	-	-	-	-	-	-	(196,916)	-	(196,916)	-	(196,916)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	(196,916)	250,296	53,380	8,854	62,234
Capital reduction (note a)	-	-	-	(235,400)	-	(35,717)	-	(14,956)	(286,073)	(116,217)	(402,290)
Acquisition of non-controlling interests (note b)	-	-	-	80,869	-	-	-	-	80,869	(80,869)	-
Capital contribution from shareholders (note 25(e))	-	79,465	-	-	-	-	-	-	79,465	-	79,465
Dividend declared (note 11)	-	-	-	-	-	-	-	(65,700)	(65,700)	-	(65,700)
Capitalisation issue (note 25(f))	72	(70)	(2)	-	-	-	-	-	-	-	-
Issue of shares (note 25(g))	16	2,858,303	-	-	-	-	-	-	2,858,319	-	2,858,319
Share issue expenses	-	(128,878)	-	-	-	-	-	-	(128,878)	-	(128,878)
Share-based payments (note 26)	-	-	-	-	18,001	-	-	-	18,001	-	18,001
Transfer to statutory surplus reserve	-	-	-	-	-	28,383	-	(28,383)	-	-	-
At 31 December 2020	88	2,808,820	(2)	33,301	18,001	35,723	(196,916)	237,596	2,936,611	-	2,936,611

Notes:

- (a) As part of the reorganisation, a subsidiary of the Group, Hangzhou Kangji, reduced its registered capital, capital reserve, statutory surplus reserve and retained profits by a total amount of RMB402,290,000 on 13 March 2020.
- (b) As part of the reorganisation, the Company acquired two subsidiaries, Kangji Medical (Singapore) Pte. Ltd. (formerly known as TPG Keyhole Success Holding Pte. Ltd.) ("**Kangji Singapore**") and Kangji Hong Kong (formerly known as 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 a share swap on 13 March 2020.

\* These reserve accounts comprise the consolidated reserves of RMB2,936,523,000 (2019: RMB327,228,000) in the consolidated statement of financial position.

## Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		310,075	391,194
Adjustments for:			
Finance costs	7	42	–
Bank interest income	5	(11,777)	(12,560)
Investment income from financial assets at fair value through profit or loss	5	(5,367)	(4,136)
Fair value gains on financial assets at fair value through profit or loss	5	(2,943)	–
Loss on disposal of items of property, plant and equipment	6	100	–
Depreciation of property, plant and equipment	13	7,474	6,398
Depreciation of right-of-use assets	14(a)	697	413
Amortisation of intangible assets	15	33	34
Impairment of trade receivables, net	17	1,388	578
Recognition of deferred income	23	(636)	(636)
Share-based payment expense	26	18,001	–
		317,087	381,285
(Increase)/decrease in inventories		(14,520)	237
Increase in trade receivables		(15,783)	(25,804)
Increase in prepayments, other receivables and other assets		(6,829)	(1,223)
Increase in trade payables		2,089	2,426
Increase in other payables and accruals		4,619	12,887
Cash generated from operations		286,663	369,808
Interest received		1,088	99
Interest paid		(42)	–
Income tax paid		(66,665)	(44,065)
Net cash flows from operating activities		221,044	325,842
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(17,833)	(9,563)
Proceeds from disposal of items of property, plant and equipment		21	4
Purchases of financial assets at fair value through profit or loss		(2,778,996)	(1,113,140)
Proceeds from sales of financial assets at fair value through profit or loss		2,268,273	1,098,230
Investment income from financial assets at fair value through profit or loss		5,367	4,136
Decrease/(increase) in pledged deposits		379	(807)
Interest received		13,708	11,943
(Increase)/decrease in time deposits with original maturity of over three months		(101,897)	192,332
Net cash flows (used in)/from investing activities		(610,978)	183,135

continued/...

## Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 RMB' 000	2019 RMB' 000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital contribution from shareholders		37,417	–
Proceeds from issue of shares		2,858,319	–
Share issue expenses		(128,878)	–
Principal portion of lease payments	29(b)	(194)	(21)
Dividend paid		(212,563)	(106,272)
Capital reduction		(402,290)	–
Net cash flows from/(used in) financing activities		2,151,811	(106,293)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		1,761,877	402,684
Cash and cash equivalents at beginning of year		469,336	64,580
Effect of foreign exchange rate changes, net		(196,876)	2,072
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		2,034,337	469,336
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents as stated in the consolidated statement of financial position	20	2,232,046	565,148
Time deposits with original maturity of over three months when acquired		(197,709)	(95,812)
Cash and cash equivalents as stated in the consolidated statement of cash flows		2,034,337	469,336

## 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 of Hong Kong Limited (the "Stock Exchange") on 29 June 2020.

#### INFORMATION ABOUT SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of business	Nominal value of issued shares/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Kangji Hong Kong	Hong Kong 21 December 2015	United States dollars ("US\$") 69,060,093.90	100	–	Wholesale, retail and distribution
Hangzhou Kangji*	People's Republic of China ("PRC")/ Mainland China 24 August 2004	RMB 500,000,000	–	100	Manufacturing, distribution and research and development
Jiangxi Kanghuan Medical Instrument Co., Ltd* ("Jiangxi Kanghuan")	PRC/Mainland China 22 May 2017	RMB 10,000,000	–	100	Wholesale, retail and distribution

\* These entities are limited liability enterprises established under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

### 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 liabilities of the companies now comprising the Group, as if the current group structure had been in existence at that date.

## Notes to Financial Statements

### 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 Company and its subsidiaries (collectively referred to as 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.

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.

## Notes to Financial Statements

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

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.
- (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.



## Notes to Financial Statements

### 2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (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.

### 2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> <sup>2</sup>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>3</sup>
Amendments to HKFRS 17	<i>Insurance Contracts</i> <sup>3,6</sup>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> <sup>3,5</sup>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> <sup>2</sup>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> <sup>2</sup>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 <sup>2</sup>

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

## Notes to Financial Statements

### 2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labor and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

*Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- *HKFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- *HKFRS 16 Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### FAIR VALUE MEASUREMENT

The Group measures its unlisted investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

#### RELATED PARTIES

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- or
- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	5 – 20 years
Plant and machinery	3 – 10 years
Furniture and fixtures	3 – 5 years
Motor vehicles	3 – 4 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and machinery, furniture and fixtures under installation, which are stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are stated at cost less impairment and are amortised on the straight-line basis over the following useful economic life:

Software	5 years
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#### Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

#### LEASES

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

##### (a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Office premises	24 to 39 months

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### LEASES *(continued)*

##### Group as a lessee *(continued)*

##### (b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

##### (c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

### INVESTMENTS AND OTHER FINANCIAL ASSETS

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

##### Initial recognition and measurement *(continued)*

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest (“**SPPI**”) on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

##### Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

##### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.



## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### IMPAIRMENT OF FINANCIAL ASSETS

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

#### General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### IMPAIRMENT OF FINANCIAL ASSETS *(Continued)*

##### General approach *(Continued)*

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

##### Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on market historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

#### FINANCIAL LIABILITIES

##### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, accruals and lease liabilities.

## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### FINANCIAL LIABILITIES *(Continued)*

##### Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

##### Financial liabilities at amortised cost (payables)

After initial recognition, payables are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

#### DERECOGNITION OF FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

#### OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

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 instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

#### REVENUE RECOGNITION

##### Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

##### Sale of products

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on acceptance of the products.

##### Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

#### CONTRACT LIABILITIES

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods to the customer).

## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### SHARE-BASED PAYMENTS

The Company operates a share option plan and a restricted share unit plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 26 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding share options and restricted share units ("**RSUs**") is reflected as additional share dilution in the computation of earnings per share.

## Notes to Financial Statements

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### OTHER EMPLOYEE BENEFITS

##### Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme. No forfeited contribution under this scheme is available to reduce the contribution payable in future years.

#### DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the note to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

#### FOREIGN CURRENCIES

The functional currency of the Company is the US\$. The Group's presentation currency is RMB because the Group's principal operations are carried out in Mainland China. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and non-PRC established subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and non-PRC established subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and non-PRC established subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## Notes to Financial Statements

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make significant judgements and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### JUDGEMENTS

There is no significant effect on the amounts recognised in the Group's financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

#### ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on market historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the distribution sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 17 to the financial statements.



## Notes to Financial Statements

### 4. 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 RMB' 000	2019 RMB' 000
Mainland China	475,756	467,644
Other	35,734	35,823
<b>Total</b>	<b>511,490</b>	503,467

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

##### (b) Non-current assets

	2020 RMB' 000	2019 RMB' 000
Mainland China	87,434	73,616
Other	796	–
<b>Total</b>	<b>88,230</b>	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 RMB' 000	2019 RMB' 000
Customer A	131,063	122,918
Customer B	51,186	26,011

## Notes to Financial Statements

### 5. 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
<b>Type of goods</b>		
Sale of medical instruments	511,490	503,467
<b>Geographical markets</b>		
Mainland China	475,756	467,644
Other	35,734	35,823
	511,490	503,467
<b>Timing of revenue recognition</b>		
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

##### (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 Financial Statements

## 5. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of other income and gains is as follows:

	2020 RMB' 000	2019 RMB' 000
<b>Other income</b>		
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
	<b>54,157</b>	53,601
<b>Gains</b>		
Fair value gains on financial assets at fair value through profit or loss	2,943	–
	<b>57,100</b>	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.

## Notes to Financial Statements

### 6. PROFIT BEFORE TAX

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

	Notes	2020 RMB'000	2019 RMB'000
Cost of inventories sold		79,761	80,231
Depreciation of property, plant and equipment	13	7,474	6,398
Depreciation of right-of-use assets	14(a)	697	413
Amortisation of intangible assets*	15	33	34
Impairment of trade receivables, net**	17	1,388	578
Write-down of inventories to net realisable value***		259	61
Lease payments not included in the measurement of lease liabilities	14(c)	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 (note 8)):			
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	–
		<b>61,421</b>	<b>46,901</b>

\* 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.

## Notes to Financial Statements

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB' 000	2019 RMB' 000
Interest on lease liabilities (note 14(b))	42	–

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 RMB' 000	2019 RMB' 000
Fees	289	204
<b>Other emoluments:</b>		
Salaries, allowances and benefits in kind	3,307	625
Pension scheme contributions	105	38
Share-based payment expense	4,503	–
	7,915	663
	8,204	867

Mr. ZHONG Ming was appointed as a director on 12 February 2020 and was re-designated as an executive director on 7 March 2020. Mr. ZHONG Ming has also served as the chairman of the board and the chief executive officer of the Company. Ms. SHENTU Yinguang was appointed as an executive director of the Company on 7 March 2020. Ms. CAI Li and Mr. CHEN Gang were appointed as non-executive directors of the Company on 13 March 2020. Mr. JIANG Feng, Mr. GUO Jian and Mr. CHEN Weibo were appointed as independent non-executive directors of the Company on 7 March 2020. Ms. Frances Fang CHOVANEC (“Ms. Chovanec”) was appointed as an executive director of the Company on 5 November 2020.

## Notes to Financial Statements

### 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

During the year, one director was granted share options, in respect of her service to the Group, under the share option plan of the Company, further details of which are set out in note 26 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

#### (A) INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid to independent non-executive directors during the year were as follows:

	2020 RMB'000	2019 RMB'000
Mr. JIANG Feng	102	102
Mr. GUO Jian	102	102
Mr. CHEN Weibo	85	–
	<b>289</b>	204

There were no other emoluments payable to the independent non-executive directors during the year (2019: nil).

#### (B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Share-based payment expense RMB'000	Total RMB'000
<b>2020</b>					
Executive directors:					
Mr. ZHONG Ming	–	549	23	–	572
Ms. SHENTU Yinguang	–	469	23	–	492
Ms. CHOVANEC*	–	2,289	59	4,503	6,851
	–	<b>3,307</b>	<b>105</b>	<b>4,503</b>	<b>7,915</b>
Non-executive directors:					
Ms. CAI Li	–	–	–	–	–
Mr. CHEN Gang	–	–	–	–	–
	–	<b>3,307</b>	<b>105</b>	<b>4,503</b>	<b>7,915</b>
<b>2019</b>					
Executive directors:					
Mr. ZHONG Ming	–	339	19	–	358
Ms. SHENTU Yinguang	–	286	19	–	305
	–	625	38	–	663
Non-executive directors:					
Ms. CAI Li	–	–	–	–	–
Mr. CHEN Gang	–	–	–	–	–
	–	625	38	–	663

## Notes to Financial Statements

### 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

\* Pursuant to the service contract entered into between Ms. Chovanec and the Company, Ms. Chovanec will not receive any director's salary or fee from the Company during her term of office but is entitled to an annual emolument of US\$330,000 and discretionary bonus based on her managerial position as the chief financial officer of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2019: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2019: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 RMB' 000	2019 RMB' 000
Salaries, allowances and benefits in kind	1,497	1,240
Pension scheme contributions	70	76
Share-based payment expense	12,214	–
	<b>13,781</b>	1,316

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
Nil to HK\$1,000,000	–	4
HK\$3,000,001 to HK\$3,500,000	2	–
HK\$4,000,001 to HK\$4,500,000	2	–
	<b>4</b>	4

During the year, RSUs were granted to four non-directors and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 26 to the financial statements. The fair value of such RSUs, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

## Notes to Financial Statements

### 10. 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, 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, 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 RMB'000	2019 RMB'000
Current – Mainland China		
Charge for the year	48,423	57,020
Deferred tax (note 24)	2,502	7,439
<b>Total tax charge for the year</b>	<b>50,925</b>	<b>64,459</b>

A reconciliation of the tax expense applicable to profit before tax using the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2020 RMB'000	2019 RMB'000
Profit before tax	310,075	391,194
Tax at the statutory tax rate of 25% in Mainland China	77,519	97,799
Preferential tax rates enacted by local authority	(33,250)	(39,140)
Additional deductible allowance for research and development expenses	(2,644)	(1,773)
Non-deductible expenses for tax purposes	1,162	83
Effect of withholding tax at 5% and 10% on the distributable profits of the Group's PRC subsidiaries (note 24)	2,589	7,406
Effect of tax rate differences in other jurisdictions	5,549	–
Effect of tax rate changes on deferred taxes	–	84
<b>Tax charge at the Group's effective tax rate</b>	<b>50,925</b>	<b>64,459</b>



## Notes to Financial Statements

### 11. 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 HK\$' 000	2019 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.

### 12. 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 25(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 RSUs granted by the Company.

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

	2020 RMB' 000	2019 RMB' 000
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	250,296	206,444

	Number of shares	
	2020	2019
<u>Shares</u>		
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 RSUs	10,978,558	–
	963,776,468	1,026,707,319

## Notes to Financial Statements

## 13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB' 000	Plant and machinery RMB' 000	Furniture and fixtures RMB' 000	Motor vehicles RMB' 000	Construction in progress RMB' 000	Total RMB' 000
<b>31 December 2020</b>						
At 1 January 2020:						
Cost	49,243	27,209	6,137	5,546	–	88,135
Accumulated depreciation	(9,734)	(12,354)	(4,938)	(4,583)	–	(31,609)
Net carrying amount	39,509	14,855	1,199	963	–	56,526
At 1 January 2020, net of accumulated depreciation	39,509	14,855	1,199	963	–	56,526
Additions	–	6,238	822	5,276	1,984	14,320
Transfers	–	119	–	–	(119)	–
Disposal	–	(121)	–	–	–	(121)
Depreciation provided during the year (note 6)	(2,699)	(2,917)	(520)	(1,338)	–	(7,474)
At 31 December 2020, net of accumulated depreciation	36,810	18,174	1,501	4,901	1,865	63,251
At 31 December 2020:						
Cost	49,243	33,229	6,959	10,822	1,865	102,118
Accumulated depreciation	(12,433)	(15,055)	(5,458)	(5,921)	–	(38,867)
Net carrying amount	36,810	18,174	1,501	4,901	1,865	63,251
<b>31 December 2019</b>						
At 1 January 2019:						
Cost	30,846	20,996	5,257	5,370	15,446	77,915
Accumulated depreciation	(7,254)	(9,933)	(4,384)	(3,693)	–	(25,264)
Net carrying amount	23,592	11,063	873	1,677	15,446	52,651
At 1 January 2019, net of accumulated depreciation	23,592	11,063	873	1,677	15,446	52,651
Additions	115	5,820	786	233	3,323	10,277
Transfers	18,282	393	94	–	(18,769)	–
Disposal	–	–	–	(4)	–	(4)
Depreciation provided during the year (note 6)	(2,480)	(2,421)	(554)	(943)	–	(6,398)
At 31 December 2019, net of accumulated depreciation	39,509	14,855	1,199	963	–	56,526
At 31 December 2019:						
Cost	49,243	27,209	6,137	5,546	–	88,135
Accumulated depreciation	(9,734)	(12,354)	(4,938)	(4,583)	–	(31,609)
Net carrying amount	39,509	14,855	1,199	963	–	56,526

## Notes to Financial Statements

## 14. LEASES

## THE GROUP AS A LESSEE

The Group has lease contracts for various items of office premises and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the government with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office premises generally have lease terms between 12 and 39 months. Other equipment generally has lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

## (a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB' 000	Office premises RMB' 000	Total RMB' 000
As at 1 January 2019	17,399	38	17,437
Depreciation charge (note 6)	(387)	(26)	(413)
As at 31 December 2019 and 1 January 2020	17,012	12	17,024
Additions	–	5,244	5,244
Depreciation charge (note 6)	(387)	(310)	(697)
As at 31 December 2020	<b>16,625</b>	<b>4,946</b>	<b>21,571</b>

## (b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2020 RMB' 000	2019 RMB' 000
Carrying amount at 1 January	–	21
New leases	5,244	–
Accretion of interest recognised during the year (note 7)	42	–
Payments	(236)	(21)
Carrying amount at 31 December	<b>5,050</b>	–
Analysed into:		
Current portion	1,465	–
Non-current portion	3,585	–

The maturity analysis of lease liabilities is disclosed in note 34 to the financial statements.

## Notes to Financial Statements

### 14. LEASES (Continued)

#### THE GROUP AS A LESSEE (Continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 RMB' 000	2019 RMB' 000
Interest on lease liabilities	42	–
Depreciation charge of right-of-use assets	697	413
Expense relating to short-term leases (included in administrative expenses) (note 6)	73	66
<b>Total amount recognised in profit or loss</b>	<b>812</b>	479

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 29(c) and 30(b), respectively, to the financial statements.

### 15. INTANGIBLE ASSETS

	Software RMB' 000
<b>31 December 2020</b>	
Cost at 1 January 2020, net of accumulated amortisation	66
Amortisation provided during the year (note 6)	(33)
At 31 December 2020	33
At 31 December 2020:	
Cost	703
Accumulated amortisation	(670)
Net carrying amount	33
<b>31 December 2019</b>	
Cost at 1 January 2019, net of accumulated amortisation	100
Amortisation provided during the year (note 6)	(34)
At 31 December 2019	66
At 31 December 2019:	
Cost	703
Accumulated amortisation	(637)
Net carrying amount	66

## Notes to Financial Statements

## 16. INVENTORIES

	2020 RMB' 000	2019 RMB' 000
Raw materials	27,201	17,763
Work-in-progress	6,411	6,193
Finished goods	17,830	12,966
	<b>51,442</b>	36,922

## 17. TRADE RECEIVABLES

	2020 RMB' 000	2019 RMB' 000
Trade receivables	90,947	75,164
Impairment	(3,540)	(2,152)
	<b>87,407</b>	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 RMB' 000	2019 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
	<b>87,407</b>	73,012

## Notes to Financial Statements

### 17. TRADE RECEIVABLES *(continued)*

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	2,152	1,574
Impairment losses, net (note 6)	1,388	578
At end of year	3,540	2,152

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

#### As at 31 December 2020

	Current	Past due			Total
		Less than 1 month	1 to 3 months	Over 3 months	
Expected credit loss rate	2.98%	2.99%	2.99%	10.28%	3.89%
Gross carrying amount (RMB'000)	66,250	7,747	5,650	11,300	90,947
Expected credit losses (RMB'000)	1,977	232	169	1,162	3,540

#### As at 31 December 2019

	Current	Past due			Total
		Less than 1 month	1 to 3 months	Over 3 months	
Expected credit loss rate	2.31%	2.78%	3.61%	5.69%	2.86%
Gross carrying amount (RMB'000)	54,585	6,875	3,901	9,803	75,164
Expected credit losses (RMB'000)	1,262	191	141	558	2,152

## Notes to Financial Statements

## 18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 RMB' 000	2019 RMB' 000
Prepayments	5,765	1,330
Other receivables	1,209	312
Prepaid expenses	2,669	1,172
Interest receivables	–	3,019
	<b>9,643</b>	5,833

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

The unlisted investments represented certain financial products issued by commercial banks and other 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.

## 20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 RMB' 000	2019 RMB' 000
Cash and bank balances	744,071	388,336
Time deposits	1,489,036	178,252
	<b>2,233,107</b>	566,588
Less: Pledged time deposits:		
Pledged for potential transactions on financial assets at fair value through profit or loss	<b>(1,061)</b>	(1,440)
Cash and cash equivalents	<b>2,232,046</b>	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	<b>2,232,046</b>	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.

## Notes to Financial Statements

### 21. 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 RMB'000	2019 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
	<b>11,407</b>	9,318

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

### 22. OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Contract liabilities	828	838
Payroll payables	12,885	11,480
Other payables	28,152	26,892
Taxes other than income tax	7,668	7,288
Accrued expenses	1,988	633
	<b>51,521</b>	47,131

Contract liabilities represent short-term advances received to deliver products.

Other payables are non-interest-bearing and repayable on demand.

### 23. DEFERRED INCOME

	2020 RMB'000	2019 RMB'000
Government grants	2,544	3,180

The movements in government grants of the Group during the year are as follows:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	3,180	3,816
Recognised as income during the year (note 6)	(636)	(636)
At the end of the year	<b>2,544</b>	3,180
Current	636	636
Non-current	1,908	2,544
	<b>2,544</b>	3,180

The grants are related to the subsidies received from the government for the purpose of rewarding the Group for its capital expenditure incurred on certain projects.



## Notes to Financial Statements

## 24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

## DEFERRED TAX LIABILITIES

## 2020

	Fair Value adjustments arising from financial assets at fair value through profit or loss RMB' 000	Right-of-use assets RMB' 000	Withholding taxes RMB' 000	Total RMB' 000
At 1 January 2020	–	–	7,406	7,406
Deferred tax charged to profit or loss during the year (note 10)	16	663	2,589	3,268
Settlement during the year	–	–	(7,300)	(7,300)
At 31 December 2020	16	663	2,695	3,374

## 2019

	Withholding taxes RMB' 000
At 1 January 2019	–
Deferred tax charged to profit or loss during the year (note 10)	7,406
At 31 December 2019	7,406

## Notes to Financial Statements

### 24. DEFERRED TAX (continued)

#### DEFERRED TAX ASSETS

##### 2020

	Lease liabilities RMB'000	Impairment of trade receivables RMB'000	Impairment of inventories RMB'000	Accrued expenses RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2020	–	265	221	938	477	1,901
Deferred tax credited/(charged) to profit or loss during the year (note 10)	695	192	39	(65)	(95)	766
At 31 December 2020	695	457	260	873	382	2,667

##### 2019

	Impairment of trade receivables RMB'000	Impairment of inventories RMB'000	Accrued expenses RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2019	278	212	872	572	1,934
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(13)	9	66	(95)	(33)
At 31 December 2019	265	221	938	477	1,901

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2020 RMB'000	2019 RMB'000
Net deferred tax assets recognised in consolidated statement of financial position	2,004	1,901
Net deferred tax liabilities recognised in consolidated statement of financial position	2,711	7,406

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. Deferred taxes of RMB2,589,000 (2019: RMB7,406,000) have been recognised for withholding taxes that would be payable on the unremitted earnings for the year ended 31 December 2020.

The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB205,360,000 (2019: nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future due to the Group's business development in Mainland China.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## Notes to Financial Statements

## 25. 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 those 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 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 with 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 ESOP BVI (note 26).

## Notes to Financial Statements

### 25. 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.

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

The participants of the RSU Plan 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 is the number of 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 ESOP BVI from time to time. The overall limit on the number of underlying shares to be granted under the RSU Plan is expected to be 26,810,000 shares with a par value of US\$0.00001 each (after completion of the capitalisation issue), which have been reserved by ESOP BVI.

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 (after completion of the capitalisation issue). 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 RSUs and option may be granted pursuant to the RSU Plan and Option Plan after, 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.

## Notes to Financial Statements

## 26. SHARE-BASED PAYMENTS (continued)

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 listing of the Company's shares on the Hong Kong Stock Exchange ("Listing"), 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.

On 6 May 2020, 4,120,000 underlying shares under the Option Plan and a total of 21,190,000 underlying shares under the RSU Plan were granted to an executive director member and six management team members, respectively. Pursuant to the RSU Plan agreements, RSUs were fully vested upon Listing. Pursuant to the share option agreement, options granted will be vested according to following vesting schedule: 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.

The following share options were outstanding under the Option Plan during the year:

	Number of options	Weighted average exercise price RMB per share
At 1 January 2019, 31 December 2019 and 1 January 2020	–	–
Granted during the year	4,120,000	6.787
At 31 December 2020	4,120,000	6.787

The fair value of the RSUs and options granted during the year were RMB13,498,000 and RMB9,175,000, respectively, for which the Group recognised a corresponding share-based payment expense of RMB13,498,000 (2019: nil) and RMB4,503,000 (2019: nil) for the year ended 31 December 2020.

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

	RSUs	Share 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
Early exercise multiple	2.8	2.8

No other feature of the options granted was incorporated into the measurement of fair value.

## Notes to Financial Statements

### 27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

#### **CAPITAL RESERVE**

The capital reserve of the Group represents the paid-up capital of the subsidiaries comprising the Group prior to the incorporation of the Company, and also arising from share-based payments during the year. Details of the movements in the capital reserve are set out in the consolidated statements of changes in equity.

#### **STATUTORY SURPLUS RESERVE**

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

#### **EXCHANGE FLUCTUATION RESERVE**

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not RMB.

## Notes to Financial Statements

## 28. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests is set out below:

	2020	2019
Percentage of equity interest held by non-controlling interests: Hangzhou Kangji	–	36%
	<b>2020</b> <b>RMB' 000</b>	<b>2019</b> <b>RMB' 000</b>
Profit for the year allocated to non-controlling interests: Hangzhou Kangji	<b>8,854</b>	120,291
Dividend paid to non-controlling interests of Hangzhou Kangji	–	106,272
Accumulated balances of non-controlling interests at the end of year: Hangzhou Kangji	–	188,232

The following tables illustrate the summarised financial information of the above subsidiary, which became a wholly-owned subsidiary of the Group on 13 March 2020 pursuant to the Reorganisation. The amounts disclosed are before any inter-company eliminations:

	Period from 1 January 2020 to 13 March 2020 RMB' 000	2019 RMB' 000
Revenue	<b>48,830</b>	503,467
Cost of sales	<b>(8,310)</b>	(80,292)
Other income and gains	<b>20,199</b>	53,601
Total expense	<b>(36,124)</b>	(142,635)
Profit for the period/year	<b>24,595</b>	334,141
Total comprehensive income for the period/year	<b>24,595</b>	334,141
		<b>2019</b> <b>RMB' 000</b>
Current assets		717,265
Non-current assets		75,517
Current liabilities		(267,372)
Non-current liabilities		(2,544)
	<b>Period from</b> <b>1 January 2020</b> <b>to 13 March 2020</b> <b>RMB' 000</b>	<b>2019</b> <b>RMB' 000</b>
Net cash flows from operating activities	<b>501,242</b>	325,842
Net cash flows (used in)/from investing activities	<b>(297,615)</b>	183,135
Net cash flows used in financing activities	<b>(20,000)</b>	(106,293)
Net increase in cash and cash equivalents	<b>183,627</b>	402,684

## Notes to Financial Statements

### 29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### (A) MAJOR NON-CASH TRANSACTIONS

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB5,244,000 (2019: nil) and RMB5,244,000 (2019: nil), respectively, in respect of lease arrangements for office premises.

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.

#### (B) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES:

##### 2020

	Lease liabilities RMB' 000
At 1 January 2020	–
Changes from financing cash flows	(194)
New leases	5,244
Interest expense	42
Interest paid classified as operating cash flows	(42)
At 31 December 2020	5,050

##### 2019

	Lease liabilities RMB' 000
At 1 January 2019	21
Changes from financing cash flows	(21)
At 31 December 2019	–

#### (C) TOTAL CASH OUTFLOW FOR LEASES

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 RMB' 000	2019 RMB' 000
Within operating activities	1,118	35
Within financing activities	194	21
	1,312	56



## Notes to Financial Statements

## 30. COMMITMENTS

- (a) The Group had the following capital commitments at the end of the reporting period:

	2020 RMB' 000	2019 RMB' 000
Contracted, but not provided for:		
Buildings	1,876	29
Plant and machinery	503	85
	<b>2,379</b>	114

- (b) The Group has one lease contract that has not yet commenced as at 31 December 2020. The future lease payment for the non-cancellable lease contract is RMB637,000 due in the second to fifth years.

## 31. RELATED PARTY TRANSACTIONS

The Group's principal related parties are as follows:

Name	Relationship with the Company
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 year:

	2020 RMB' 000	2019 RMB' 000
<b>Payment on behalf of the Group</b>		
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	–
	<b>2,347</b>	–

The payment on behalf of the Group are unsecured, interest-free and repayable on demand.

- (b) Compensation of key management personnel of the Group:

	2020 RMB' 000	2019 RMB' 000
Short-term employee benefits	5,728	2,359
Pension scheme contributions	242	133
Share-based payment expense	18,001	–
Total compensation paid to key management personnel	<b>23,971</b>	2,492

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

## Notes to Financial Statements

### 32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2020

#### 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	–	87,407	87,407
Financial assets included in prepayments, other receivables and other assets	–	1,209	1,209
Financial assets at fair value through profit or loss	548,428	–	548,428
Pledged deposits	–	1,061	1,061
Cash and cash equivalents	–	2,232,046	2,232,046
	548,428	2,321,723	2,870,151

#### FINANCIAL LIABILITIES

	Financial liabilities at amortised cost RMB' 000
Trade payables	11,407
Lease liabilities	5,050
Financial liabilities included in other payables and accruals	30,140
	46,597

## Notes to Financial Statements

### 32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2019

#### 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

### 33. 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, lease liabilities 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.

## Notes to Financial Statements

### 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

The fair values of lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for lease liabilities as at 31 December 2019 and 2020 were assessed to be insignificant.

The Group invests in unlisted investments, which represent certain financial products (wealth management products and structured products linked to exchange rates, in particular) issued by commercial banks and other financial institutions. The Group has estimated the fair value of the wealth management product by using the valuation technique based on the sum of the principal and interest receivable. The Group has estimated the fair value of these structured products linked to exchange rates by using a Monte Carlo Simulation technique based on the underlying USD/CNH FX rate which is assumed to follow log-normal dynamics. The model incorporates various market unobservable inputs.

#### FAIR VALUE HIERARCHY

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

##### Assets measured at fair value:

##### As at 31 December 2020

	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	–	548,428	–	548,428

##### As at 31 December 2019

	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 31 December 2020 and 2019.

During the year, 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 (2019: nil).

## Notes to Financial Statements

### 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

#### FOREIGN CURRENCY RISK

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

During the year ended 31 December 2020, the Group purchased certain financial products (structured products linked to exchange rates in particular) issued by other financial institutions with the aim of hedging against potential depreciation of USD against RMB.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US\$ and HK\$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB' 000	Increase/ (decrease) in equity RMB' 000
<b>Year ended 31 December 2020</b>			
If the RMB weakens against the US\$	5	23,679	121,991
If the RMB strengthens against the US\$	(5)	(23,679)	(121,991)
If the RMB weakens against the HK\$	5	4,484	8,912
If the RMB strengthens against the HK\$	(5)	(4,484)	(8,912)
<b>Year ended 31 December 2019</b>			
If the RMB weakens against the US\$	5	2,908	2,472
If the RMB strengthens against the US\$	(5)	(2,908)	(2,472)

#### CREDIT RISK

The Group trades on credit terms only with recognised and creditworthy third parties. It is the Group's policy that all traders who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

## Notes to Financial Statements

### 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### MAXIMUM EXPOSURE AND YEAR-END STAGING

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2020

	12-month	Lifetime ECLs			Total RMB' 000
	ECLs Stage 1 RMB' 000	Stage 2 RMB' 000	Stage 3 RMB' 000	Simplified approach RMB' 000	
Trade receivables*	–	–	–	90,947	90,947
Financial assets included in prepayments, other receivables and other assets – Normal**	1,209	–	–	–	1,209
Pledged deposits – Not yet past due	1,061	–	–	–	1,061
Cash and cash equivalents – Not yet past due	2,232,046	–	–	–	2,232,046
	<b>2,234,316</b>	–	–	<b>90,947</b>	<b>2,325,263</b>

## Notes to Financial Statements

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## MAXIMUM EXPOSURE AND YEAR-END STAGING (continued)

As at 31 December 2019

	12-month	Lifetime ECLs			Total RMB'000
	ECLs Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	–	–	–	75,164	75,164
Financial assets included in prepayments, other receivables and other assets – Normal**	3,331	–	–	–	3,331
Pledged deposits – Not yet past due	1,440	–	–	–	1,440
Cash and cash equivalents – Not yet past due	565,148	–	–	–	565,148
	569,919	–	–	75,164	645,083

\* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the financial statements.

\*\* The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

## Notes to Financial Statements

### 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### LIQUIDITY RISK

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2020				
	On demand RMB' 000	Less than 3 months RMB' 000	3 to 12 months RMB' 000	1 to 5 years RMB' 000	Total RMB' 000
Trade payables	3	11,404	–	–	11,407
Lease liabilities	–	304	1,462	3,729	5,495
Financial liabilities included in other payables and accruals	30,140	–	–	–	30,140
	<b>30,143</b>	<b>11,708</b>	<b>1,462</b>	<b>3,729</b>	<b>47,042</b>
	31 December 2019				
	On demand RMB' 000	Less than 3 months RMB' 000	3 to 12 months RMB' 000	1 to 5 years RMB' 000	Total RMB' 000
Trade payables	86	9,232	–	–	9,318
Financial liabilities included in other payables and accruals	27,525	–	–	–	27,525
Dividend payable	188,928	–	–	–	188,928
	216,539	9,232	–	–	225,771



## Notes to Financial Statements

### 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure, which includes equity attributable to owners of the parent, and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

The Group monitors capital using a gearing ratio, which is debt divided by total assets. Debt includes trade payables, other payables and accruals and lease liabilities. The gearing ratios as at the end of the reporting periods were as follows:

	As at 31 December 2020 RMB' 000	As at 31 December 2019 RMB' 000
Trade payables	11,407	9,318
Other payables and accruals	51,521	47,131
Lease liabilities	5,050	–
Debt	67,978	56,449
Total assets	3,020,261	792,782
Gearing ratio	2.3%	7.1%

### 35. EVENTS AFTER THE REPORTING PERIOD

On 12 January 2021, 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.

## Notes to Financial Statements

### 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 RMB' 000
NON-CURRENT ASSET	
Investments in subsidiaries	7,261,242
Total non-current assets	7,261,242
CURRENT ASSETS	
Due from subsidiaries	8,468
Due from a related party	2
Financial assets at fair value through profit or loss	459,434
Cash and cash equivalents	1,654,073
Total current assets	2,121,977
CURRENT LIABILITIES	
Due to subsidiaries	1,104
Other payables and accruals	146
Total current liabilities	1,250
NET CURRENT ASSETS	2,120,727
TOTAL ASSETS LESS CURRENT LIABILITIES	9,381,969
Net assets	9,381,969
EQUITY	
Share capital	88
Reserves (note)	9,381,881
Total equity	9,381,969

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

## Notes to Financial Statements

**36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY** *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share Premium RMB' 000	Capital reserves RMB' 000	Share option and award reserves RMB' 000	Exchange fluctuation reserve RMB' 000	Retained profits RMB' 000	Total RMB' 000
At 12 February 2020 (date of incorporation)	-	-	-	-	-	-
Profit for the year	-	-	-	-	43,683	43,683
Other comprehensive loss for the year	-	-	-	(209,923)	-	(209,923)
Acquisition of subsidiaries (note a)	-	6,787,000	-	-	-	6,787,000
Capital contribution from shareholders	79,465	-	-	-	-	79,465
Dividend declared	-	-	-	-	(65,700)	(65,700)
Capitalisation issue	(70)	-	-	-	-	(70)
Issue of shares	2,858,303	-	-	-	-	2,858,303
Share issue expenses	(128,878)	-	-	-	-	(128,878)
Share-based payments	-	-	18,001	-	-	18,001
At 31 December 2020	2,808,820	6,787,000	18,001	(209,923)	(22,017)	9,381,881

- (a) As part of the Reorganisation, the Company acquired two subsidiaries, Kangji Singapore and Kangji Hong Kong, which were the then shareholders of Hangzhou Kangji holding 36% of equity interests in total, by way of a share swap on 13 March 2020.

**37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2021.

## Definition

“AGM”	the annual general meeting of the Company
“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
“CG Code”	Corporate Governance Code and Corporate Governance Report
“China,” “mainland China,” “PRC” or “State”	People’s Republic of China, excluding, for the purposes of this prospectus and for geographical reference only and except where the context requires otherwise, Hong Kong, Macau and Taiwan
“Company” or “Our 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
“Controlling Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules and unless the context requires otherwise, refers to Mr. Zhong, Ms. Shentu, Fortune Spring ZM B Limited and Fortune Spring YG B Limited
“COVID-19”	an infectious disease caused by a newly discovered coronavirus (severe acute respiratory syndrome coronavirus) and was first reported in Wuhan, China
“Director(s)”	the directors of our Company, including all executive, non-executive and independent non-executive directors
“ESOP BVI”	Fortune Spring Kangji 1 Limited
“FVTPL”	financial assets at fair value through profit or loss
“Global Offering”	the Hong Kong public offering and the international offering of the Company
“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 “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong

## Definition

“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
“Jingfeng Medical”	Shenzhen Jingfeng Medical Technology Co., Ltd. (深圳市精鋒醫療科技有限公司), a limited liability company established under the laws of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchange and Clearing Limited
“Kangji Hong Kong”	Kangji Medical (Hong Kong) Limited, a wholly-owned subsidiary of the Company established under the laws of Hong Kong
“KOLs”	key opinion leader(s)
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange on June 29, 2020
“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

## Definition

“ODM”	original design manufacture
“Option(s)”	the option(s) to purchase Shares under the Pre-IPO Share Option Plan
“Pre-IPO Share Option Plan”	the employees’ share incentive plan of the Company as adopted on May 6, 2020.
“Prospectus”	the Company’s prospectus dated June 16, 2020
“R&D”	research and development
“RAT”	robotic assisted technology
“Reporting Period”	the year from January 1, 2020 to December 31, 2020
“Renminbi” or “RMB”	the lawful currency of the PRC
“RSU(s)”	the restrict share unit granted under the RSU Plan
“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)
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“USD”	US dollars, the lawful currency of the U.S.
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction