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Kangji Medical Holdings Limited

康基医疗控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9997)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Kangji Medical Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited consolidated interim results of the Group for the six months ended June 30, 2021 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2020, as follows:

FINANCIAL HIGHLIGHTS

	Six months ended June 30,		Changes %
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)	
Revenue	318,124	212,587	49.6
Gross profit	261,227	177,634	47.1
Profit for the period	199,358	89,596	122.5
Non-HKFRS adjusted profit for the period	205,989	136,067	51.4
Profit attributable to owners of the parent	199,358	80,742	146.9
Earnings per share			
–Basic (RMB)	16.27 cents	11.92 cents	36.5
–Diluted (RMB)	16.14 cents	11.82 cents	36.5

For the Reporting Period, the Company realized revenue of RMB318.1 million, representing an increase of 49.6% as compared to the corresponding period in 2020. Our sales increased due to the significant recovery in elective surgery volume in China, the expansion and optimization of our distributor network, and sales contribution from new products.

The Group’s net profit attributable to owners of the parent for the Reporting Period increased by 146.9% from RMB80.7 million in 2020 to RMB199.4 million in 2021. The increase was mainly due to the increase in revenue, increase in other income (e.g. bank interest income), the absence of listing expenses and non-controlling interest, and reduction of share-based payment expenses. The Group’s adjusted total net profit for the Reporting Period which excludes the aforementioned expenses as well as foreign exchange impact, increased by 51.4% from RMB136.1 million to RMB206.0 million.

The Board did not recommend the payment of any interim dividend for the six months ended June 30, 2021.

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

For the six months ended 30 June 2021

	<i>Notes</i>	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
REVENUE	4	318,124	212,587
Cost of sales		<u>(56,897)</u>	<u>(34,953)</u>
Gross profit		261,227	177,634
Other income and gains	4	41,969	26,791
Selling and distribution expenses		(21,008)	(23,207)
Administrative expenses		(25,728)	(54,003)
Research and development costs		(16,074)	(12,076)
Other expenses		(5,930)	(1,224)
Finance costs		<u>(107)</u>	<u>–</u>
PROFIT BEFORE TAX	5	234,349	113,915
Income tax expense	6	<u>(34,991)</u>	<u>(24,319)</u>
PROFIT FOR THE PERIOD		<u>199,358</u>	<u>89,596</u>
Attributable to:			
Owners of the parent		199,358	80,742
Non-controlling interests		<u>–</u>	<u>8,854</u>
		<u>199,358</u>	<u>89,596</u>
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>(25)</u>	<u>–</u>
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		<u>(25)</u>	<u>–</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (Continued)**

For the six months ended 30 June 2021

	<i>Notes</i>	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
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		<u>(20,675)</u>	<u>(1,090)</u>
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		<u>(20,675)</u>	<u>(1,090)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		<u>(20,700)</u>	<u>(1,090)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>178,658</u>	<u>88,506</u>
Attributable to:			
Owners of the parent		178,658	79,652
Non-controlling interests		<u>–</u>	<u>8,854</u>
		<u>178,658</u>	<u>88,506</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	8	<u>RMB16.27 cents</u>	<u>RMB11.92 cents</u>
Diluted	8	<u>RMB16.14 cents</u>	<u>RMB11.82 cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

	<i>Notes</i>	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	73,751	63,251
Prepayments for property, plant and equipment		298	3,375
Right-of-use assets		20,962	21,571
Intangible assets		163	33
Equity investment designated at fair value through other comprehensive income		80,000	–
Deferred tax assets		2,273	2,004
Total non-current assets		<u>177,447</u>	<u>90,234</u>
CURRENT ASSETS			
Inventories		55,766	51,442
Trade receivables	10	73,706	87,407
Prepayments, other receivables and other assets		7,741	9,643
Financial assets at fair value through profit or loss	11	351,779	548,428
Pledged deposits	12	1,063	1,061
Cash and cash equivalents	12	2,521,426	2,232,046
Total current assets		<u>3,011,481</u>	<u>2,930,027</u>
CURRENT LIABILITIES			
Trade payables	13	14,448	11,407
Other payables and accruals		63,764	51,521
Lease liabilities		1,783	1,465
Deferred income		636	636
Tax payable		28,158	10,417
Total current liabilities		<u>108,789</u>	<u>75,446</u>
NET CURRENT ASSETS		<u>2,902,692</u>	<u>2,854,581</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,080,139</u>	<u>2,944,815</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

30 June 2021

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Lease liabilities	2,947	3,585
Deferred income	1,590	1,908
Deferred tax liabilities	2,115	2,711
	<u>6,652</u>	<u>8,204</u>
Total non-current liabilities	6,652	8,204
Net assets	<u>3,073,487</u>	<u>2,936,611</u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	88	88
Reserves	3,073,399	2,936,523
	<u>3,073,487</u>	<u>2,936,611</u>
Total equity	3,073,487	2,936,611

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	<i>Notes</i>	2021 RMB'000 (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		234,349	113,915
Adjustments for:			
Finance costs		107	–
Bank interest income	4	(14,643)	(3,240)
Investment income from financial assets at fair value through profit or loss	4	(6,942)	(3,297)
Losses on fair value change on financial assets at fair value through profit or loss		2,148	–
Loss on disposal of items of property, plant and equipment	5	12	100
Depreciation of property, plant and equipment		4,388	3,572
Depreciation of right-of-use assets		1,102	203
Amortisation of intangible assets		34	16
Impairment of trade receivables, net	5	266	541
Recognition of deferred income		(318)	(318)
Share-based payment expense		3,163	15,593
		223,666	127,085
Increase in inventories		(4,324)	(4,091)
Decrease/(increase) in trade receivables		13,435	(18,664)
Decrease/(increase) in prepayments, other receivables and other assets		1,902	(7,812)
Increase/(decrease) in trade payables		3,041	(2,159)
Increase in other payables and accruals		12,164	17,586
Cash generated from operations		249,884	111,945
Interest received		1,007	94
Interest paid		(107)	–
Income tax paid		(18,115)	(32,451)
Net cash flows from operating activities		232,669	79,588

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**For the six months ended 30 June 2021**

	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Net cash flows from operating activities	<u>232,669</u>	<u>79,588</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(11,826)	(8,789)
Purchases of items of intangible assets	(82)	–
Proceeds from disposal of items of property, plant and equipment	–	21
Purchases of financial assets at fair value through profit or loss	(2,281,287)	(1,780,319)
Purchases of equity investment designated at fair value through other comprehensive income	(80,000)	–
Proceeds from sales of financial assets at fair value through profit or loss	2,471,399	1,799,639
Investment income from financial assets at fair value through profit or loss	6,942	3,297
(Increase)/decrease in pledged deposits	(2)	1,031
Interest received	13,636	6,165
(Increase)/decrease in time deposits with original maturity of over three months	<u>(898,094)</u>	<u>95,812</u>
Net cash flows (used in)/from investing activities	<u>(779,314)</u>	<u>116,857</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contribution from shareholders	–	37,417
Proceeds from issue of shares	–	2,858,319
Share issue expenses	–	(94,471)
Principal portion of lease payments	(819)	–
Capital reduction	–	(402,290)
Dividend paid	<u>(44,846)</u>	<u>(188,928)</u>
Net cash flows (used in)/from financing activities	<u>(45,665)</u>	<u>2,210,047</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<u><u>(592,310)</u></u>	<u><u>2,406,492</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the six months ended 30 June 2021

	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
Cash and cash equivalents at beginning of period	2,034,337	469,336
Effect of foreign exchange rate changes, net	<u>(16,404)</u>	<u>52</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>1,425,623</u>	<u>2,875,880</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	2,521,426	2,875,880
Time deposits with original maturity of over three months when acquired	<u>(1,095,803)</u>	<u>—</u>
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	<u>1,425,623</u>	<u>2,875,880</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE INFORMATION

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

The Company is an investment holding company. During the reporting period, the Company's subsidiaries were principally involved in 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.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 9,
HKAS 39 and HKFRS 7,
HKFRS 4 and HKFRS 16
Amendment to HKFRS 16

Interest Rate Benchmark Reform-Phase 2

Covid-19-Related Rent Concessions beyond 30 June 2021
(early adopted)

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy.

The amendment did not have any impact on the financial position and performance of the Group.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. The amendment did not have any impact on the financial position and performance of the Group as the Group did not have any Covid-19-Related rent concessions for the period ended 30 June 2021.

3. OPERATING SEGMENT INFORMATION

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

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
Revenue from contracts with customers	318,124	212,587

Revenue from contracts with customers

(a) *Disaggregated revenue information*

	For the six months ended 30 June	
	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
Type of goods or services		
Sale of medical instruments	318,124	212,587
Geographical markets		
Mainland China	297,194	195,356
Other countries/regions	20,930	17,231
Total revenue from contracts with customers	318,124	212,587
Timing of revenue recognition		
Goods transferred at a point in time	318,124	212,587

(b) *Performance obligation*

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

Sale of medical instruments

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

4. REVENUE, OTHER INCOME AND GAINS (Continued)

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Bank interest income	14,643	3,240
Government grants*	20,368	18,504
Investment income from financial assets at fair value through profit or loss	6,942	3,297
Foreign exchange gains, net	–	1,257
Others	16	493
	41,969	26,791

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

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold	56,393	34,688
Impairment of trade receivables, net	266	541
Write-down of inventories to net realisable value	504	265
Government grants	(20,368)	(18,504)
Listing expenses	–	32,135
Loss on disposal of items of property, plant and equipment	12	100
Foreign exchange differences, net	3,468	(1,257)
Share-based payment expense	3,163	15,593

6. INCOME TAX

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

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

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% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. The first HK\$2,000,000 (2020: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%).

Pursuant to the rules and regulations of Singapore, Singapore profits tax has been provided at the rate of 17% (2020: 17%) on the estimated assessable profits arising in Singapore during the period.

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

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations, preferential tax treatment is available to Hangzhou Kangji Medical Instrument Ltd., since it was recognised as a High and New Technology Enterprise and was entitled to a preferential tax rate of 15% (2020: 15%) during the period. Jiangxi Kanghuan Medical Instrument Co., Ltd., which operates in Mainland China, was identified as a Small and Micro Enterprise and was entitled to a preferential tax rate of 5% (2020: 5%) during the period.

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

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Mainland China:		
Charge for the period	33,229	22,418
Deferred	1,762	1,901
Total tax charge for the period	34,991	24,319

9. PROPERTY, PLANT AND EQUIPMENT

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Carrying amount at beginning of period/year	63,251	56,526
Additions	14,900	14,320
Depreciation provided during the period/year	(4,388)	(7,474)
Disposals	(12)	(121)
	<u>73,751</u>	<u>63,251</u>

10. TRADE RECEIVABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables	77,506	90,947
Impairment	(3,800)	(3,540)
	<u>73,706</u>	<u>87,407</u>

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

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	56,717	66,645
3 to 6 months	6,195	11,836
6 to 12 months	8,465	6,777
1 to 2 years	2,185	2,117
Over 2 years	144	32
	<u>73,706</u>	<u>87,407</u>

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Unlisted investments, at fair value	351,779	548,428

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.

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Cash and bank balances	1,013,880	744,071
Time deposits	1,508,609	1,489,036
	2,522,489	2,233,107
Less: Pledged time deposits:		
Pledged for potential transactions on financial assets at fair value through profit or loss	(1,063)	(1,061)
Cash and cash equivalents	2,521,426	2,232,046
Denominated in RMB	982,869	94,053
Denominated in HK\$	41,957	89,690
Denominated in US\$	1,496,537	2,048,303
Denominated in other currencies	63	–
Cash and cash equivalents	2,521,426	2,232,046

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

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

13. TRADE PAYABLES

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	14,408	11,404
3 to 6 months	–	–
6 to 12 months	38	2
Over 12 months	2	1
	<hr/> 14,448 <hr/>	<hr/> 11,407 <hr/>

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

While we ended 2020 with a cautionary note, we started 2021 with great business momentum, having our new head of domestic sales officially on board at the beginning of the year. We recorded total revenue of RMB318.1 million in the Reporting Period, which represented 49.6% year-on-year growth, or 47.2% growth over the same period in 2019. The strong growth was mainly attributable to the significant recovery in elective surgery volume in China after the containment of COVID-19 pandemic, resulting in the increase in demand for the Group's products. Our revenue growth was also attributable to the expansion and optimization of our distributor network, driving the expansion and penetration of our addressable markets across our product portfolio. Given our comprehensive and diversified product portfolio, many products are still underpenetrated in their respective target markets. For example, benefiting from our focused marketing and academic promotion strategy, our disposable electrocoagulation forceps and single port trocars exhibited over 71% and 81% year-on-year growth respectively in the Reporting Period. Sales of new products which mainly comprised of ultrasonic scalpels and 4K-ultra resolution endovision camera systems were also reflected in the Reporting Period. Although their contribution to our overall revenue in the first half of 2021 was small due to the relatively longer hospital approval and/or capital purchase procedures, we believe they have great potential in the future as we benefit from the increasing import substitution trend for medical equipment.

Outside of China, the business recovery from COVID-19 of our overseas customers varies by country. We expedited our overseas product registrations in the Reporting Period in an effort to increase the proportion of our sales of branded products to overseas distributors versus original design manufacture (“ODM”) customers. We recorded export sales of RMB20.9 million in the Reporting Period which represented 21.5% year-on-year growth, or approximately 31.4% growth on a constant currency basis, without foreign exchange impact.

Following the provincial volume-based procurement (“VBP”) for disposable trocars in Shandong province, Fujian province also conducted VBP for disposable trocars in June 2021. While the implementation phase of a non-distributor sales model in Shandong province for disposable trocars is still in an early stage, we recorded strong sales growth as VBP has come into effect in April 2021 and our margins were not affected after taking into consideration the fees paid to our logistics partner as well as marketing and promotion fees paid to external partners. We believe we can mitigate the potential impact to our sales brought by future VBP by working with our external partners to increase our sales volume.

The Group's net profit attributable to owners of the parent for the Reporting Period increased by 146.9% from RMB80.7 million in the corresponding period in 2020 to RMB199.4 million. The increase was mainly due to the increase in revenue, increase in other income (e.g. bank interest income), the absence of listing expenses and non-controlling interest, and reduction of share-based payment expenses. The Group's adjusted total net profit for the Reporting Period which excludes the aforementioned expenses as well as foreign exchange impact, increased by 51.4% from RMB136.1 million to RMB206.0 million.

Research and Development

Continuing our research and development (“**R&D**”) strategy of developing “equipment + instruments + consumables” surgical solutions, we focus on transforming our medical technologies into products that enrich and deepen our product portfolio to meet clinical needs. We have new projects on both the equipment end as well as instrument end such as 4K UHD Fluorescence Camera System and 4K laparoscopes. Several of these new systems have been submitted for product inspection. Our key products for registration approval in 2021 are on track including the disposable powered endoscopic stapler and reloads, endoscopic multiple titanium clips and reusable clip applier, and disposable trocar with filtering functions.

Medical equipment development cycle is generally longer and has longer sales ramp-up. They also demand more rigorous ongoing training and technical and customer support. Nevertheless, they are additive to our product portfolio as these equipment products are compatible with our instruments and accessories and can further generate synergies in sales and marketing. We also expect that established domestic players with competitive value offering will benefit from the increasing import substitution trend for large medical equipment.

Our Xiaoshan R&D center has commenced operation in the newly leased office along with ongoing recruitment of R&D professionals. Construction is expected to begin in the second half of 2021 once the land-use right is acquired. This new R&D center will be conducting more advanced technology and product development while the R&D center at the headquarters will focus more on existing products’ upgrade and technical improvement.

In the Reporting Period, we received 6 product approvals in China. We also registered a total of 3 new patents in China, which include 2 utility patents and 1 design patent.

Sales and Distribution

Early this year, we concluded an evaluation and re-alignment of our distributor coverage and entered into new sales agreements with all of our domestic distributors by adopting quarterly sales targets and performance evaluation. These new mechanisms have worked well since their adoption in incentivizing our distributors to facilitate the penetration of our addressable markets across all product categories and drive synergies within our product portfolio. In the Reporting Period, we also entered into sales agreements with 38 new domestic distributors whose constructive contribution to sales is expected to realize in the second half of 2021.

Most of our sales and marketing staffs are located in our new sales and distribution management center in Beijing, which is leading all our academic promotion activities. In the Reporting Period, we have made significant strides in sponsoring and carrying out differentiated, thematic, and focused academic promotion activities to raise our brand awareness. For example, the Company was the key sponsor of the inauguration event for establishing the Obstetric Minimally Invasive Surgical Division of the Chinese Association of Medical Equipment, and we support the fostering of such forums to promote information exchange and communication within the surgical professional community. In June 2021, we kicked off the 100-city obstetrics and gynecology series (協和百年，婦產科百城行) in celebration of the 100th anniversary of Beijing Union Medical College Hospital, bringing thousands of online and offline participants the access to our forums and leading key opinion leaders (“KOLs”) that they otherwise may not have access to. We also conducted product-specific seminars and training sessions (such as single port trocar or energy devices) at hospitals to focus on product application and differentiation. In addition, we collaborated with KOLs and physicians to sponsor specialty-specific procedure demonstrations using our products, either at conferences in hospitals or via our online Saturday live procedure forum and Q&A session that we initiated in 2021. These online and offline educational sessions provide surgeons and physicians with first-hand clinical insights, hands-on techniques, and practical take-away of using medical device and were well received within the medical community.

Forward Outlook

Based on our promising results during the Reporting Period and our outlook for the remainder of the year, we are maintaining our 2021 revenue growth prospect, assuming the Delta-driven COVID-19 surges in China and rest of the world do not significantly affect hospital procedure volume.

FINANCIAL REVIEW

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

Revenue

	Six months ended June 30,		Changes %
	2021	2020	
	<i>RMB'000</i>	<i>RMB'000</i>	
	(Unaudited)	(Unaudited)	
Disposable products			
Disposable trocars	157,989	99,949	58.1
Polymer ligation clips	83,003	64,012	29.7
Disposable electrocoagulation forceps	30,789	17,945	71.6
Ultrasonic scalpels	4,453	–	–
Other disposable products ⁽¹⁾	5,755	4,397	30.9
<i>Sub-total</i>	281,989	186,303	51.4
Reusable products⁽²⁾	36,135	26,284	37.5
Total	318,124	212,587	49.6

Notes:

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

Our revenue amounted to RMB318.1 million for the six months ended June 30, 2021, representing an increase of 49.6% as compared to RMB212.6 million for the corresponding period in 2020. The increase in revenue was primarily attributable to: (i) the significant recovery in elective surgery volume in China after the containment of COVID-19 pandemic, resulting in the increase in demand for the Group's products; (ii) expansion and optimization of our distributor network driving the expansion and penetration of our end markets across our product portfolio; and (iii) contribution from sales of new products.

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 RMB282.0 million for the Reporting Period, representing an increase of 51.4% as compared to RMB186.3 million for the corresponding period in 2020. Such increase was mainly attributable to the year-on-year growth in revenue generated by sales of disposable trocars, polymer ligation clips and disposable electrocoagulation forceps. Demand for disposable products recovered much faster than for reusable products, as there was a more immediate need for product replenishment along with the recovery of surgery volume. During the Reporting Period, sales of disposable products accounted for 88.6% of our total revenue as compared to 87.6% for the corresponding period in 2020.

Disposable trocars recorded revenue of RMB158.0 million for the Reporting Period, representing an increase of 58.1% as compared with RMB99.9 million for the corresponding period in 2020. Disposable trocars accounted for approximately 49.7% of our total revenue during the Reporting Period as compared to approximately 47.0% for the corresponding period in 2020. Sales of disposable trocars boosted during the Reporting Period mainly because a high proportion of elective surgeries had been delayed by COVID-19 in the first half of 2020 and subsequently recovered since the second half of 2020. In addition, our optimization of distributor network also drove the expansion and penetration of our end markets. For the Reporting Period, our sales of disposable trocars in Shandong province increased significantly by more than 80% as compared to the corresponding period in 2020 despite the implementation of VBP in the second quarter of 2021.

Disposable electrocoagulation forceps continued to experience a rapid growth in demand and recorded higher sales growth than other disposable products for the Reporting Period following the ease of the pandemic. This can be mainly attributed to the low market penetration of the product segment and our focused effort to drive sales across the product portfolio.

Reusable Products

Our reusable products recorded revenue of RMB36.1 million for the Reporting Period, representing an increase of 37.5% as compared with RMB26.3 million for the corresponding period in 2020. Such increase was mainly due to the recovery of 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 resumed along with the ease of 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 includes trading companies that sell our products to overseas ODM customers) in China, as well as to overseas distributors and ODM customers.

Revenue from overseas markets was approximately RMB20.9 million for the six months ended June 30, 2021, representing an increase of 21.5% from the corresponding period in 2020. We recorded export sales growth of 31.4% for the Reporting Period on a constant currency basis in terms of United States Dollar (“USD”), which is the transaction currency of our export sales. The depreciation of USD against Renminbi as compared to the corresponding period in 2020 has resulted in a negative impact to our reported overseas sales in Renminbi. Revenue from overseas markets accounted for 6.6% of our total revenue for the first half of 2021 as compared to 8.1% for the corresponding period in 2020.

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

	Six months ended June 30,		Changes %
	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Unaudited)	
Domestic			
– Distributors ⁽¹⁾	290,410	189,427	53.3
– Hospitals and other customers	6,784	5,929	14.4
<i>Sub-total</i>	297,194	195,356	52.1
Overseas			
– ODM customers	18,596	15,465	20.2
– Distributors	2,334	1,766	32.2
<i>Sub-total</i>	20,930	17,231	21.5
Total	318,124	212,587	49.6

Note:

(1) Distributors sales include sales to logistics service providers for certain provinces such as Shandong and Fujian province.

Cost of Sales

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

For the six months ended June 30, 2021, our cost of sales was RMB56.9 million, representing an increase of 62.8% as compared with RMB35.0 million for the six months ended June 30, 2020. The increase in cost of sales was primarily in line with the increase in sales revenue. The contribution of raw material cost to total cost of sales increased as compared to the corresponding period in 2020, which was mainly driven by the launch of our new products including ultrasonic scalpels and 4K endovision camera systems that utilize a higher proportion of raw materials, and the increase in plastic and steel prices. In the meantime, direct labor costs and manufacturing costs increased to a lower extent than that of sales revenue due to the effects of the economies of scale through increasing our production.

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

	Six months ended June 30,			
	2021		2020	
	Amount	% of total	Amount	% of total
	<i>RMB'000 (except percentages)</i>			
	<i>(Unaudited)</i>			
Raw materials	28,199	49.6	14,668	42.0
Direct labor costs	16,943	29.8	11,872	34.0
Manufacturing costs ⁽¹⁾	11,755	20.6	8,413	24.0
Total	<u>56,897</u>	<u>100.0</u>	<u>34,953</u>	<u>100.0</u>

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 47.1% to RMB261.2 million for the six months ended June 30, 2021 from RMB177.6 million for the six months ended June 30, 2020, due to an increase in sales.

Our gross profit margin was 82.1% for the six months ended June 30, 2021, down from 83.6% for the six months ended June 30, 2020, which was primarily due to sales contribution from new products including ultrasonic scalpels and 4K endovision camera systems which have lower gross profit margins than existing products, and the decrease in gross profit margin of export sales attributable to the depreciation of USD against Renminbi as compared to the corresponding period in 2020.

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

	Six months ended June 30,			
	2021		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000 (except percentages)</i>		<i>(Unaudited)</i>	
Disposable products	239,912	85.1%	161,507	86.7%
Reusable products	21,315	59.0%	16,127	61.4%
Total	<u>261,227</u>	<u>82.1%</u>	<u>177,634</u>	<u>83.6%</u>

Other Income and Gains

Other income and gains for the six months ended June 30, 2021 was RMB42.0 million, while for the six months ended June 30, 2020, it was RMB26.8 million. The increase was primarily due to (1) an increase of RMB11.4 million in interest income arising from bank deposits and an increase of RMB3.6 million in investment income arising from short-term financial products we purchased from banks for the purpose of hedging foreign exchange risk; and (2) an increase of RMB1.9 million in government grants representing subsidies received from the local governments as compensation for expenses incurred for research and development activities, reward for financial contribution and capital expenditure incurred for certain projects.

Selling and Distribution Expenses

Selling and distribution expenses were RMB21.0 million for the six months ended June 30, 2021, representing a decrease of 9.5% as compared with RMB23.2 million for the six months ended June 30, 2020. The decrease was primarily due to (i) the decrease in share-based payment expenses associated with our restricted share units (“RSUs”) granted to sales and distribution staffs; and (ii) the decrease in marketing and promotion fees paid to external partners in Fujian province which anticipated the launch of VBP in June 2021. The effect of the decrease was partially offset by the increase in staff costs associated with our new sales and distribution management center in Beijing.

Administrative Expenses

Administrative expenses amounted to RMB25.7 million for the six months ended June 30, 2021, representing a decrease of 52.4% as compared with RMB54.0 million for the corresponding period in 2020. The decrease was mainly due to the absence of listing expense and reduction of share-based payment expense for the Reporting Period. Excluding the listing expense and share-based payment expense, our administrative expenses increased by RMB7.8 million or approximately 48.9% for the Reporting Period as compared to the corresponding period in 2020, mainly due to an increase in staff costs and external consultants’ fees.

Research and Development Expenses

Research and development expenses for the six months ended June 30, 2021 was RMB16.1 million, representing an increase of 33.1% as compared with RMB12.1 million for the six months ended June 30, 2020, primarily due to the increase in raw material costs, staff costs and testing and registration fees as we established the new R&D center in Xiaoshan, Hangzhou, and launched additional research and development projects. The increase was partly offset by the decrease in share-based payment expense associated with RSUs granted to research and development staff.

Other Expenses

Other expenses primarily consist of donation, foreign exchange loss, loss on fair value change on financial assets at fair value through profit or loss, and loss on disposal of assets. For the Reporting Period, we recorded other expenses of RMB5.9 million, which was primarily attributable to foreign exchange loss arising from our export sales and the remeasurement of USD denominated cash balances held by our operating entities in the PRC arising from the depreciation of USD against RMB during the Reporting Period. Other than foreign exchange loss, there was a loss of RMB2.1 million in fair value change of financial assets at fair value through profit or loss arising from our short-term financial products.

Income Tax Expenses

Income tax expenses were RMB35.0 million for the six months ended June 30, 2021, representing an increase of 44.0% as compared to RMB24.3 million for the six months ended June 30, 2020. The increase in income tax expenses was primarily due to the increase in taxable profit for the Reporting Period which is in line with the increase in sales.

Non-HKFRS Adjusted Net Profit for the Reporting Period

To supplement our unaudited consolidated statement of profit or loss and other comprehensive income which is presented in accordance with the HKFRS, 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 expense. Such non-HKFRS measure allows investors to consider metrics used by our management in evaluating our performance.

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

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	199,358	89,596
Add:		
Foreign exchange difference	3,468	(1,257)
Share-based payment expenses	3,163	15,593
Listing expenses	–	32,135
Non-HKFRS adjusted net profit for the period	205,989	136,067

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. As the foreign exchange difference of RMB1,257,000 in the corresponding period in 2020 is immaterial, it was not excluded from the non-HKFRS adjusted net profit of the Group in the Company's interim results announcement for the corresponding period in 2020.
- (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 the Company's ordinary shares (the "Shares") on the Stock Exchange.

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

Liquidity and Capital Resources

During the Reporting Period, we financed our operations and other capital expenditure requirements primarily through cash generated from our operations and proceeds from the Company's initial public offering on the Stock Exchange on June 29, 2020.

As of June 30, 2021, we had cash and cash equivalents of RMB2,521.4 million, as compared with RMB2,232.0 million as of December 31, 2020.

Net Current Assets

We had net current assets of RMB2,902.7 million as of June 30, 2021, representing an increase of RMB48.1 million as compared with RMB2,854.6 million as of December 31, 2020. The increase in net current assets was primarily due to the net increase in cash and cash equivalents generated from our operations.

Foreign Exchange Exposure

During the Reporting Period, the Group's operations were primarily based in Mainland China. 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 account receivables, account payables and cash balances that are denominated in a foreign currency, i.e., a currency other than our functional currency. For the six months ended June 30, 2021, the Group recorded an exchange loss of RMB3.5 million, as compared to an exchange gain of RMB1.3 million for the six months ended June 30, 2020, 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.

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

Capital Expenditure

For the six months ended June 30, 2021, the Group's total capital expenditure amounted to approximately RMB14.9 million, which was primarily used in purchasing machinery, equipment and leasehold improvements. The Group's capital expenditure for the six months ended June 30, 2020 was approximately RMB8.8 million.

Charge of Assets/Pledge of Assets

As of June 30, 2021, we did not have any charge of assets or pledge of assets.

Borrowings

As of June 30, 2021, 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 June 30, 2021, the gearing ratio of the Group was 2.6% (as of December 31, 2020: 2.3%).

Contingent Liabilities

As of June 30, 2021, we did not have any outstanding contingent liabilities.

Major Investment, Acquisition and Disposal

On January 12, 2021, Kangji Medical (Hong Kong) Limited (“**Kangji Hong Kong**”), a wholly-owned subsidiary of the Company entered into an investment agreement with Shenzhen Jingfeng Medical Technology Co., Ltd.* (深圳市精鋒醫療科技有限公司) (“**Jingfeng Medical**”), pursuant to which, Kangji Hong Kong agreed to invest RMB80 million to subscribe for approximately 2.03% of the enlarged registered share capital of Jingfeng Medical in its round B financing. The investment was completed on February 1, 2021. Jingfeng Medical focuses on developing surgical robotic products and instruments for laparoscopic surgery in China.

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

Future Plans for Material Investments and Capital Assets

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

Employee and Remuneration Policy

As of June 30, 2021, the Group had 694 employees (June 30, 2020: 616 employees). Total staff remuneration expenses including remuneration of the Directors and share-based payment expenses for the six months ended June 30, 2021 amounted to RMB36.5 million (for the six months ended June 30, 2020: RMB37.2 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. During the Reporting Period, 5,620,000 RSUs under the RSU plan were granted to our senior management and employees. As of June 30, 2021, a total of 26,810,000 RSUs had been granted under the RSU plan.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

In connection with the Company's global 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 of approximately HK\$2,952.5 million (equivalent to RMB2,697.1 million), after deducting underwriting commissions and related fees and expenses.

The net proceeds from the global offering of the Company (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in that same manner, proportion and the expected timeframe as set out in the Prospectus under the section headed "Future Plans and Use of Proceeds". The table below sets out the planned applications of the net proceeds and actual usage up to June 30, 2021:

Use of proceeds	Percentage of total net proceeds (%)	Planned applications (HK\$ million)	Planned applications (RMB million)	Revised application of total net proceeds ⁽¹⁾ (RMB million)	Actual usage up to June 30, 2021 (RMB million)	Unutilized net proceeds as at June 30, 2021 (RMB million)	Expected timeframe for unutilized net proceeds (from the date of listing)
For expanding our production capacity and strengthen our manufacturing capabilities, including:							
to expand production capacity of our current products and further automate existing production lines	9.8	273.5	249.9	264.3	2.4	261.9	within three to five years
to build up production capabilities for pipeline products	10.2	284.7	260.1	275.1	9.2	265.9	within six years
For funding our R&D activities, including:							
to establish an R&D centers	17.0	474.5	433.5	458.5	1.4	457.1	within four years
for development and expansion of our product pipeline	8.0	223.3	204.0	215.8	29.6	186.2	within five to six years
For investing in our sales and marketing activities, including:							
to be used in our domestic sales and marketing activities ⁽²⁾	15.0	418.6	382.5	404.5	12.6	391.9	within four to five years
to increase our overseas sales	5.0	139.6	127.5	134.9	–	134.9	within three to five years
For funding potential strategic investment and acquisitions	25.0	697.8	637.5	674.3	80.1	594.2	within five years
For our working capital and general corporate purposes	10.0	279.1	255.0	269.7	42.7	227.0	within four to six years
Total	100.0	2,791.1	2,550.0	2,697.1	178.0	2,519.1	

Notes:

- (1) By excluding the underwriting commissions and related fees and expenses, the actual net proceeds planned for applications amounted to RMB2,697.1 million. Net proceeds were received in HK\$ and translated to RMB for application planning.
- (2) On March 25, 2021, the Board resolved to change the location of the sales and marketing center to be established from our headquarters to Beijing, which is in line with our latest business strategy and does not deviate from our originally planned application of the net proceeds as described in the Prospectus. Other than this minor change, no amendment has been made to the disclosure in the section headed “Future Plans and Use of Proceeds” in the Prospectus.

OTHER INFORMATION

Compliance with the Corporate Governance Code (the “CG Code”)

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

The Company has adopted the code provisions of the CG Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as its own code of corporate governance.

The Board is of the view that the Company has complied with all applicable code provisions of the CG Code during the Reporting Period, except for a deviation from the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company are not separate and are both performed by Mr. ZHONG Ming. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting the roles of chairman and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Group. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

Compliance with the Model Code for Securities Transactions

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

Having made specific enquiry, all of the Directors have confirmed that they have complied with the Model Code and the Written Guidelines during the six months ended June 30, 2021. No incident of non-compliance of the Written Guidelines by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

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

During the six months ended June 30, 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company’s listed Shares.

Review of Interim Results

The audit committee of the Company (the “**Audit Committee**”) consists of two independent non-executive Directors, Mr. CHEN Weibo and Mr. JIANG Feng, and one non-executive Director, Ms. CAI Li. The chairman of the Audit Committee is Mr. CHEN Weibo. The Audit Committee has reviewed the interim results of the Group for the six months ended June 30, 2021 and has recommended for the Board’s approval thereof.

The Audit Committee has reviewed together with the management the accounting principles and policies adopted by the Group and the interim condensed consolidated financial information for the six months ended June 30, 2021. The Audit Committee was satisfied that such consolidated financial information were prepared in accordance with the applicable accounting standards and fairly present the Group’s financial position and results for the Reporting Period.

This interim results announcement is made based on the unaudited condensed consolidated financial information of the Group for the six months ended June 30, 2021.

Events after the Reporting Period

No significant event has occurred since the end of the Reporting Period and up to the date of this announcement.

Interim Dividend

The Board did not recommend the payment of any interim dividend for the six months ended June 30, 2021.

Publication of Interim Results and Interim Report

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company’s website (www.kangjimedical.com). The interim report of the Company for the six months ended June 30, 2021 containing all the information in accordance with the requirements under the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company on or about September 24, 2021.

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

Hangzhou, PRC, August 26, 2021

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

* *For identification purpose only*