康基®
KANGJI

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

Annual Report 2021

CONTENTS

Chairman's Statement

We are the largest domestic 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.

2021 was a year of transition for the Company as we set R&D strategy of developing "equipment + instruments + consumables" integrated surgical solutions, and established development paths on multiple fronts.

For the domestic market, despite regional resurgence of COVID cases, China's control measures effectively prevented the pandemic from large-scale spread. China's elective surgery volume for the most part returned to the pre-pandemic level and the penetration of minimally invasive surgery in China is expected to continue to grow.

In early 2021, our newly hired head of domestic sales and marketing came on board, under whose leadership, our much-expanded sales and marketing team now based in Beijing focused on improving our management of distributors and assisting distributors to adapt to our new standards. We made re-alignment of our distributors in terms of geographic and product coverage. By entering into sales agreements with our distributors with quarterly sales targets by product and by hospital, we established a more robust and transparent evaluation mechanism, which allows us to understand market needs and evaluate the effectiveness of our distributors on a more timely basis. We increased our distributors by more than 30% in 2021 as compared to 2020 and our sales have covered more than 240 new hospitals, approximately half of which were Class IIIA hospitals. The ongoing optimization of our distributor network will continue to be a focus of our sales and marketing strategy in the coming years.

In terms of export sales, demand from overseas customers also recovered in 2021. During the Reporting Period, our export sales recorded 35.8% year-on-year growth. We will develop our export sales in the coming few years through expanding the team, increasing registration of our products in overseas markets, further diversifying our export portfolio, and seeking distribution partners.

Chairman's Statement

In terms of R&D, we commenced operation for a new R&D center in Xiaoshan district of Hangzhou, with the goal of building a team that focuses on more advanced and innovative technology and product development. In December 2021, Hangzhou Kangji was recognized by Zhejiang Provincial Department of Science and Technology (浙江省科學技術廳) as one of the key provincial enterprise research institutes (省重點企業研究院) in Zhejiang province.

During the Reporting Period, we actively pursued strategic investment and acquisition. In January 2021, we announced a minority equity investment in Jingfeng Medical which is primarily engaged in the research and development, manufacturing and distribution of surgical robotic equipment and medical instruments for minimally invasive surgery in China. On January 18, 2022, we announced a strategic equity investment in Hangzhou Weijing Medical Robot Co., Ltd.* (杭州唯精醫療機器人有限公司) ("**Hangzhou Weijing**"), which focuses on developing surgical robotic products and instruments for laparoscopic surgery in China. Upon completion of the investment, the Company will hold 35% of Hangzhou Weijing and become the single largest shareholder with control of the board. This is an important strategic investment in the field of laparoscopic surgical robot industry, which will further enhance the competitiveness of our products in the long term and potentially generate synergies from a more comprehensive surgical product offering.

During the Reporting Period, we continued to stay abreast of the Company's sustainable development and commit ourselves to public welfare, improved governance structure of ESG. We also set environmental goals, completed risk assessment on climate change, and actively carried out various green and low-carbon actions. In response to the national strategy of "carbon emissions peak by 2030, carbon neutrality by 2060 (2030碳達峰、2060碳中和)", we will seek out opportunities of sustainable development in the future.

During the Reporting Period, we achieved total revenue of RMB690.3 million, representing a 35.0% increase from 2020, and we achieved net profit attributable to owners of the parent of RMB456.8 million, representing a 82.5% increase from 2020. The increase was mainly due to the increase in revenue, increase in bank interest income, fair value gain on equity investment, the absence of listing expenses and non-controlling interest, and reduction of share-based payment expenses.

Looking forward, despite the uncertainty for the ongoing medical reforms and VBPs for medical device products, we believe we can adapt our sales model according to specific local market dynamics and mitigate potential impact on the profitability of our VBP products through gaining sales volume increase and deepening the penetration of our non-VBP products. At the same time, we will continue to increase investment in R&D, recruit more high-level R&D personnel, expand our R&D team, continue to introduce more advanced and innovative products and continue to enrich our product portfolio.

On behalf of the Board of Directors, I would like to extend my sincere gratitude to our Shareholders, and sincerely thank our management team and employees for their hard work. The Company will actively execute the development strategies, create greater value for Shareholders through continuous business development and continuous improvement of corporate management, and reward the trust of Shareholders.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. ZHONG Ming *(Chairman)*
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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Mr. ZHONG Ming *(Chairman)*
Ms. SHENTU Yinguang
Ms. Frances Fang CHOVANEC

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
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Financial Highlights

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

	For the year ended December 31,				
	2021	2020	2019	2018	2017
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB'000
Revenue	**690,263**	511,490	503,467	353,670	247,506
Gross profit	**562,926**	431,470	423,175	289,297	199,705
Profit for the year	**456,789**	259,150	326,735	223,793	138,477
Non-HKFRS adjusted net profit for the year **	**430,355**	334,504	324,375	218,819	142,120
Profit attributable to owner of the parent	**456,789**	250,296	206,444	146,701	117,705
Earnings per share					
– Basic (RMB)	**37.31 cents**	26.27 cents	20.11 cents	N/A	N/A
– Diluted (RMB)	**37.08 cents**	25.97 cents	20.11 cents	N/A	N/A

	As at December 31,				
	2021	2020	2019	2018	2017
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB'000
Non-current assets	**221,954**	90,234	75,517	72,836	65,598
Current assets	**3,168,390**	2,930,027	717,265	462,394	230,604
Non-current liabilities	**13,371**	8,204	9,950	3,180	3,837
Current liabilities	**116,572**	75,446	267,372	48,125	32,233
Non-controlling interests	**–**	–	188,232	174,213	39,020
Total equity	**3,260,401**	2,936,611	515,460	483,925	260,132

* *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, 2021, the Company, and together with its subsidiaries, realized total revenue of RMB690.3 million, representing an increase of 35.0% as compared to RMB511.5 million in 2020. Our sales increased due to the significant recovery in elective surgery volume in China, the expansion and optimization of our distributor network, sales contribution from new products, and growth in export sales.

The Group's net profit attributable to owners of the parent for the year ended December 31, 2021 increased by 82.5% from RMB250.3 million in 2020 to RMB456.8 million in 2021 mainly due to the increase in revenue, increase in other income (e.g. bank interest income), fair value gain on equity investment, the absence of listing expenses and non-controlling interest, and reduction of share-based payment expenses. The Group's non-HKFRS adjusted net profit for the year ended December 31, 2021 which excludes the aforementioned non-recurring expenses as well as fair value gain on our equity investment in Jingfeng Medical and foreign exchange impact, increased by 28.7% from RMB334.5 million in 2020 to RMB430.4 million in 2021.

The Board has resolved to recommend the payment of a final dividend of HK17.23 cents per ordinary share of the Company for the year ended December 31, 2021.

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

2021 was a year of transition for the Group as we set new strategy and established development paths on multiple fronts. It was also the first full year since our IPO on the Stock Exchange.

For the domestic market, despite regional resurgence of COVID cases, which may continue in 2022, China's control measures kept small outbreaks under control. China's elective surgery volume for the most part returned to the pre-pandemic level and the penetration of minimally invasive surgery in China is expected to continue to grow. Demand for our products for both disposable and reusable products returned to steady growths.

Under the leadership of our new head of domestic sales and marketing, our much-expanded sales and marketing team now based in Beijing focused on improving our management of distributors and assisting distributors to adapt to our new standards. We completed re-alignment of all of our distributors in terms of geographic and product coverage, and identified specific needs and market opportunities for new distributors. By entering into sales agreements with all of our distributors with quarterly sales targets by key product category, we established a more robust and transparent evaluation mechanism, which allows us to monitor market needs and evaluate the effectiveness of our distributors on a more timely basis. The ongoing optimization of our distributor network will continue to be a focus of our sales and marketing strategy in the coming years.

Since 2020, the National Healthcare Security Administration has introduced national VBP of high-value medical consumables. None of our products has been affected so far by the national VBP; however, the expectations for ongoing reforms and regional VBPs have brought changes to the industry as well as our business model. In 2021, we participated and won bids in provincial and inter-provincial alliance VBPs in respect of our key products, including disposable trocars, polymer ligation clips and ultrasonic scalpel. It is worth noting that each provincial and inter-provincial alliance VBPs may have its own unique rules and circumstances. We make decisions on how to participate in the procurement process based on a number of factors such as the expected magnitude of price cut, potential sales volume increase, local competitive dynamics, etc. As a result, post each round of VBP, we may adopt different sales and distribution models.

In 2021, following the provincial VBPs for disposable trocars in Shandong and Fujian provinces respectively, we switched from a distributor model to a more direct sales model by distribution through logistics partner and engaging external academic promotion partners. Our sales volume for the periods post VBP implementation posted strong year-on-year growth. Our sales volume more than doubled in Shandong province for April to December of 2021 as compared to the same period in 2020. In the meantime, our margins for these products in Shandong and Fujian provinces have not been significantly affected even after taking into consideration the promotion expenses.

In terms of export sales, demand from overseas customers also recovered in 2021. Our export sales of RMB48.5 million in 2021 represented 35.8% year-on-year growth, or approximately 45.3% growth on a constant currency basis, without foreign exchange impact. We set new strategy and targets to develop our export sales in the coming few years through expanding the team, increasing registration of our products in overseas markets, further diversifying our export portfolio, and seeking distribution partners. We increased our overseas product registrations by 10 in 2021 mainly in Europe and South America which have been our top export markets. Our export sales expanded to more than 80 customers in 45 countries in 2021 from approximately 60 customers in 33 countries in 2020.

For the year ended December 31, 2021, we achieved total revenue of RMB690.3 million, representing a 35.0% increase from 2020. The Group's net profit attributable to owners of the parent for the year ended December 31, 2021 increased by 82.5% from RMB250.3 million in 2020 to RMB456.8 million in 2021. The increase was mainly due to the increase in revenue, increase in other income (e.g. bank interest income), fair value gain on equity investment, the absence of listing expenses and non-controlling interest, and reduction of share-based payment expenses. The Group's non-HKFRS adjusted net profit for the year ended December 31, 2021 which excludes the aforementioned non-recurring expenses as well as fair value gain on our equity investment in Jingfeng Medical and foreign exchange impact, increased by 28.7% from RMB334.5 million in 2020 to RMB430.4 million in 2021.

Research and Development

Continuing with our R&D strategy of developing "equipment + instruments + consumables" surgical solutions, we continue to focus on investing for the future in both advanced medical technology and recruitment of talent. In 2021, we commenced operation for a new R&D center in Xiaoshan district of Hangzhou, with the goal of building a team that focuses on more advanced and innovative technology and product development. We had a net increase of 10 new R&D professionals in 2021, bringing the total to 92 and most of the new recruits are now based in our new office. In 2021, we obtained a total of 9 new domestic registration approvals, excluding renewal registrations but, including 4K-ultra resolution endovision camera system and disposable powered endoscopic stapler and reloads. We also registered a total of 26 new patents in China, which included 1 invention patent, 24 utility patents and 1 design patent. As of December 31, 2021, the Company had obtained a total of 186 domestic patents, including 17 invention patents, 140 utility patents and 29 design patents.

In December 2021, Hangzhou Kangji was recognized by Zhejiang Provincial Department of Science and Technology (浙江省科學技術廳) as one of the key provincial enterprise research institutes (省重點企業研究院) in Zhejiang province.

In 2022, we expect to receive registration approvals for new products such as 4K UHD Fluorescence Camera System and 4K laparoscopes, endoscopic multiple titanium clips and reposable clip applier, absorbable clips, and upgraded disposable trocars with more functions. Even though these products will not have meaningful contribution to sales in 2022, they will further enrich our product portfolio and diversify our revenue mix.

Sales and Distribution

During the Reporting Period, we continue to expand our distributor network and deepen our product penetration. We increased our distributors by more than 30% in 2021 and our sales have covered more than 240 new hospitals, approximately half of which were Class IIIA hospitals. 2021 was the first year of commercial launch for our new products namely ultrasonic scalpels and 4K-ultra resolution endovision camera systems. Our distributors focused on completing each hospital's approval procedure for equipment purchase capital spending as well as gradually building installation base through trial use and collecting feedback on the products. We expect sales to ramp up more quickly in 2022. We also encouraged and incentivized our distributors to explore opportunities across our product portfolio, especially for underpenetrated products that are not subject to VBP but have huge potential in our addressable markets, such as single-site trocars, disposable electrocoagulation forceps, and other disposable products.

In 2021, we focused our academic promotional effort on differentiated, thematic, and more product-centric academic promotion activities in order to more effectively raise our brand awareness within our targeted surgical specialties. We sponsored multiple in-person events such as the inauguration event for establishing the Obstetric Minimally Invasive Surgical Division of the Chinese Association of Medical Equipment (中國醫學裝備協會產科微創外科手術分會), but due to ongoing COVID limitations, we could not sponsor or carry out any sizeable national event. Nevertheless, we successfully conducted many events online, such as training series on single-site trocar products (單孔康基學院), post-operative nursing lectures (康基護理課堂), as well as our online weekly Saturday live procedure forum and Q&A session where we invite KOLs to answer questions and provide clinical insights. Another highlight in 2021 was the central online academic promotion platform (康基學術平台) we built and launched. This online platform serves several purposes. It provides access to our live streaming channel, calendar of both online and offline academic promotion events, and a library of past event recordings. It has a catalogue of our key products and video demonstrations, offering hands-on techniques and practical takeaways for physicians while highlighting our differentiated product features. It also helps us continue to expand our network of KOLs and physicians across surgical specialties and regions. In 2022, we will implement ongoing optimization of our distribution channels and further develop our academic promotion capability.

Management Discussion and Analysis

Forward Outlook

Despite the uncertainty for the ongoing medical reforms and VBPs for medical device products, we believe we can adapt our sales model according to specific local market dynamics and mitigate potential impact on the profitability of our VBP products through gaining sales volume increase and deepening the penetration of our non-VBP products. We have plans to recruit talent across functions to enhance our management infrastructure and improve on retaining talent through ongoing training and more effective evaluation-reward system. At the time of this report, China's recent surge in Omicron related COVID cases and containment policy have posted uncertainties to our growth projections. Nevertheless, we remain confident about our growth strategy and market growth potential both domestically and in overseas markets.

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,		
	2021	2020	Changes
	RMB' 000	RMB' 000	%
Disposable products			
Disposable trocars	**334,123**	238,176	40.3
Polymer ligation clips	**178,440**	156,141	14.3
Disposable electrocoagulation forceps	**71,140**	43,197	64.7
Ultrasonic scalpels	**11,771**	1,468	701.8
Other disposable products(1)	**13,863**	10,284	34.8
Sub-total	**609,337**	449,266	35.6
Reusable products(2)	**80,926**	62,224	30.1
Total	**690,263**	511,490	35.0

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 RMB690.3 million for the year ended December 31, 2021, representing an increase of 35.0% as compared to RMB511.5 million for the year ended December 31, 2020. The increase in revenue was primarily attributable to: (i) the significant recovery in elective surgery volume in China after the containment of COVID 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; (iii) contribution from sales of new products, and (iv) growth in export sales as demand in overseas market recovered and our customers' operations returned to normal level.

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 RMB609.3 million for the year ended December 31, 2021, representing an increase of 35.6% as compared to RMB449.3 million for the year ended December 31, 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 88.3% of our total revenue as compared to 87.8% in 2020.

Disposable trocars recorded revenue of RMB334.1 million for the Reporting Period, representing an increase of 40.3% as compared with RMB238.2 million in 2020. Disposable trocars accounted for approximately 48.4% of our total revenue during the Reporting Period as compared to 46.6% in 2020. Sales of disposable trocars grew during the Reporting Period mainly because elective surgery volume had in general returned to the pre-pandemic level, and we also got a significant boost in sales volume of disposable trocars in Shandong province after the implementation of VBP in 2021. For the Reporting Period, our sales of disposable trocars in Shandong province are more than doubled as compared to 2020. This was partially offset by a decrease in sales revenue of disposable trocars in Fujian province due to the change in booking revenue under the “two-invoice” system based on VBP price point. For a second consecutive year, we continued to drive sales of single-site trocars, which has increased by 70.6% year-on-year and accounted for approximately 6.9% of our total revenue from disposable trocars.

Sales of polymer ligation clips grew at a slower pace in 2021 partly due to the uncertainty in regional VBP and as a result, our distributors were more cautious in stocking up products in anticipation of general price cut.

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 RMB80.9 million for the year ended December 31, 2021, representing an increase of 30.1% as compared with RMB62.2 million for the year ended December 31, 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 related restrictions. Besides, the launch of 4K-ultra resolution endovision camera systems during the year of 2021 has contributed to the increase in revenue from reusable products.

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 domestic hospitals and other customers primarily including distribution companies that we sell to who then distribute our products under the “two-invoice” system and under VBPs to hospitals. For overseas markets, our customers mainly include overseas ODM customers and overseas distributors.

Revenue from overseas markets was approximately RMB48.5 million for the year ended December 31, 2021, representing an increase of 35.8% from the same period in 2020. We recorded export sales growth of 45.3% on a constant currency basis in terms of USD, which is the transaction currency of our export sales. The depreciation of USD against RMB as compared to the same period in 2020 has resulted in a negative impact to our reported overseas sales in RMB. Revenue from overseas markets accounted for 7.0% of our total revenue for the year of 2021 as compared to 7.0% in 2020.

Management Discussion and Analysis

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

	For the year ended December 31,		
	2021	2020	Changes
	RMB' 000	RMB' 000	%
Domestic			
– Distributors	582,573	430,858	35.2
– Hospitals and other customers[(1)]	59,180	44,898	31.8
Sub-total	641,753	475,756	34.9
Overseas			
– ODM customers	43,703	32,153	35.9
– Distributors	4,807	3,581	34.2
Sub-total	48,510	35,734	35.8
Total	690,263	511,490	35.0

Note:

(1) Other customers include distribution companies we sell to directly for products under the "two-invoice" system and under VBPs that have been implemented in Shandong and Fujian provinces for the year of 2021.

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, 2021, our cost of sales was RMB127.3 million, representing an increase of 59.1% as compared with RMB80.0 million for the year ended December 31, 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 same period in 2020, which was mainly driven by the launch of our new products including ultrasonic scalpels and 4K-ultra resolution 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:

	For the year ended December 31,			
	2021		2020	
	Amount	% of Total	Amount	% of Total
	RMB' 000 (except percentages)			
Raw materials	59,850	47.0	34,647	43.3
Direct labor costs	37,278	29.3	25,792	32.2
Manufacturing costs[(1)]	30,209	23.7	19,581	24.5
Total	127,337	100.0	80,020	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 30.5% to RMB562.9 million for the year ended December 31, 2021 from RMB431.5 million for the year ended December 31, 2020, due to an increase in sales.

Our gross margin was 81.6% for the year ended December 31, 2021, down from 84.4% for the year ended December 31, 2020, which was primarily due to (1) the change in product mix attributable to sales contribution from new products including ultrasonic scalpels and 4K-ultra resolution endovision camera systems as well as the decrease in sales contribution from polymer ligation clips which have higher gross margins than our other products; (2) the decrease in gross margin for disposable trocars in Fujian province as a result of the implementation of VBP from under the "two-invoice" system; and (3) a slight increase in raw material costs and shipping cost.

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,			
	2021		2020	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB' 000 (except percentages)			
Disposable products	516,769	84.8%	392,452	87.4%
Reusable products	46,157	57.0%	39,018	62.7%
Total	562,926	81.6%	431,470	84.4%

Other Income and Gain

Other income and gain primarily consist of government grants, bank interest income, investment income from short-term financial products, fair value gain on equity investment and foreign exchange gain. Other income and gain for the year ended December 31, 2021 was RMB120.8 million, while for the year ended December 31, 2020, it was RMB57.1 million. The increase was primarily due to (1) an increase of RMB21.5 million and RMB12.9 million in bank interest income and investment income from financial assets at fair value through profit or loss, respectively as we deposited the unutilized net proceeds from the Global Offering into short-term demand deposits and/or money market instruments including short-term financial products purchased from banks for the purpose of hedging foreign exchange risk; (2) fair value gain of RMB31.6 million from our equity investment in Jingfeng Medical; and (3) an increase in foreign exchange gain of RMB3.1 million as explained in the section headed "foreign exchange exposure" below.

Selling and Distribution Expenses

Selling and distribution were RMB46.5 million for the year ended December 31, 2021, representing a decrease of 4.9% as compared with RMB48.9 million for the year ended December 31, 2020. The decrease was primarily due to (i) the decrease in share-based payment expenses associated with our RSUs granted to sales and distribution staffs; and (ii) the decrease in marketing and promotion fees paid to external partners in Fujian province as a result of the implementation of VBP for disposable trocars starting 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 RMB62.7 million for the year ended December 31, 2021, representing a decrease of 19.7% as compared with RMB78.0 million for the year ended December 31, 2020. The decrease was mainly due to the absence of listing expense and reduction of share-based payment expenses for the Reporting Period. Excluding the listing expense and share-based payment expense, our administrative expenses increased by RMB21.5 million or approximately 57.6% for the Reporting Period as compared to the corresponding adjusted amount in 2020 mainly due to an increase in staff costs, office and entertainment expenses, and external consultants' fees.

Management Discussion and Analysis

Research and Development Expenses

R&D expenses for the year ended December 31, 2021 was RMB36.0 million, representing an increase of 42.7% as compared with RMB25.2 million for the year ended December 31, 2020, primarily due to the increase in material costs, staff costs and testing and registration fees as we established the new R&D center in Xiaoshan, district of 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 R&D staff.

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 RMB3.8 million for the year ended December 31, 2021 representing a decrease of 85.5% from RMB26.3 million in 2020. The decrease was mainly due to the absence of foreign exchange loss as we recorded foreign exchange gain in the year of 2021. Other than foreign exchange loss, other expenses have increased by RMB2.5 million attributable to the increase in donation.

Income Tax Expenses

Income tax expenses were RMB77.7 million for the year ended December 31, 2021, representing an increase of 52.6% as compared with RMB50.9 million for the year ended December 31, 2020. The increase in income tax expenses was primarily due to the increase in taxable profit for the Reporting Period as well as an increase in the amount of RMB7.1 million in withholding taxes associated with the proposed dividends for 2021.

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 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 fair value gain on equity investment, 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,	
	2021	2020
	RMB'000	RMB'000
Profit for the year	**456,789**	259,150
Add/(Less):		
Fair value gain on equity investment	**(31,604)**	–
Foreign exchange difference	**(3,115)**	25,039
Listing expenses	**–**	32,314
Share-based payment expenses	**8,285**	18,001
Non-HKFRS adjusted net profit for the year	**430,355**	334,504

Notes:

(1) Fair value gain on equity investment is non-operational in nature which mainly arises from the change in fair value of our investment in Jingfeng Medical for the periods, the amount of which may not directly correlate with the underlying performance of our business operations.

(2) 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.

(3) 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.

(4) Listing expenses are one-off expenses in relation to the listing of our 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.

Turnover Period

Our inventory turnover days decreased to 177 days in the Reporting Period as compared to that of 209 days for the year of 2020, which reflected our efforts to monitor and control our inventory level along with our expansion of production.

Our trade receivable turnover days decreased to 47 days in the Reporting Period as compared to that of 59 days for the year of 2020 due to the decrease in trade receivables aged over 3 months. In 2021, we enhanced our effort in strengthening the credit control of our distributors such as requiring payments before shipment of goods for most of our distributors.

Our trade payable turnover days remained stable at 43 days in the Reporting Period as compared to 47 days for the year of 2020.

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 December 31, 2021, we had cash and cash equivalents of RMB2,953.7 million, as compared with RMB2,232.0 million as of December 31, 2020.

As at December 31, 2021, most of our cash and cash equivalents were denominated in RMB, USD and HK Dollars.

Net Current Assets

We had net current assets of RMB3,051.8 million as of December 31, 2021, representing an increase of RMB197.2 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.

Management Discussion and Analysis

Foreign Exchange Exposure

During the Reporting Period, the Group's operations were primarily based in the mainland China. Assets, liabilities and transactions in the PRC are mainly denominated in RMB, while overseas assets and transactions are mainly denominated in RMB and 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 year ended December 31, 2021, the Group recorded an exchange gain of RMB3.1 million, as compared to an exchange loss of RMB25.0 million for the year ended December 31, 2020, primarily attributable to the remeasurement gain of our RMB denominated cash balances held by offshore entities (with USD as their functional currency) along with the appreciation of RMB against USD during the year of 2021, the effect of which is partly offset by the exchange loss arising from our export sales and the remeasurement loss of USD denominated cash balances held by our operating entities in the PRC.

As at December 31, 2021, 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, the Group recorded a net decrease in exchange fluctuation reserve of RMB44.9 million during the Reporting Period (for the year ended December 31, 2020: RMB196.9 million) which partially offset the increase of the Group's net assets as at December 31, 2021.

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

Capital Expenditure

For the year ended December 31, 2021, the Group's total capital expenditure amounted to approximately RMB34.0 million, which was primarily used in construction of buildings and purchase of machinery, equipment and motor vehicles. The Group's capital expenditure for the year ended December 31, 2020 was approximately RMB14.3 million.

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

	For the year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Plant and machinery	**10,803**	6,238
Construction in progress	**5,905**	1,984
Furniture and fixtures	**6,064**	822
Motor vehicles	**1,657**	5,276
Buildings	**9,542**	–
Total	**33,971**	14,320

Charge of Assets/Pledge of Assets

As of December 31, 2021, we did not have any charge of assets or pledge of assets.

Borrowings

As of December 31, 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 December 31, 2021, the gearing ratio of the Group was 2.8% (as of December 31, 2020: 2.3%).

Contingent Liabilities

As of December 31, 2021, 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 and other investors, 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 at that time (the "**Proposed Investment**") in Jingfeng Medical's round B financing. Jingfeng Medical focuses on developing surgical robotic products and instruments for laparoscopic surgery in China. For further details of the Proposed Investment, please refer to the section headed "Connected Transactions" under the "Report of the Directors" of this annual report.

Jingfeng Medical had not recorded any revenue or profit as of the date of the investment, and there was no material change to the performance and future prospect of Jingfeng Medical during the Reporting Period.

Save as disclosed above and in the sections headed "Connected Transactions" and "Events after the Reporting Period" under the "Report of the Directors" of this annual report and as of the date of this annual report, the Group did not hold any major investments in the form of equity interest of any other companies, or have any other major acquisition or disposal.

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 and further explained in section headed "Use of Proceeds from the Global Offering" under the "Report of the Directors". Save as disclosed in this annual report, the Group did not have any plan for material investments and capital assets.

Employee and Remuneration Policy

As of December 31, 2021, the Group had 725 employees (December 31, 2020: 637 employees).

Total staff remuneration expenses including remuneration of the Directors and share-based payment expenses for the year ended December 31, 2021 amounted to RMB93.3 million (for the year ended December 31, 2020: RMB69.6 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 at December 31, 2021, a total of 26,810,000 RSUs had been granted under the RSU plan.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. ZHONG Ming (鍾鳴), aged 46, 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 Hangzhou Kangyin Investment Ltd.* (杭州康銀投資管理有限公司) 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; a limited partner at Hangzhou Huiding Enterprise Management Consulting Partnership (Limited Partnership) (杭州惠鼎企業管理諮詢合夥企業(有限合夥)) since May 2021; and a director at Hangzhou Gongjian Intellectual Property Service Center Co., Ltd. (杭州公健知識產權服務中心有限公司) since November 2021.

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 42, 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.

Ms. Frances Fang CHOVANEC (陳芳), aged 43, 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 38, 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 where she was responsible for healthcare investments of TPG Capital in greater China region.

From December 2015 to November 2021, Ms. Cai served as a director at Zhejiang Choisun Tea Development Co., Ltd. (浙江久晟油茶科技股份有限公司), whose shares were once traded on the NEEQ (stock code: 837518).

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;

Directors and Senior Management

- a non-executive director at Novotech Health Holdings Pte. Ltd. (諾威健康科技控股有限公司) since May 2021 and a director of member companies of Novotech Health Holdings Pte. Ltd. invested by TPG Capital, including a director at PPC Holding Company since August 2017, PPC Intermediate Holding Company 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 Pharmaservices 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;

- a non-executive director at Zhaoke Ophthalmology Limited since October 2020 whose shares are listed on the Stock Exchange (stock code: 06622);

- 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 non-executive director at Dingdang Health Technology Group Ltd. (叮噹健康科技集團有限公司) since May 2021.

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

Mr. CHEN Gang (陳剛), aged 38, was appointed as a non-executive Director on March 13, 2020. 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. From January 2018 to April 2022, Mr. Chen served as a director at Beijing Baicare Biotechnology Co., Ltd. (北京百康芯生物科技有限公司), a company primarily engaged in molecular diagnosis products for infectious disease; From October 2020 to September 2021, Mr. Chen served as a director at Hangzhou Sciwind Biotech Co., Ltd. (杭州先為達生物科技有限公司). From November 2020 to June 2021, Mr. Chen served as a director at Birdo Tech (Shanghai) Medical Technology Corporation Limited (都創(上海)醫藥科技股份有限公司).

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

- a principal since March 2017, a partner since March 2019 and a supervisor since January 2021 at LYFE Equity Investment Management (Shanghai) Co., Ltd. (洲嶺私募基金管理(上海)有限公司, previously known as 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 Anngeen 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) since September 2020, Shanghai Zhenge Biotech Co., Ltd. (上海臻格生物技術有限公司) since May 2020, Shanghai HeartCare Medical Technology Corporation Limited (上海心瑋醫療科技有限公司) since July 2020; Shanghai Shenqi Medical Technology Co., Ltd. (上海申淇醫療科技有限公司) since February 2021; Shenzhen Reetoo Biotech Co., Ltd. (深圳市瑞圖生物技術有限公司) since September 2020, Jingfeng Medical since January 2021 and MediLink Therapeutics (Suzhou) Co., Ltd. (蘇州宜聯生物醫藥有限公司) since February 2022; 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.

Independent Non-Executive Directors

Mr. JIANG Feng (姜峰), aged 59, 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 35 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 Guanhao 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), 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:

- an independent director since January 2022 at Eyebright Medical Technology (Beijing) Inc. (愛博諾德(北京)醫療科技股份有限公司), an ophthalmic medical device company whose shares are listed on the Shanghai Stock Exchange (stock code: 688050);

- 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;

Directors and Senior Management

- 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.

Mr. GUO Jian (郭建), aged 66, 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.

From 1985 to 2021, Mr. Guo had been employed as a teaching faculty by Law School of Fudan University (復旦大學), and was a professor of Law School of Fudan University before Mr. Guo retired in 2021. 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 48, 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. From April 2019 to November 2021, Mr. Chen served as a joint 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). Mr. Chen has been serving a secretary to the board at Zhejiang Sunlight Material Technology Co., Ltd. (浙江深藍新材料科技有限公司) since July 2016.

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.

SENIOR MANAGEMENT

Mr. ZHONG Ming (鍾鳴), aged 46, 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 42, 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 (陳芳), aged 43, 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 44, 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 the company's 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 42, 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 47, 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 36, 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 (雎建勇), aged 46, 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 36, 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 44, 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, 2021.

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 volume-based 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 or distribution model, we will analyze each situation based on key factors such as potential decline in retail price, ex-factory price, competitive dynamics, distributor network and coverage of the local markets, in order to decide on the best course of action for the Company to take advantage of opportunities and mitigate potential impact on our business.

In light of the outbreak of COVID pandemic and its variants since 2020, authorities in China have taken emergency public health measures including imposing travel and other work-related restrictions. Such measures may adversely affect our business as patients may delay their elective surgical appointments or plans; and there may be disruption or delay to the supply chain of the Group including the procurement of raw materials and shipment of finished products.

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 33 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the Reporting Period,

(i) the Group's largest supplier accounted for 7.9% (2020: 8.4%) of its total purchases, and the five largest suppliers accounted for 25.1% of its total purchases (2020: 27.5%); and

(ii) the Group's largest customer accounted for 18.2% (2020: 25.6%) of its total sales, and the five largest customers accounted for 40.5% of its total sales (2020: 44.8%).

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, 2021 amounted to RMB2,754.8 million (2020: RMB2,786.8 million)

BANK AND OTHER BORROWINGS

As of December 31, 2021, 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.

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

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 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 first general meeting of the Company after her appointment, and thereafter 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 any unexpired 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).

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, save as disclosed in the section headed "Connected Transactions" below, no other 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).

Report of the Directors

CONNECTED TRANSACTIONS

On January 12, 2021, Kangji Hong Kong entered into an investment agreement with Jingfeng Medical and other Investors in relation to the Proposed Investment as disclosed in the section headed "Major Investments, Acquisition and Disposal" under "Management Discussion and Analysis" of this annual report. The Proposed Investment was an integral part of the Group's strategic investment in the field of intelligent surgical equipment and instruments sector and participation in the development of surgical robot industry in China.

Other investors include Hangzhou Yinkaixin Medical Technology LLP* (杭州銀凱欣醫療科技合夥企業(有限合夥)("**Yinkaixin**")), a limited partnership wholly-owned by the Controlling Shareholders. Yinkaixin is a limited partnership wholly-owned by Mr. ZHONG Ming and Ms. SHENTU Yinguang, who are Controlling Shareholders and executive Directors, and therefore Yinkaixin is a connected person of the Company pursuant to the Listing Rules. Accordingly, the Proposed Investment constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Mr. ZHONG Ming and Ms. SHENTU Yinguang were considered to have material interest in the Proposed Investment due to their participation as other investors through Yinkaixin and were therefore required to abstain from voting on the relevant Board resolutions in approving the Proposed Investment. For further details of the Proposed Investment, please refer to the announcement of the Company dated January 12, 2021.

Details of related party transactions for the year ended December 31, 2021 are set out in note 30 to the consolidated financial statements. None of such related party transactions constitute 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 ended December 31, 2021 are set out in the section headed "Management Discussion and Analysis" on page 15 of this annual report.

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 2021, 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 ESG report of the Company prepared in accordance with Appendix 27 of the Listing Rules is set out on pages 51 to 97 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/ kind of entity	Date of establishment	Shareholding percentage	Major business
Hangzhou Kangji	Hangzhou, Zhejiang Province, PRC, limited liability enterprise	August 24, 2004	100%	PRC headquarters of our business, including manufacturing, distribution and research and development
Jiangxi Kanghuan	Jiujiang, Jiangxi Province, PRC, limited liability enterprise	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, 2021, 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, 2021, 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.

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

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

Interest in the Company

Name of Director/Chief Executive	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of shareholding in the total issued share capital (%)
Mr. ZHONG Ming	Beneficiary of a trust (Notes 2)	408,500,000 (L)	32.81 (L)
	Interest of spouse (Notes 4)	231,500,000 (L)	18.59 (L)
Ms. SHENTU Yinguang	Beneficiary of a trust (Notes 3)	231,500,000 (L)	18.59 (L)
	Interest of spouse (Notes 4)	408,500,000 (L)	32.81 (L)
Ms. Frances Fang CHOVANEC	Beneficial owner (Notes 5)	4,120,000 (L)	0.33 (L)

Notes:

(1) The letter "L" denotes our directors' long position in the 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.

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 (Notes 2)	408,500,000 (L)	32.81 (L)
BOS Trustee Limited	Trustee of a trust (Notes 3)	231,500,000 (L)	18.59 (L)
Fortune Spring ZM B Limited	Beneficial owner (Notes 2)	408,500,000 (L)	32.81 (L)
Fortune Spring YG B Limited	Beneficial owner (Notes 3)	231,500,000 (L)	18.59 (L)
Keyhole Holding Limited	Beneficial owner (Notes 4)	216,190,500 (L)	17.36 (L)

Notes:

(1) The letter "L" denotes long position in the 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 member 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.

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.

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, 2021 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

The Company repurchased a total of 7,031,000 Shares on the Stock Exchange at an aggregate consideration of approximately HK$62.1 million during the year ended December 31, 2021 (2020: nil) at price ranging from HK$7.30 to HK$10.32. 6,331,000 Shares were cancelled during the year ended December 31, 2021 and the remaining 700,000 Shares were subsequently cancelled on January 27, 2022. The Directors believe that the share repurchases were in the best interests of the Company and its shareholders and would lead to an enhancement of the net assets value per share and/or earnings per share of the Company. The particulars of the share repurchase are as follows:

Date	Number of shares repurchased	Highest purchase price per share (HK$)	Lowest purchase price per share (HK$)	Aggregate amount of purchase price (HK$)
September 29, 2021	300,000	10.32	10.1	3,064,290
October 5, 2021	300,000	10.18	9.89	3,003,270
October 6, 2021	400,000	9.86	9.57	3,878,800
October 20, 2021	300,000	9.89	9.59	2,928,210
October 21, 2021	400,000	9.88	9.43	3,846,520
October 27, 2021	400,000	8.81	8.62	3,478,240
October 29, 2021	400,000	8.94	8.58	3,521,280
November 4, 2021	300,000	8.7	8.42	2,569,980
November 8, 2021	350,000	8.24	8.02	2,842,490
November 9, 2021	350,000	8.39	8.12	2,894,010
November 10, 2021	350,000	8.55	8.17	2,944,585
November 11, 2021	350,000	8.67	8.5	3,002,230
November 12, 2021	350,000	8.8	8.73	3,066,805
November 15, 2021	331,000	8.85	8.66	2,887,710.2
November 16, 2021	350,000	8.97	8.7	3,113,880
November 17, 2021	350,000	9.08	8.91	3,145,660
November 18, 2021	400,000	9	8.67	3,543,640
November 19, 2021	350,000	8.96	8.72	3,104,185
December 6, 2021	400,000	7.5	7.3	2,948,600
December 15, 2021	300,000	7.81	7.48	2,300,370
Total	7,031,000			62,084,755.2

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed Shares during the year ended December 31, 2021.

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 terms of the Pre-IPO Share Option Plan and the RSU Plan are not subject to the provisions of Chapter 17 of the Listing Rules. 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.

(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 4 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.

Report of the Directors

(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, 2021, 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 are set out below:

Name of grantee	Position	Exercised during the Reporting Period	Outstanding as of December 31, 2021	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 second year anniversary of the vesting commencement date; 1,180,000 Shares on the third year anniversary of the vesting commencement date	0.33%

(b) RSU Plan

The following is a summary of the principal terms of 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 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 4 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. During the Reporting Period, 5,620,000 underlying Shares under the RSU Plan were granted to our senior management and employees. As of December 31, 2021, 63 management team members and employees were approved by the Board to be grantees under the RSU Plan with a total of 26,810,000 underlying Shares under the RSU Plan.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

On January 12, 2021, Kangji Hong Kong 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.

Jingfeng Medical had not recorded any revenue or profit as of the date of the investment, and there was no material change to the performance and future prospect of Jingfeng Medical during the Reporting Period.

Saved as disclosed above, during the year ended December 31, 2021, we did not have any material acquisition and disposal of subsidiaries.

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 December 31, 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)	Utilization during the year ended December 31, 2021 (RMB million)	Actual usage up to December 31, 2021 (RMB million)	Unutilized net proceeds as at December 31, 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	6.6	7.0	257.3	within three to five years
to build up production capabilities for pipeline products	10.2	284.7	260.1	275.1	13.1	18.3	256.8	within six years
For funding our R&D activities, including:								
to establish R&D centers	17.0	474.5	433.5	458.5	7.7	7.7	450.8	within four years
for development and expansion of our product pipeline	8.0	223.3	204.0	215.8	34.1	47.1	168.7	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	12.0	18.1	386.4	within four to five years
to increase our overseas sales	5.0	139.6	127.5	134.9	0.4	0.4	134.5	within three to five years
For funding potential strategic investment and acquisitions	25.0	697.8	637.5	674.3	80.1	80.1	594.2	within five years
For our working capital and general corporate purposes	10.0	279.1	255.0	269.7	51.0	72.3	197.4	within four to six years
Total	**100.0**	**2,791.1**	**2,550.0**	**2,697.1**	**205.0**	**251.0**	**2,446.1**	

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.

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 25, 2022. The notice of the AGM will be sent to the Shareholders at least 21 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 20, 2022 to May 25, 2022 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 19, 2022.

(b) For determining the entitlement to the proposed final dividend for the year ended December 31, 2021 subject to the approval by the Shareholders at the AGM, the register of members of the Company will be closed from May 31, 2022 to June 6, 2022 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 30, 2022.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK17.23 cents per Share for the year ended December 31, 2021 to the Shareholders whose names appear on the register of members of the Company on June 6, 2022, 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 28, 2022.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the memorandum and articles of association (the "**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.

Report of the Directors

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.

PERMITTED INDEMNITY PROVISION

The Company has maintained appropriate liability insurance policies for its Directors and senior management during the Reporting Period.

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, 2021 has been audited by Ernst & Young. A resolution for the re-appointment of Ernst & Young as the auditors of the Company for the 2022 financial statements will be proposed at the AGM.

DONATION

During the year ended December 31, 2021, the Group made charitable and other donations amounting to RMB3,602,000.

EVENTS AFTER THE REPORTING PERIOD

On January 18, 2022, Kangji Hong Kong, a wholly-owned subsidiary of the Company, entered into an equity investment agreement with, among others, Hangzhou Weijing, and existing shareholders of Hangzhou Weijing, to (i) subscribe for 32.75% equity interests in Hangzhou Weijing at a consideration of RMB340 million; and (ii) acquire an aggregate 2.25% equity interests in Hangzhou Weijing on a fully diluted basis from two of the shareholders at an aggregate consideration of RMB22,870,000. Hangzhou Weijing is primarily engaged in the research and development and production of the endoscopic surgical instruments control system, and is about to commence clinical trials for its surgical robotic products for laparoscopic surgery. Upon completion of the investment, Hangzhou Weijing, being held as to 35% by Kangji Hong Kong, will become an indirect non-wholly owned subsidiary of the Company and the financial results of Hangzhou Weijing will be consolidated into the Company's consolidated financial statements. The completion of the investment has been divided into two phases and the first phase has been completed on February 24, 2022. Please refer to the announcement of the Company dated January 18, 2022 for further details.

Save as disclosed above, no significant event occurred since the end of the Reporting Period and up to the date of this annual report.

By order of the Board
ZHONG Ming
Chairman of the Board

Hangzhou, PRC
March 22, 2022

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, 2021.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders of the Company and to enhance corporate value and accountability. The Company has adopted the CG Code as its own code of corporate governance.

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 during the Reporting Period. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

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 four Board committees including the Audit Committee, the nomination committee (the "**Nomination Committee**"), the remuneration committee (the "**Remuneration Committee**") and the Environmental, Social and Governance Committee (the "**ESG 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.

Corporate Governance Report

BOARD COMPOSITION

During the year ended December 31, 2021 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)*
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

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

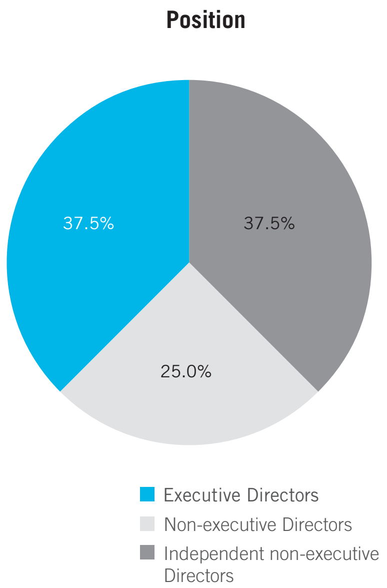
During the Reporting Period, the Board has met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one possessing appropriate professional qualifications or accounting or related financial management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

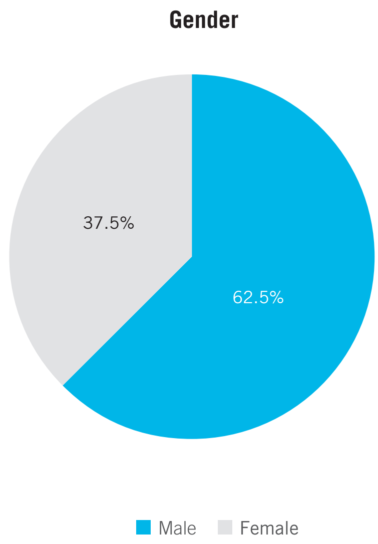
The Company has also complied with Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive Directors representing one-third of the Board. Each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules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

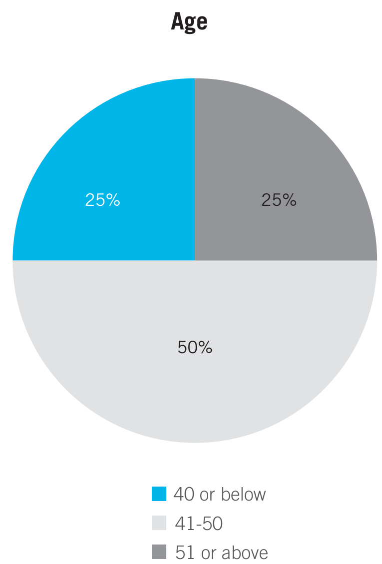
Corporate Governance Report

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. 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, 2021, 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.

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, 2021 is summarized as follows:

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code (which has been re-numbered as code provision C.2.1 since January 1, 2022) 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 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 the executive Directors, except for Ms. Frances Fang CHOVANEC, 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. 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 first general meeting of the Company after her appointment, and thereafter subject to retirement by rotation and re-election at annual general meetings of the Company. Each of the service contracts will continue until terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company for an 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.

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, one general meeting was held and 4 Board meetings were held and the attendance of individual Director at the Board meetings and the general meeting are set out in the table below:

Directors	Number of Actual Attendance at Board Meetings/ Number of Required Attendance at Board Meetings	Number of Actual Attendance at General Meeting/ Number of Required Attendance at General Meeting
Mr. ZHONG Ming	4/4	1/1
Ms. SHENTU Yinguang	4/4	1/1
Ms. Frances Fang CHOVANEC	4/4	1/1
Ms. CAI Li	4/4	1/1
Mr. CHEN Gang	4/4	1/1
Mr. JIANG Feng	4/4	1/1
Mr. GUO Jian	4/4	1/1
Mr. CHEN Weibo	4/4	1/1

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Written Guidelines during the year ended December 31, 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.

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 four committees under the Board pursuant to the corporate governance practice requirements under the Listing Rules, including the Audit Committee, Remuneration Committee, Nomination Committee and ESG 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, 2021. 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 Reporting Period, the Audit Committee held 2 meetings to discuss and consider the following: review the audited financial statements for the year ended December 31, 2020; review the report on the 2021 audit plan; review the interim financial statements for the six months ended June 30, 2021; make recommendation to the Board on the re-appointment of the external auditor; approve the remuneration of the external auditor for the year ended December 31, 2021; 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

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 Reporting Period, the Nomination Committee held 1 meeting to discuss and consider the following: make recommendations to the Board on the reappointment of Directors; assess the independence of independent non-executive Directors; and review the Board Diversity Policy.

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

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

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 Reporting Period, the Remuneration Committee held 2 meetings to discuss and consider the following: review and approve the remuneration payable to the Directors and senior management for the year ended December 31, 2021.

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	2/2
Ms. SHENTU Yinguang	2/2
Mr. GUO Jian	2/2

ESG COMMITTEE

Our Company has established the ESG Committee under the Board in December 2021. The ESG Committee comprises three executive Directors, namely Mr. ZHONG Ming, Ms. SHENTU Yinguang and Ms. Frances Fang CHOVANEC. Mr. ZHONG Ming is the chairman of the ESG Committee.

The ESG Committee has the following duties and powers:

1. guide and supervise the Company's ESG related management direction, strategies, key issues and ESG policy targets;

2. ensure the establishment of effective and appropriate ESG risk management and internal control systems, and evaluate ESG related risks and opportunities;

3. supervise the management of ESG related matters by management of the Company and regularly evaluate the Company's achievement of ESG related targets; and

4. approve the ESG reports of the Company and other ESG related disclosures, and regularly report to and make recommendations to the Board.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the Directors of the Company during the year ended December 31, 2021 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, 2021 falls under the following bands:

Band of remuneration	**Number of individuals**
HK$500,001 to HK$1,000,000	3
HK$1,000,001 to HK$1,500,000	3
HK$4,500,001 to HK$5,000,000	1
HK$6,500,001 to HK$7,000,000	1

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibilities for the preparation of the financial statements for the year ended December 31, 2021 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 100 to 101 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.

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.

During the Reporting Period, the Group has newly established an internal audit department with increased professional team members to perform the internal audit function, which is responsible for the improvement of the risk management policies and the implementation of risk management practices, and regularly report the relevant work to the Board and the Audit Committee. In order to standardize the risk management across the Group and establish standards of transparency and risk management performance, the internal audit department is responsible to (i) collect data on risks related to their operation and work; (ii) conduct risk assessment, including the identification, categorization, measurement and prioritization 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 Group has developed and adopted internal control process with defined rights and responsibilities for each key business and function department, including sales and collection management, procurement and payment management, production and inventory management, R&D management, fixed assets management, human resources and remuneration management, capital management, contract management and information system management. The internal audit department is responsible for conducting independent reviews on the effectiveness of the design and implementation of the Group's internal control system , inspecting major matters related with accounting practices and all material controls, and providing the auditee with its findings and suggestions for improvement, and regularly reporting to 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 annually 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 Group, 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.

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, 2021 is as follows:

Type of services	Amount (RMB' 000)
Audit services	2,600
Non-audit services:	
– Environmental, social and corporate governance advisory	250
Total	2,850

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, 2021, 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 AGM provides 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 AGM to answer Shareholders' questions. The auditor will also attend the AGM 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 the Shareholders' communication policy to ensure the Shareholders are provided with equal and timely access to information about the Company and enable them to exercise their rights in an informed manner and to allow them to engage actively with the Company. The policy sets out various communication strategies, including corporate communication, corporate website, and Shareholders being provided with designed contacts, email addresses and enquiry telephone number of the Company in order to enable them to make any query.

The Company maintains a website at 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 Association 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. 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.

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, 2021.

ABOUT THE REPORT

Report Overview

This report is the second ESG report issued by the Company, focusing on disclosing the ESG management and performance of the Group. This Report is an annual report covering the work during the Reporting Period, part of contents of which may cover previous years or be extended to 2022 as applicable.

Preparation Basis

This Report was prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules of the 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 22, 2022. 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

Environmental, Social and Governance Report

STATEMENT FROM THE BOARD OF DIRECTORS

The Board attaches great importance to the Group's sustainable development performance, and has established an ESG Committee, which is responsible for assisting the Board in reviewing the Company's ESG-related strategies and supervising the implementation of ESG measures, including determining the Group's important ESG issues, reviewing the Group's outlook, strategies, frameworks, principles and policies on ESG issues, reviewing and monitoring ESG practices, overseeing the achievement of the Group's objectives, and reporting to the Board on ESG issues. The ESG Committee has set up an ESG Working Group, which is responsible for coordinating the implementation of specific ESG projects by relevant departments and ensuring the resource investment and implementation of ESG work.

We also attach great importance to the expectations and demands of internal and external stakeholders, communicate closely with stakeholders through regular or irregular events, identify and assess important ESG issues, and discuss and review them at the Board. Based on the external macro environment, industry development trends and its own development strategies, the Board discusses and determines the Group's ESG risks and opportunities, and makes decisions on important ESG management work for the year. During the Reporting Period, with reference to the world's leading climate change-related disclosure framework, we identified the risks and opportunities brought by climate change to the Group's future business operations, assessed the possibility and impact of relevant risks and opportunities, and formulated targeted response plans and measures.

At the same time, we have set environmental-related goals, and actively carried out various green and low-carbon actions, actively responding to the national strategy of "carbon peaking by 2030 and carbon neutrality by 2060". We will monitor and review the achievement of future goals, and regularly adjust and expand sustainable development investment based on domestic and international sustainable development trends.

RESPONSES TO THE STOCK EXCHANGE'S ESG REPORTING PRINCIPLES

Materiality principle: In accordance with the relevant regulatory requirements such as the "Environmental, Social and Governance Reporting Guide" of the Stock Exchange, through different forms of communication and exchanges with various stakeholders, conduct benchmarking analysis on the issues disclosed in the ESG reports of companies in the industry, and finally identify and screen out major sustainable development issues.

Quantitative principle: Develop ESG indicator management tools covering all departments, conduct regular statistics on quantitative key disclosure indicators including all "environmental" categories and some "social" categories in the ESG reporting guide, and summarize and disclose them at the end of the year. At the same time, relevant quantitative indicators have clear statistical calibers, detailed calculation methods and explanations.

Consistency principle: The disclosure scope of this report has not been significantly adjusted compared with the Company's annual report, except that the statistical methods of individual key performance indicators have been optimized to improve the accuracy and completeness of data statistics (the changes and reasons have been explained in detail in the main body of this report), all other indicators use consistent disclosure and statistical methods.

ABOUT US

Founded in August 2004, the Group is a high-tech enterprise specializing in R&D, production and sales of MISIA. Adhering to the mission of "enable physicians and improve health and wellness of patients through providing high performing and accessible products and services" and the values of "customer first, innovation first, integrity and honesty, and proactiveness", the Group provides one-stop solutions of "equipment + instruments + consumables" for minimally invasive surgery in clinical departments such as obstetrics and gynecology, general surgery, urology and thoracic surgery through its extensive product portfolio, and is accelerating its progress towards the vision of "becoming a world-class medical device enterprise".

As at the end of the Reporting Period, the Group's products have been sold to more than 3,500 hospitals (including more than 1,000 Class IIIA hospitals) in China through its extensive sales network, covering all provinces, municipalities and autonomous regions in Mainland China. The products were also sold to 45 other countries and regions outside of China.

Major Honors

During the Reporting Period, the list of honors received by the Group is as follows:

No.	Honors Received	Issuing Organization	Time of Issuance
1	Zhejiang Kangji Key Research Institute of Intelligent Minimally Invasive Endoscopic Devices	Science and Technology Department of Zhejiang Province	December 2021
2	2020 Per-Mu Efficiency Leader of Zhejiang Province (manufacturing category)	Leading Team of Zhejiang Province for Deepening the Reform of "Per-Mu Hero"	February 2021
3	Grade II Safety Production Standardization Enterprise (machinery category)	Emergency Management Department of Zhejiang Province	February 2021
4	Quality Award of Hangzhou Municipal People's Government	Hangzhou Municipal People's Government	January 2022
5	2020 Industrial Per-mu Tax Leading Enterprise of Tonglu County	People's Government of Tonglu County	April 2021
6	Top 10 Industrial Profit and Tax Enterprises of Tonglu County in 2020	People's Government of Tonglu County	April 2021

Environmental, Social and Governance Report

1. ESG MANAGEMENT AND ETHICS TRAINING

Compliance operation is the cornerstone of the steady development of an enterprise. We promote the organic integration of ESG management and our own operation and development, continue to improve the level of ESG management, adhere to abide by business ethics, and continuously consolidate the foundation of compliance operation to ensure sustainable and high-quality development.

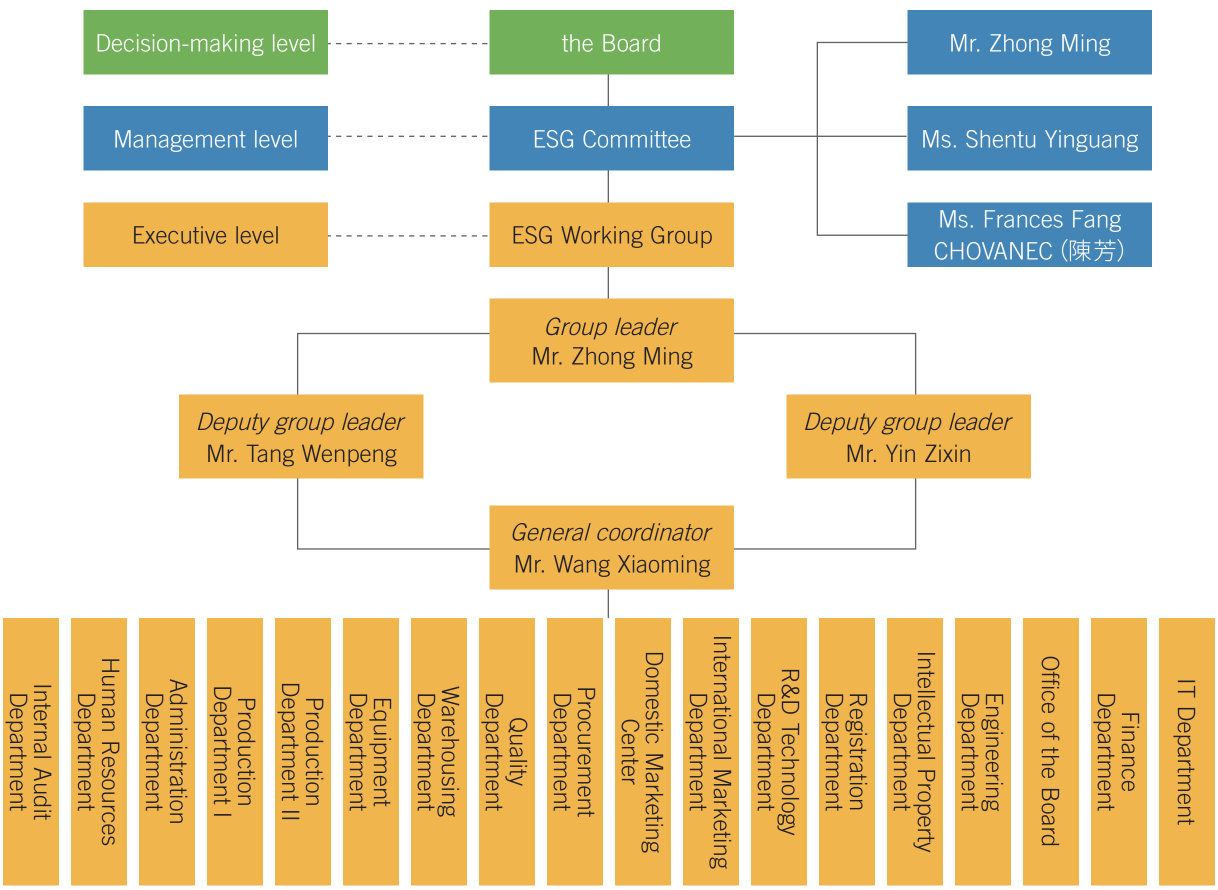
1.1 Improve ESG Management

We integrate ESG concepts into our strategic development goals and implement them in our daily operation and management and innovation activities. By continuously improving the ESG management system, clarifying the direction of ESG management, innovating ESG working methods, and deepening the results of ESG practices, we actively share development results with various stakeholders, continuously create greater value for stakeholders, and pursue the common sustainable development of itself together with economy, society and environment.

ESG Management Structure

In order to strengthen the ESG management capabilities and ensure the effectiveness of ESG management, we have established a top-down ESG management structure. The ESG management structure consists of three levels: the Board, the ESG Committee and the ESG Working Group, with clear division of responsibilities and coordination at all levels. Among which, the Board, as the highest responsible organization in the ESG management structure, is responsible for the review and approval of various ESG issues; the ESG Committee, as the core organization in the ESG management structure, is authorized by the Board to be responsible for supervising the implementation of ESG policies and measures; the ESG Working Group, as the main coordinating and implementing agency in the ESG management structure, is responsible for the implementation of various ESG measures.

ESG MANAGEMENT STRUCTURE OF KANGJI MEDICAL



Stakeholder Communication

We are committed to building good cooperative and mutually beneficial relationships with stakeholders, striving to achieve win-win and maximize value. In order to understand the expectations and demands of stakeholders in a timely and comprehensive manner, based on our own business scope and nature of production and operation, we have identified stakeholders who are closely related to the Company's development, expanded diversified communication channels, and established real-time, effective, long-term communication mechanism, and actively responded to stakeholders with practical actions. During the Reporting Period, we maintained close communication with stakeholders, and promoted stakeholders' participation in major decision-making and other strategic adjustments through various offline and online methods, so as to help the Group make more effective management decisions and continuously improve the ESG management level.

The stakeholders that are important to the Group's business operations, major issues of concern, communication and response methods are shown in the table below:

Stakeholders	Major Issues of Concern	Ways of Communication and Response
Shareholders/ Investors	Stable return Legal and regulatory compliance Risk management Transparent operation	– Shareholders' general meeting – Investor's meeting – Earnings call – Press release/announcement – On-site visit and meeting – Investor's hotline
Government/ Regulators	Legal and regulatory compliance Information security Anti-corruption Pay taxes according to law	– On-site visit and meeting – Policy Implementation – Official correspondence – Information disclosure
Suppliers	Responsible procurement Fair and transparent Integrity performance	– Phone/Email/WeChat/Questionnaire – Supplier's meeting – Investigation and visit – Assessment on supplier
Customers/ Distributors	R&D and innovation Quality of customer service Responsible marketing Management of sensitive customer information	– Phone/Email/WeChat/Questionnaire – Academic promotion – Distributors' meeting – Training
Partners	Industry exchange Win-win cooperation	– Phone/Email/WeChat/Questionnaire – On-site visit and meeting
Doctors/ Patients	R&D and innovation Product safety and quality Health access/inclusiveness	– Training – Industry meeting

Stakeholders	Major Issues of Concern	Ways of Communication and Response
Employees	Employee rights protection	– Interview/Phone/Email/WeChat/ Questionnaire
	Remuneration and benefits	– Internal meeting
	Health and safety	– Employee activity
	Development and training	– Training
Media/ Social organization	Legal and regulatory compliance	– Press release/announcement
	Impact of business on society	– Interview
		– Meeting
Community/ Public	Community contribution	– Community activity
	Charity	– Volunteer service

Analysis of Major Issues

During the Reporting Period, we identified and summarized 24 major ESG issues in accordance with the *Environmental, Social and Governance Reporting Guide* of the Stock Exchange, combined with the characteristics of the minimally invasive surgery industry and the business reality of Kangji Medical. Through policy research, media analysis, industry benchmarking, and questionnaire surveys for internal and external stakeholders, we assess and rank the importance of each ESG issue in terms of the degree of impact on the Group's strategic operations and the degree of impact on stakeholders, the assessment results are divided into three grades: high, moderate and general. Among them, there are 5 issues of high materiality, 17 issues of moderate materiality and 2 issues of general materiality. This report will make targeted disclosure responses to various issues according to their importance.

Identification

- Identify ESG issues based on industry development characteristics and our own business reality.

Assessment

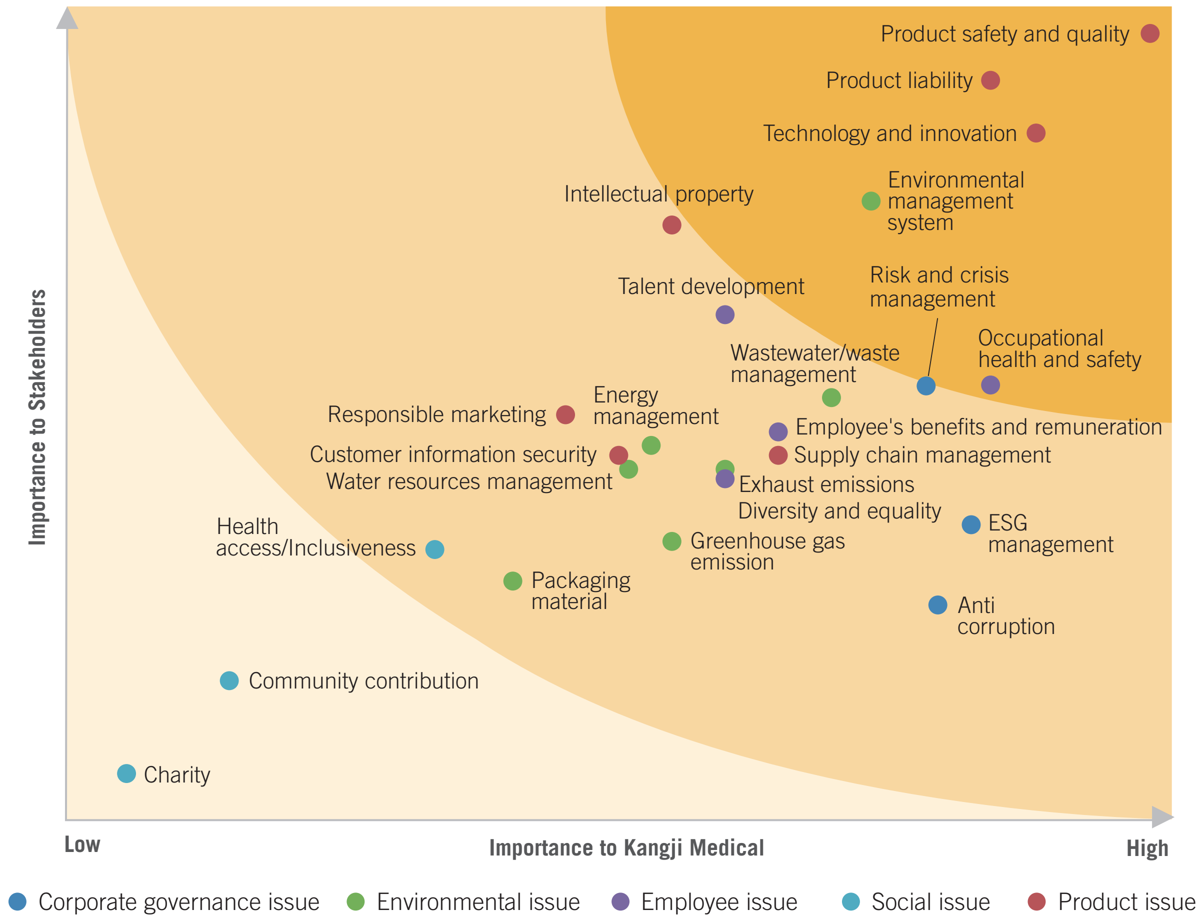
- Carry out external policy research, peer benchmarking analysis, media investigation and analysis, review relevant documents, organize research and interviews with stakeholders, and invite internal and external stakeholders to assess the importance of each issue, and understand the priority issues concerned by stakeholders, so as to form an analysis matrix of major issues.

Verification and Reporting

- Verify and confirm the preliminary assessment results of issues based on strategic planning and business policies; submit the matrix of major issues to the management to confirm the materiality and impact of the identified issues; truthfully reflect the Group's performance on relevant issues in the report, and make targeted responses and disclosures based on the importance of the issues.

Analytical Process for Material Issues

Matrix of Major Issues



Issues of high materiality (5 items)	Issues of moderate materiality (17 items)		Issues of general materiality (2 items)
Product safety and quality	Responsible marketing	Supply chain management	Charity
Technology and innovation	Intellectual property	Customer information security	Community contribution
Product liability	Water resource management	Wastewater/Waste Management	
Environmental management system	Packaging materials	Energy management	
Occupational health and safety	Exhaust emissions	Greenhouse gas emission	
	Talent development	Employee benefits and compensation	
	Diversity and equality	Anti-corruption	
	Risk and crisis management	ESG management	
	Health access/ Inclusiveness		

1.2 Promote Anti-corruption and Integrity

We abide by the business values of fairness, transparency, integrity and honesty, and have zero tolerance for corruption, bribery and other unethical behaviors. We also strictly comply 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, and establish sound systems, such as the *Anti-Fraud Management System, Anti-Bribery Management System, Anti-Money Laundering Management System, and Reward and Punishment System* and other policies, strengthen the code of conduct for employees and the construction of a clean culture, strictly prevent the occurrence of corruption incidents, so as to build an honest, trustworthy, clean and compliant corporate. In the process of promoting clean construction, we also require cooperative suppliers to sign the *Supplier Code of Conduct*, and distributors to sign the *Anti-Commercial Bribery Commitment*, in order to regulate the cooperation with suppliers and distributors through two-way supervision, and create clean and upright compliance environment and healthy and good business atmosphere. During the Reporting Period, we had no corruption cases transferred to the judiciary.

Compliance Supervision and Appealing

A good and smooth compliance supervision channel can ensure the enthusiasm and initiative of stakeholders in reporting issues. In order to standardize the performance of duties and promote integrity practice, we have established an effective compliance supervision and appeal system, and published the compliance supervision hotline and email address on the Group's official website. We advocate the management to be strict with themselves and play a leading and exemplary role. We also encourage employees to monitor each other and create a clean and efficient working atmosphere. Stakeholders can actively use compliance supervision channels to report any suspected illegal, irregular or improper behavior. After receiving the report information, we will carry out investigation and handle as soon as possible, and provide timely feedback to the whistleblower. At the same time, we promise to keep the whistleblower's information strictly confidential and prohibit retaliation against the whistleblower.

Integrity Training

We have established and continuously optimized the internal control system and strengthened supervision and implementation to minimize management loopholes and opportunities for fraud. We adhere to the combination of positive guidance and negative warnings, and actively carry out publicity and education on ethical code of conduct through a wide range of methods, to enhance employees' awareness, prevent violations of laws and promote self disciplines and build an honest and ethical workforce.

During the Reporting Period, we conducted anti-corruption training for the Board, management, and key employees of sales, procurement, engineering and finance of the Group, with a total of 161 employees participated.

2. BUILD EXCELLENT QUALITY

Taking "enable physicians and improve health and wellness of patients through providing high performing and accessible products and services" as our mission and adhering to the quality policy of "standardized management in line with regulatory requirements; high-quality services to meet customer needs; quality-oriented operation to achieve sustainable development; forging ahead for human health", we insist on ensuring product quality, continuously improve the quality management system, and strictly manage the process. At the same time, we attach great importance to customer service experience, continuously improve customer service, practice responsible marketing, and continuously consolidate and improve customer satisfaction.

2.1 Consolidate Quality Management

We understand that the quality, safety and reliability of our products are the foundation of the Group's success, and we put quality management at the top of the Group's development. 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 System

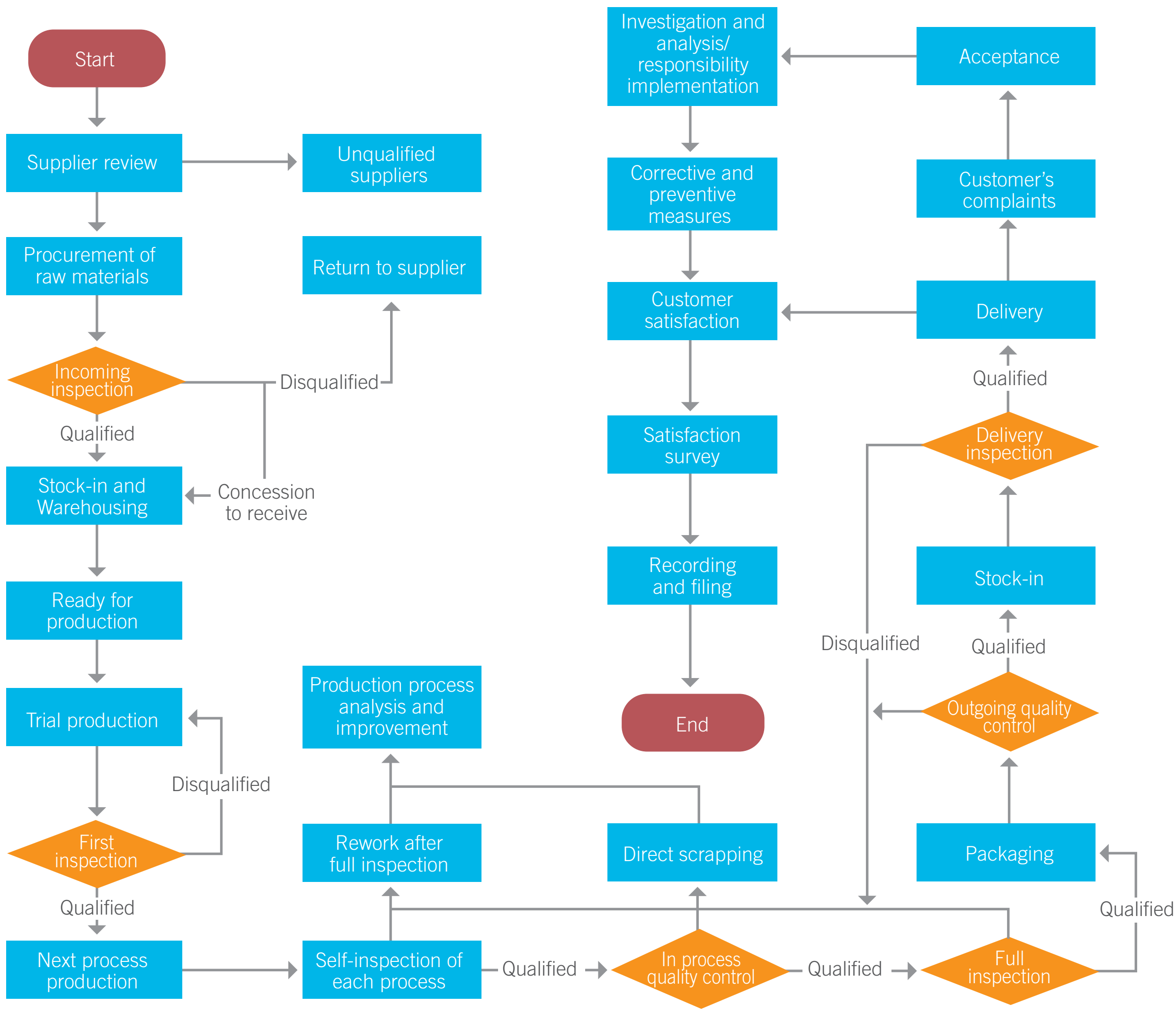
We have established a comprehensive quality management system to carry out comprehensive quality control throughout the product life cycle from R&D to raw material management, product production, quality control, product supply chain management and product post-launch tracking. We obtained CE certification, passed ISO 13485 medical device quality management system and ISO 9001 quality management system, and passed the supervision audit and certificate renewal audit during the Reporting Period. In terms of internal policies and procedures, we have compiled three-level quality management system documents including quality manuals, control procedures and operating specifications to promote the effective implementation and continuous improvement of the quality management system from top to bottom.

Quality Control Plan across Product Life Cycle

Tracking system of raw materials and production process	• Assign a lot number specific to each batch of products; • Record the following information: date of manufacturing and packaging, date and result of quality control inspection, date of shipping, source of raw materials, and information of suppliers and distributors.
Suppliers and raw materials	• Select qualified suppliers for procurement in accordance with internal supply management policy; • Conduct sampling inspection on the quality of each batch of delivered raw materials; • Return raw materials below quality standards to the suppliers.
Production	• Establish quality control points for key processes; • Perform functional inspection of products before packaging; • Periodically inspect and maintain production equipment as per Control Procedure for Monitoring and Measuring Devices; • Routine and ad hoc quality inspections; • Exclude products below standards from production line.
Finished products	• The quality control department conducts the last inspection of products before delivery, and its inspection content includes: appearance, function, safety, and sterilization; • For disposable products, samples shall be stored for no shorter than their designated life.
Customer complaints	• Investigate each customer complaint and make recommendations to improve the production process.

Environmental, Social and Governance Report

Flow Chart of Product Quality Process Control



Sub-standard Product Management

We have 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. At the same time, we have compiled the Customer Feedback Control Procedures, which stipulates information sources, information analysis and utilization, early warning for quality problems, and helps us take corresponding corrective and preventive measures. In addition, we have formulated the Identification and Traceability Control Procedures, which specifies the traceability scope, traceability method and traceability process in detail. With the ERP system and related quality control records, we can trace back a series of factors affecting product quality such as raw materials, production process, production equipment, operators, environmental control, logistics and transportation routes, etc., according to the production batch numbers of the products.

In case of product accidents or serious consequences caused by products of quality defects, we will issue notices and recall products in accordance with the Control Procedures for Medical Device Notification and Recall to prevent the recurrence of similar accidents and potential harm, so as to minimize accident consequences as much as possible. In addition, we have formulated and abided by the Control Procedure for Adverse Event Reporting to monitor and report quality accidents and adverse events, to ensure that under the normal use of the products approved for marketing, any harmful events that occur or may occur that are not related to the expected use of the products are effectively controlled. During the Reporting Period, we had no product recalls.

Quality Culture Cultivation

Product quality is inseparable from the quality awareness and operation level of employees, and we believe that the quality culture cultivation can effectively promote quality improvement. During the Reporting Period, we carried out a variety of quality training activities such as ISO 13485:2016 medical device management system training, design verification and process validation training of sample size for medical device inspection (sampling), product sampling standard training, product knowledge training, quality awareness training, and basics knowledge training on Good Manufacturing Practice (GMP) for medical device.

Lean Management

In July 2021, we held the summary meeting for Phase I Lean Management Projects and the launch meeting for Phase II Lean Management Projects. The implementation of Phase I Lean Management not only improved the proficiency of our management, changed the mentality of employees, but also standardized the production process, improved working efficiency and product quality. For Phase II Lean Management, we will unswervingly promote lean management in five modules: subject improvement, layout optimization, standard operation, team construction and 6S visualization, to help Kangji Medical develop high quality.

Environmental, Social and Governance Report

Employee's Proposals

In order to encourage employees to actively provide suggestions and jointly promote quality improvement, we carry out employee proposal activities on a monthly basis and conduct proposal reviews on a quarterly basis. During the Reporting Period, we selected a total of 16 A-level proposals, 47 B-level proposals, and 106 C-level proposals, involving production process optimization and appliance improvement and other fields, which not only saved costs for the Company, but also effectively improved production efficiency, product quality and employee safety. At the end of the year of 2021, we also selected the 2021 Improvement Experts from the outstanding proposals.

Employee Knowledge Contest

In order to create a strong learning atmosphere, we uphold the concept of "promoting learning through competition and combining learning and competition", and held the 2021 employee knowledge contest. Employees from R&D, production, quality and other departments actively participated and competed for the championship.

2.2 Create Quality Service

"Customer first" is our core corporate value. We pay attention to customer needs and continuously improve service quality to gain the long-term support and trust from customers. We strictly abide 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, to strengthen our sales and customer management, clarify the responsibilities in customer management, and prevent related legal risks.

Responsible Marketing

The compliant marketing of products is an important prerequisite for us to practice compliant and 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.

In the process of promotion and marketing, we strictly abide by the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》), strictly prohibit exaggerated publicity and false publicity, and resolutely maintain a transparent sales promotion environment. Through various leading academic platforms such as the Obstetrics and Gynecology Conference of Chinese Medical Doctor Association, the China Obesity Conference, Beijing Society of Minimally Invasive and Noninvasive Medicine, the Urology Annual Conference of Chinese Medical Association and other leading academic platforms, we carry out standardized corporate publicity and demonstrate product professionalism. During the Reporting Period, we 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.

Distributor Management

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. During the Reporting Period, we optimized the domestic distributor agreement, adjusted the distributor assessment model, and refined the general contract into sub-contracts by region, product and hospital to implement various indicators.

Domestic Distributors	• Select, evaluate and determine domestic distributors based on the market expansion plan and annual sales targets formulated by the Group (allocated and updated on a quarterly basis) • Perform comprehensive independence assessment on prospective distributors of the Group • Assess the future credit period, credit limit, required deposit of prospective distributors of the Group • Conduct annual assessment of domestic distributors based on (including but not limited to) various specific indicators for distributors' operation of the products authorized by the Group during the contract period
Overseas Distributors	• Obtain the demand information of overseas distributors through exhibitions, online platforms, etc. • 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》)

Distributor Access Management Measures

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 appendices in the distribution agreement in relation to anti-unfair competition and anti-commercial bribery, and required them to sign the Anti-Commercial Bribery Commitment to actively build a positive and honest business environment.

Pricing Management	Access and Credit Management	Sales Expense Management
• 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》) • If adjustment is needed for the published product quotation due to business expansion needs, a written Price Adjustment Application/ Confirmation Form should be submitted • Strictly control the bidding price in the national volume-based procurement bidding for medical consumables	• Develop a clear annual credit management system • Establish and improve the credit files of customers • Organize and carry out regular customer credit management meetings • Continuously monitor customer credit status and establish customer credit emergency response mechanism	• Relevant departments should formulate annual sales expense budgets • The employees of the Group must strictly abide by the existing financial reimbursement policy • 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 or their staff, distributors, or other stakeholders

Distributor Compliance Management Measures

After-sales Services

We believe that after-sales customer feedback is an important driving force for enterprises to continuously improve products and services. In order to ensure the quality of after-sales services, we have formulated a strict after-sales service process, actively strengthened customer communication, comprehensively understood customer needs and improved customer satisfaction. In order to provide early warning of quality problems, we have established a customer feedback system according to the *Customer Feedback Control Procedures* and *Customer-Related Control Procedures*. The sources of feedback information include distributors, hospitals, doctors, patients, government departments, industry associations, media, etc. The communication contents include customer complaints, customer and user satisfaction survey results, feedback on product improvement requirements, adverse events, media reports, etc.

During the Reporting Period, we conducted a comprehensive customer satisfaction survey for domestic and international customers, in which the satisfaction rate of domestic customers was 97.4% and that of international customers was 95.4%. We have handled 15 complaints about products and services. Through negotiation and communication with customers and continuous follow-up of rectification results, we ensure that complaints are timely and properly resolved.

Customer Privacy Protection

We attach great importance to customer privacy protection and have established a protection system for customer privacy and data security with reference to documents such as *Information System User Management System*, *Working Mobile Phone Management System* and *Data Backup and Disaster Recovery Management System*. We store the customer information into the ERP system and effectively protect the customer's privacy information through authority control. We sign a confidentiality agreement with our employees to help them establish their awareness of customer privacy protection by strengthening employee education and requiring them to "separate public and private". We also distribute working mobile phones to employees, transfer daily work to working mobile phones, and ensure that employees' past work data and information after leaving the Company are retained within the Company. In addition, we use anti-disclosure software (IP-Guard encryption software) to realize document encryption.

3. CONTINUE TO PROMOTE RESEARCH, DEVELOPMENT AND INNOVATION

We firmly believe that innovative cooperation is the first driving force leading development. By continuously strengthening the cultivation of innovative talents, constantly improving the construction of innovation system and mechanism, fully mobilizing the forces of "production-academy-research", and promoting the construction of sustainable supply chain, we are committed to building an open, inclusive, mutually beneficial and win-win partnership to jointly promote the development and progress of the industry.

3.1 Encourage Research, Development and Innovation

We regard R&D innovation as an important driving force for the sustainable development of enterprises, uphold the core values of "innovation first", resolutely implement the clinical demand-oriented and rapid feedback R&D strategies, and actively build a minimally invasive surgery solution platform of "equipment + instruments + consumables (設備+器械+耗材)". By establishing sound policies, such as the *R&D Department Management Policy* (《研發部管理制度》), *R&D Investment Management Measures* (《研發投入管理辦法》), *Intellectual Property Management Policy* (《知識產權管理制度》), *New Product R&D Management Policy* (《新產品研發管理制度》), we have formed a R&D process covering the whole process from market research to product registration, defined the responsibilities of each stage and department, and steadily promoted the high-quality and efficient development of R&D and innovation.

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. In 2021, we newly established a R&D center in Xiaoshan district of Hangzhou to attract more high-end R&D talents. By the end of the Reporting Period, we had an internal R&D team composed of 92 members, with professional fields covering mechanical engineering, electrical engineering, optics, acoustics, mechanics, materials, etc.

Meanwhile, adhering to the attitude of openness and cooperation, we have actively carried out external cooperation, actively promoted the integrated cooperation of "production-academy-research", and established various interactive channels with a large number of physicians, hospitals and medical associations such as provincial academician expert workstations, provincial key enterprise research institutes, enterprise high and new technology research centers, and other production-academy-research platforms. We have integrated the resources of universities, society and enterprises, worked together to improve the level of scientific research, promoted technological progress, and jointly created an open, healthy and win-win innovation ecology.

R&D Achievements

During the Reporting Period, our total R&D expenditure reached RMB36 million, representing an increase of 42.75% compared with 2020. Below are a few examples of our innovation in product development.

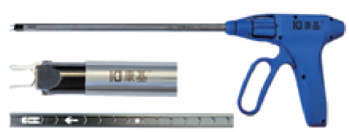
Medical 4K-ultra Resolution Fluorescent Navigation Endovision Camera System (4K+IR)

We are innovatively applying three technologies: the synthesis of white light and near-infrared of dual light sources, the physical combination and optical positioning superposition of RGB three monochrome receiving MOS+NIRMOS, and advanced image algorithm suitable for different surgical scenes. We are developing a medical 4K-ultra resolution fluorescent navigation endovision camera system. The system can help to obtain high-quality images in laparoscopic surgery and reduce the risk of surgery.

After the product industrialization, it can help promote the localization and import substitution of medical equipment, and potentially reduce surgery cost.

Disposable Automatic-loading Titanium Clips and Reusable Automatic-loading Titanium Clips

We are developing disposable automatic-loading titanium clips and reusable automatic-loading titanium clips. By improving the control of titanium clip closing angle, applying precision sheet metal manufacturing technology and automatic-loading titanium clip lubrication system, we can improve the cooperation smoothness of clip bin and automatic-loading titanium clip forcep, the cooperation smoothness of titanium clip and head of titanium clip forcep, and greatly improve the convenience and efficiency of surgery.



Hand-held Multi-articular Laparoscopic Instrument and Compatible High-resolution 4K Navigation System

We are developing a hand-held multi-articular laparoscopic instrument that can replace the robot. Through the overall design of the multi-articular laparoscopic instrument, we can effectively solve the problems such as the fixed connection between the flexible wire and the joint, the high-voltage insulation of the monopolar and bipolar multi-dimensional head end under the power drive of the metal wire and the operating end of the handle. The smoke removal, dark area enhancement, anti-infrared overflow and other functions in the supporting 4K navigation system are more efficient and convenient than the conventional manual operation, and can be more attractive in terms of tactile feedback and cost compared to surgical robot.

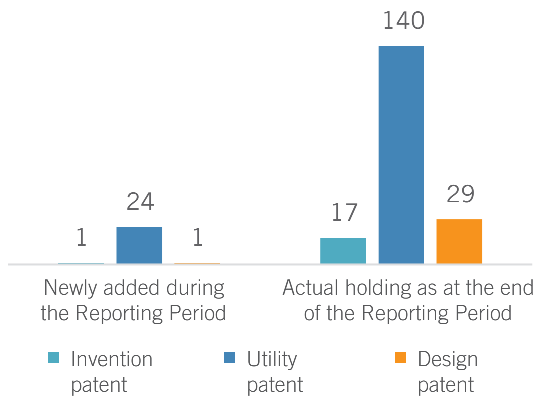
Intellectual Property

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, formulated the *Patent Management Policy* and *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 archiving, inquiry, copying, borrowing, destruction management and other contents of technical data. At the same time, we have established a long-term cooperative relationship with professional intellectual property firms to protect our intellectual property rights in an all-round way.

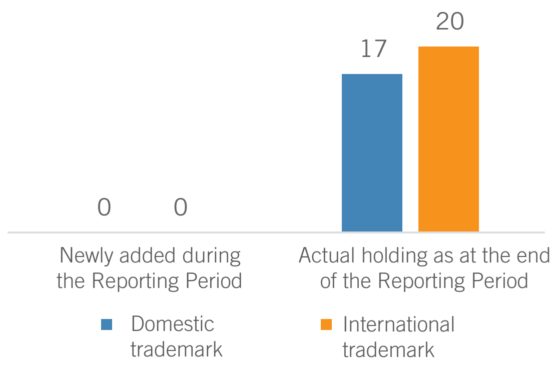
Environmental, Social and Governance Report

The newly added patents, trademarks and registration certificates of the Group during the Reporting Period and actually held by the end of the Reporting Period are as follows:

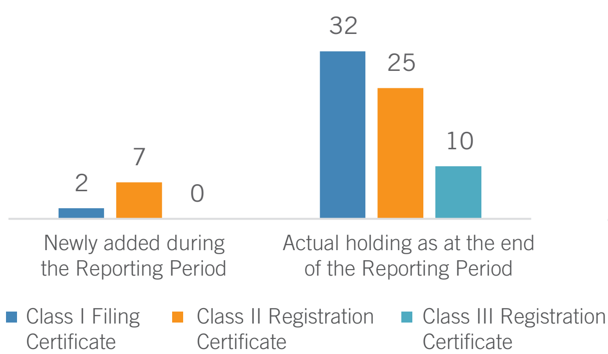
Number of Patents (PCs.)



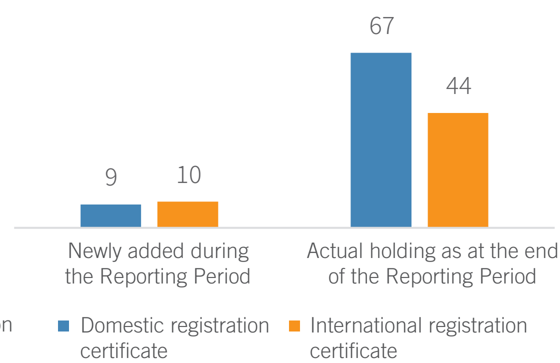
Number of Trademarks (PCs.)



Number of Domestic Registration Certificates (PCs.)



Total Number of Registration Certificates (PCs.)



3.2 Promote Industry Progress

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 hold some leading positions. 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, supporting the ability improvement of talents in the industry, and promoting continuous innovation and progress.

We actively participate in the drafting and revision of industry standards and contribute to the standardization of medical device industry standards.

Leading/participating in Compiling	Under Drafting
• YY/T 1783-2021 Endoscopic surgical instruments Reusable abdominal puncture device • Disposable Sterile Anorectal Variceal Ligation Device • Guiding Principles for Technical Review of Disposable Incision Protective Sleeve Products	• Disposable Sterile Closure Clip

We also take the initiative to build a professional academic platform online and offline to provide academic exchange opportunities for front-line clinical personnel and support the improvement of talents' ability in the industry. Among them, the online activities are divided into three channels: online weekly Saturday live procedure forum and Q&A session (康基週末手術直播間), training series on single-site trocar products (單孔康基學院) and post-operative nursing lectures (康基護理課堂), which are respectively set up for different clinical practitioners.

In terms of offline activities, we cooperated with Hunan Provincial People's Hospital to launch the first training base of single-site trocar products to vigorously train young aspiring doctors to learn single-site trocar technology. In addition, we have also carried out many activities such as "100-city OBGYN Series in Celebration of the 100th Anniversary of Beijing Union Medical College Hospital (百年協和，婦科百城行)".

100-city OBGYN Series in Celebration of the 100th Anniversary of Beijing Union Medical College Hospital

Seminar on clinical application of single-site trocar for laparoscopic surgery in gynecology

The 6th Minimally Invasive Surgery Summit Forum in Tonglu of China

The 4th Symposium for Youth Experts on the Medical and Engineering Cooperation in Minimally Invasive Surgery

3.3 Improve Supply Chain 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 *Supplier Evaluation Control Procedures*, the *Procurement Management System* and the *Guiding Requirements for Procurement of Materials*, which further clarified the management principles and content of each step in the supply chain. As at the end of the Reporting Period, the Group had relationships with 446 suppliers, all of them are from China.

Supplier Access

We 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 to become potential suppliers according to the material procurement technical requirements, and they must undergo strict comprehensive evaluation before becoming qualified suppliers.

Additional Suppliers

- We have searched and investigated suppliers with potential for cooperation according to the technical requirements of product procurement

Potential Suppliers

- Supplier Assessments:
- A. Business qualification
- B. Production assurance ability
- C. Quality system certification status and quality assurance ability
- D. Technical assurance capability
- E. Conclusion of testing and trial

Eligible Suppliers

- Category A suppliers: Key suppliers
- Category B suppliers: Suppliers providing general materials
- Category C suppliers: Suppliers providing auxiliary materials

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, with a focus on cultivating suppliers with excellent supply quality, and establish a routine communication method with them. For unqualified suppliers, we can re-evaluate when necessary to determine their eligibility.

Class A suppliers (Green light: 90-100 scores; no return record)	• Priority in receiving purchase orders • For incoming material inspection, may take measures of reduced sampling or inspection-free
Class B suppliers (Blue light: 75-89 scores)	• The normal sampling plan shall be used for incoming inspection
Class C suppliers (Yellow light: 60-74 scores)	• Sampling inspection of incoming materials shall be tightened • Technicians/inspectors shall be sent to the supplier site for counselling if necessary
Class D suppliers (Red light: 59 scores or less; or quality score less than 40 scores)	• Being prohibited from purchasing its products or outsourcing processing • Its qualification shall be cancelled • 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

Communication and Training

We are committed to establishing a healthy and good cooperative relationship with our suppliers, and maintaining good and close communication with them. During the Reporting Period, we visited a number of important suppliers to inspect the plant, equipment, personnel and operation management of suppliers. We also communicated with suppliers irregularly through meetings, e-mail, telephone, video and other means. We will also provide relevant technical guidance and training to suppliers and convey relevant technical requirements to suppliers to ensure the stability and security of the supply chain.

Dealing with Supply Chain Risks

We signed the *Supplier Code of Conduct of Kangji Medical* with major suppliers to clarify that suppliers need to implement the requirements put forward by the Company in terms of legal compliance, openness and transparency of transactions, labor protection, health and safety, anti-corruption and anti-bribery, conflict of interest, fair competition and anti-monopoly, privacy protection, environmental protection, trade secrets and intellectual property protection.

In order to reduce storage costs and ensure continuous production supply, we have set up safety inventory level in supply chain management, including self-made parts, outsourced parts and purchased parts, and set different safety inventory level for different types of inventories according to production plan, supply cycle, supplier capacity and service and other factors. In terms of supplier control, in order to avoid a single source of goods, we actively develop alternative suppliers to deal with the impact of emergencies on the stability of the supply chain. In case of emergencies, we held special meetings to discuss countermeasures. In the second half of 2021, considering the implementation of the power cut-off and power restriction policy in many provinces across the country, we timely communicated with major suppliers about the impact of production capacity and supply, purchased some important parts in an emergency, improved safety inventory level and ensured that production was not affected.

4. ENVIRONMENTAL MANAGEMENT AND GREEN DEVELOPMENT

We attach great importance to environmental management, focus on green development in the process of operation, pay attention to the possible impact of climate change on us, practice the concept of green development and low-carbon strategy, continue to standardize emission management, improve resource and energy utilization efficiency, advocate green office and build an environment-friendly enterprise.

4.1 Strengthen Environmental Management

We strictly abide by the *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》), the *Law of the PRC on the Prevention and Control of Atmospheric Pollution* (《中華人民共和國大氣污染防治法》), the *Law of the PRC on Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》), the *Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes* (《中華人民共和國固體廢物污染環境防治法》), the *Law of the PRC on the Prevention and Control of Pollution from Environmental Noise* (中華人民共和國環境噪聲污染防治法) and other laws and regulations, formulate and implement environmental management plans internally in combination with industry norms and the actual management needs of the Group, and continuously improve the enterprise's own environmental management level. During the course of operation, we continue to implement the measures of water conservation, energy conservation, consumption reduction and emission reduction, implement the concept of resource conservation, promote sustainable green office, strive to protect the environment and promote our own sustainable development. As at the end of the Reporting Period, we have passed the ISO 14001 environmental management system certification.

Environmental Objective Management

In combination with external policy guidance and industry development trend, and based on our own business reality and strategic development plan, we have formulated four dimensional environmental objectives of emission reduction, energy conservation, water conservation and waste reduction, and defined the realization path and core measures. On this basis, we decompose and refine the objectives to relevant departments, promote the development and implementation of relevant actions, and strengthen the follow-up and feedback of the progress in achieving the objectives.

Carbon emissions

- **Objectives:**
  - Gradually establish a carbon emission management system and strive to reduce carbon emissions year by year
- **Core initiatives:**
  - Improve the environmental management and carbon emission data collection process of production and R&D process
  - Carry out low-carbon related publicity and training for employees
  - Actively explore opportunities for renewable energy and carbon reduction technologies

Energy efficiency

- **Objectives:**
  - Strengthen energy consumption management in the production process and improve energy efficiency
- **Core initiatives:**
  - Gradually phase out equipment and facilities with high energy consumption and strengthen energy-saving technology
  - Actively explore the development opportunities of renewable energy or clean energy
  - Strengthen the publicity of employees' awareness of energy conservation

Water use efficiency

- **Objectives:**
  - Increase investment in water-saving processes and technologies and improve water use efficiency
- **Core initiatives:**
  - Actively explore water-saving equipment and water treatment technology to improve the secondary utilization rate of clean water
  - Strengthen the publicity of employees' awareness of water-saving

Waste reduction

- **Objectives:**
  - Optimize the level of waste management and reduce waste discharge
- **Core initiatives:**
  - Strengthen the publicity of waste reduction inside and outside the Company
  - Actively explore waste reduction technology and improve waste disposal management

4.2 Promote Energy Conservation and Emission Reduction

We strictly abide by the *Energy Conservation Law of the PRC* (《中華人民共和國節約能源法》) and other laws and regulations, gradually formulate energy management systems internally and build energy management systems. Adhering to the concept of sustainable development, we adopt energy-saving and emission reduction technologies, increase investment in environmental protection, implement the awareness of resource conservation in all links of daily operation, and build a resource-saving enterprise in an all-round way. At the same time, on the basis of strictly abiding by the *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》), we actively formulate environmental protection management system, effectively manage the emissions in the process of R&D and production, continuously improve the environmental management system to reduce emissions, realize our own emission reduction, and build an environment-friendly enterprise in an all-round way.

Resource Conservation

We constantly improve the energy structure, improve energy efficiency, and make the concept of green, low-carbon, energy conservation and consumption reduction run through all aspects of the Company's development. We continue to standardize the use and management of official vehicles, advocate the energy-saving use of air conditioning facilities, and continuously reduce the greenhouse gas emissions during the Company's operation by optimizing the energy structure, applying low-carbon energy, saving energy use and improving energy consumption efficiency. In addition, we will regularly count and analyze the energy use per unit capacity, review and summarize the factors affecting energy use efficiency, and implement energy conservation and consumption reduction measures.

- *Energy Use*

We actively optimize the energy structure and promote the use of clean energy, so as to achieve energy conservation and consumption reduction, mainly involving electricity and a small amount of gasoline and diesel. We have introduced a photovoltaic power generation system with a total installed capacity of 822.425KW and an area of around 11,000 square meters (m^2), which not only uses clean energy, but also reduces the pressure on the power grid. The total power generation capacity of the power generation system from April 17, 2021 to December 31, 2021 was 664,327 kWh, including self-consumption of 624,187 kWh and on-grid energy of 40,140 kWh.

During the Reporting Period, the data of energy consumption and greenhouse gas emissions, as well as the changes from the previous year, are shown as the following:

Indicator		Unit	2021	2020	Change proportion
Energy consumption	Total purchased power	kWh	3,674,790	3,385,580	8.54%
	Self-consumption of photovoltaic power generation	kWh	624,187	0	N/A
	Electricity consumption	kWh	4,298,977	3,385,580	26.98%
	Electricity consumption density[note 1]	kWh/million of revenue	6,228	6,619	–5.91%
	Gasoline[note 2]	Litres	57,187	81,438	–29.78%
	Diesel	Litres	381	318	19.64%
	Comprehensive energy consumption[note 3]	standard coal per ton	589.81	503.35	17.18%
	Comprehensive energy consumption density	standard coal per ton/ million of revenue	0.85	0.98	–13.17%
Greenhouse gas emissions	Greenhouse gas emissions (Scope I) (direct energy)[note 4]	tons CO_2e	127.15	180.48	–29.55%
	Greenhouse gas emissions (Scope II) (indirect energy)[note 5]	tons CO_2e	2,585.21	2,381.76	8.54%
	Total greenhouse gas emissions	tons CO_2e	2,712.36	2,562.23	5.86%
	Greenhouse gas emission density	tons CO_2e/million of revenue	3.93	5.01	–21.56%

Note 1: the density of energy consumption, greenhouse gas emission and other data in this report is based on the sales revenue of RMB1 million.

Note 2: since the gasoline consumption of official vehicles in 2020 is calculated by dividing the recharge amount of the fuel card by the estimated unit price, and some of the recharged but unused ones are also regarded as used, and the impact of the fluctuation of gasoline unit price throughout the year is ignored, there is a large error in the calculation data. Based on the above analysis, in order to more accurately count the gasoline consumption of official vehicles, in 2021, we adjusted the statistical method to be based on the summary of each refueling detail of Sinopec refueling card.

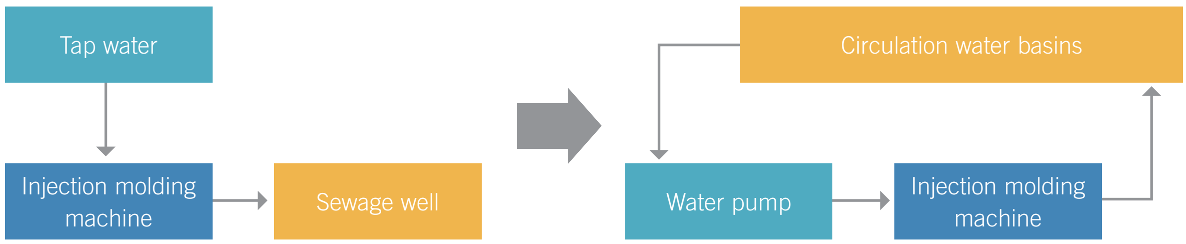
Note 3: comprehensive energy consumption converts all kinds of energy into standard coal according to General Principles of Comprehensive Energy Consumption Calculation (GB/T2589-2020).

Note 4: direct (Scope I) greenhouse gas emissions are accounted in accordance with the IPCC 2006 National Greenhouse Gas Inventory Guidelines 2019 (Revised) (《IPCC 2006年國家溫室氣體清單指南2019修訂版》) published by Intergovernmental Panel on Climate Change (IPCC).

Note 5: indirect (Scope II) greenhouse gas emissions are calculated according to the Average Carbon Dioxide Emission Factors of PRC's Regional Power Grid in 2011 and 2012 (《2011年和2012年中國區域電網平均二氧化碳排放因子》) issued by the National Development and Reform Commission.

- *Use of Water Resources*

We have reformed the cooling water of the injection molding machine. The original tap water is used once and the return water is discharged into the sewage well. Instead, we use the reservoir for circulating cooling, which can save about 100 tons of tap water every day and greatly reduce the waste of water resources. The comparison before and after transformation is shown as following.



Indicator	Unit	2021	2020	Change proportion
Total water consumption	tonnes	54,080	78,660	–31.25%
Total amount of recycled water	tonnes	27,000	25,920	4.17%
Total water consumption density	tonnes/million of revenue	78.35	153.79	–49.05%

- *Use of Material*

We actively use waste packaging materials. For example, after collecting the outer packaging cartons of blister boxes and other packaging materials, we regularly entrust the carton factory to cut them into lining plates with a specification of 54 * 27cm for partition and buffer when the finished products are delivered in full boxes; Collect and reuse the PE packaging bags supplied by the supplier for packaging buffer to realize the reuse of packaging. At the same time, we actively communicate with suppliers and encourage the reduction of carton packaging, so as to save materials.

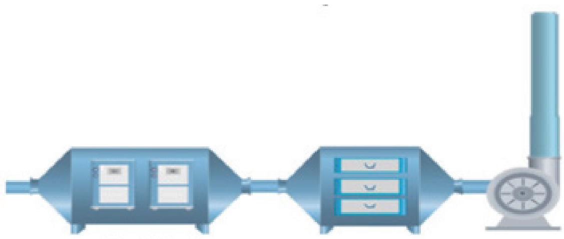
Indicator	Unit	2021
Total consumption of packaging materials	tonnes	606.45
• Plastics	tonnes	209.50
• Paperboard	tonnes	395.57
• Sponges	tonnes	1.38
Secondary utilization of packaging materials	tonnes	7.57
Consumption density of packaging materials	tonnes/million of revenue	0.88

Reduce Emissions

In order to actively control the impact on the surrounding ecological environment, we strictly abide by the *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》), the *Law of the PRC on Environmental Impact Assessment* (《中華人民共和國環境影響評價法》), the *Law of the PRC on Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》), the *Law of the PRC on the Prevention and Control of Atmospheric Pollution* (《中華人民共和國大氣污染防治法》), the *Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes* (《中華人民共和國固體廢物污染環境防治法》) and other environmental laws and regulations and relevant local policies, actively promote emission reduction in various production processes, reduce production emissions and limit the adverse impact of the Company on the environment in the process of operation to the greatest extent.

- *Waste Gas Management*

For waste gas treatment, we strictly implement the *Emission Standard of Pollutants for Rubber Products Industry* (GB27632–2011) (《橡膠製品工業污染物排放標準》) and the *Emission Standard of Odour Pollutants* (GB14554-93) (《惡臭污染物排放標準》). In the rubber mixing process, due to the low concentration of vulcanization waste gas collected by overall air exchange, we also adopt the process route of "UV" photocatalysis combined with activated carbon adsorption to realize the efficient removal and standard emission of waste gas.



- *Wastewater Discharge*

We strictly abide by the *Law of the PRC on Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》) and the *Clean Water Act* (《清潔水法》) and other relevant laws and regulations on wastewater discharge, and build a water pollution prevention and control system within the Company to ensure the compliant discharge of wastewater pollutants and avoid or reduce the discharge of wastewater.

Indicator	Unit	2021	2020	Change proportion
Comprehensive sewage discharge[note 6]	tonnes	43,264	78,660	–45.00%
Comprehensive sewage discharge density	tonnes/million of revenue	62.68	153.79	–59.24%
Chemical oxygen demand COD emission[note 7]	tonnes	6.23	12.43	–49.87%
Ammonia nitrogen emission[note 8]	tonnes	1.05	2.22	–52.61%

Note 6: according to the Announcement on the Release of Pollutant Discharge Coefficient for Calculating Pollutant Discharge and Material Balance Calculation Method (No. 81 of 2017) (《關於發佈計算污染物排放量的排污係數和物料衡算方法的公告》(2017年第81號)) – emission coefficient and material balance method applicable to industries not included in emission permit management (Trial) – the sewage emission coefficient is taken as 0.7 ~ 0.9, Kangji Medical converts 80% of fresh water consumption into comprehensive sewage discharge, while in 2020, it converts 100% of fresh water consumption into comprehensive sewage discharge.

Note 7: based on the COD concentration of sewage in the annual third-party test report, 144mg/L is taken in 2021.

Note 8: based on the concentration of ammonia nitrogen in sewage in the annual third-party test report, 24.3mg/L is taken in 2021.

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- *Solid Waste Management*

According to the requirements of the *National List of Hazardous Wastes (2021 Edition)* (《國家危險廢物名錄（2021年版）》), we register the waste emulsion, waste lubricating oil, oily metal, waste raw material barrel and other hazardous wastes generated in the production process according to the specification requirements, and set up temporary storage places for hazardous wastes. We register and declare hazardous wastes through the Solid Waste Supervision Information System of Zhejiang Province, and regularly entrust qualified units to transfer and harmless disposal of hazardous wastes.



As one of the pilot waste classification enterprises of the Management Committee of Hangzhou Tonglu Economic Development Zone, we fully implement the requirements of waste classification in Hangzhou and Tonglu County, and promote the implementation of waste classification through training, publicity, inspection, cooperation and other means.


During the Reporting Period, the quantity of hazardous waste and harmless waste generated by us are shown as following:

Indicator		Unit	2021
Hazardous waste	Total amount of hazardous waste	tonnes	10.09
	• Waste lubricating oil production	Kg	340.00
	• Waste emulsion production	Kg	8,235.00
	• Oil bearing metal production	Kg	951.00
	• Production of laboratory waste liquid	Kg	69.00
	• Production of waste packaging barrels	Kg	315.50
	• Waste organic solvent production	Kg	180.50
	Generation density of hazardous waste	tonnes/million of revenue	0.0146
	Total amount of hazardous waste disposal	tonnes	7.75
Non-hazardous waste	Total amount of non-hazardous waste	tonnes	33.60
	• Office/domestic waste	tonnes	33.60
	Generation density of non-hazardous waste	tonnes/million of revenue	0.0486

- *Environmental Detection*

We strictly abide by the *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) and other laws and regulations, comply with the requirements for the total emission control of key air pollutants, and conduct environmental impact assessment. During the Reporting Period, we entrusted a third party to carry out environmental protection testing for wastewater, waste gas, canteen oil fume, factory boundary noise and other aspects, test different emission indicators through sampling, and put forward prevention and control measures for various pollutants. The report shows that all test results meet the national emission standards and concentration requirements.

4.3 ADDRESSING CLIMATE CHANGE

Under the backdrop of global climate warming, extreme weather conditions, such as rainstorm and typhoon, appear more frequently and last for longer time. Extreme weather conditions, such as typhoon and flood, accompanying a series of chain reactions such as power supply interruption and urban waterlogging, may cause certain safety risks and impacts on the Company's operation. We actively identify climate change risks and opportunities to address the impact of climate change on our operations.

Climate Change Risk Identification and Assessment

During the Reporting Period, we identified and assessed the relevant climate change risks based on the framework and recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), and the overall risks are controllable. The major climate change risks affecting the Company's production and operation are as follows:

Risk categories	Physical risk	Risk Impact	Possibility	Degree of impact	Risk level
Acute risk	Flooding (caused by storms and sea level rise)	Acute climate risks involve more frequent storms and changes in precipitation patterns, and the increased rainfall will increase the risk of river overflow and overall increase the occurrence of flood events. Considering that the production and storage facilities of Kangji Medical are mainly located on low floors, the flood may have a substantial impact on the production and operation equipment and the environment. For example, flooding may lead to the interruption of production water supply and power supply, and flooding of local roads may prevent employees from returning to work, negatively affecting the resumption or provision of normal operations and the Company's reputation.	Low to middle	Low	Low
	Flooding (caused by increased rainfall)		Low	Low	Low
	Flooding (caused by overflow of river)		High	Low	Middle
	Strong winds/ cyclones	In coastal areas, typhoons usually cause heavy damage and loss to assets and facilities, affect normal operations and result in financial losses. Kangji Medical's principle business of production and R&D is located in one of the areas vulnerable to coastal typhoons, which may threaten assets and personal safety, and may also lead to power interruption, affecting normal R&D and production. In addition, in the case of bad weather, production, logistics and transportation of the suppliers in the product supply chain may be affected, resulting in business interruption or other serious impacts due to insufficient supply of raw materials or failure of delivering finished products. And our operation may also be affected because our employees are unable to go to the office.	High	Low	Middle

Risk categories	Physical risk	Risk Impact	Possibility	Degree of impact	Risk level
	Landslides	When the impulse caused by the debris flow exceeds the supporting capacity of the building or outdoor equipment, it is possible for the landslide to damage the building and the electronic equipment placed outdoors. During the torrential rain period, landslides generally happen on hillside, of which the influence scope is quite widespread. Landslides may cause damage or collapse to the nearby buildings and infrastructure, such as water pipes and cables, and the collapsed objects on the slope can affect the traffic by blocking roads, resulting in the stagnation of production operation. It is more possible to cause casualties accident to our employees and customers. In addition, the landslides also hindered the employees to smoothly resume work, increasing the emergency difficulties under emergent accident. Considering that the place of operation of Kangji Medical is strictly selected, it is unlikely to assume corresponding risk and impact.	Low	Low	Low
Chronic risk	Temperature rise	IPCC estimates that under the moderate mitigation scenario (RCP4.5), the global average temperature will increase by 2-3°C by 2100 compared to pre-industrial levels, and even increase by 4.8°C by 2100 under the worst-case scenario. Rising average temperatures, as well as heat waves and extreme weather, may increase the operating cost of air-conditioning system in Kanji Medical's office. High temperature will also affect the failure rate and life of equipment and the effective working time of relevant personnel. The equipment maintenance inspection and the loss of working time will lead to the risk of productivity decline. In addition, high temperature will increase the incidence of fire, and the rise of average temperature will pose a certain threat to production safety and employee occupational health. Therefore, it is necessary to pay attention to the change of environmental temperature and adjust relevant emergency prevention and control measures dynamically.	Low	Low	Low

Transition risk	Risk Impact	Possibility	Degree of impact	Risk level
Policy and regulatory risks	In order to further transform to low-carbon economy and achieve the national goal of "carbon emissions peak by 2030, carbon neutrality by 2060 (2030碳達峰、2060碳中和)", Kangji Medical's principle place of production and operation (in Zhejiang Province) has gradually developed and implemented different energy-saving and emission reduction policies, of which policy scope will be extended to all walks of life.	High	Middle	High
Technical risk	National and local governments, including relevant industry associations and other organizations, vigorously promote green manufacturing and intelligent manufacturing, and promote energy conservation, emission reduction, green and low carbon in the whole process of R&D, production, packaging, transportation and use in various industries, which will gradually improve the energy efficiency and technical requirements of future industrial equipment.	Middle	Middle	Middle
Market risk	Currently, it is unobserved that our customers have demand for R&D, production and sales and other whole-chain services of low-carbon medical device, and the risk of market transformation is low. In the future, the demand of enterprise customers for low-carbon R&D and green products will potentially increase, which will have the possibility to change the Company's future products and services.	Low	Low	Low
Reputation risk	Extreme weather conditions, such as typhoons, may affect the stability and continuity of product supply and services, thus affecting customers' confidence or Kangji Medical's reputation. However, no similar situation has been observed in the track record.	Low	Low	Low

Addressing Climate Change Risk

We actively implement systematic and sophisticated management against the identified climate change risks, take proactive actions to review our ability to deal with extreme climate events, and improve our energy performance in the long term to enhance our climate resilience. We formulate the emergency operation process guidelines for extreme scenarios, aiming to actively respond to the impact caused by extreme weather, ensure the continuous operation of the Company's business and reduce the loss caused by disasters to the business. In order to ensure that emergency plans can be activated at any time, disaster prevention materials will be placed on the corresponding site, and a mechanism will be established to replenish materials according to the escalation of risks. In addition, we have incorporated disaster prevention exercises into the Company's annual safety emergency drills to ensure that operators fully understand the emergency plans and properly implement them.

Integrate Climate-related Significant Risks into Internal Risk Management and Internal Control Frameworks
• For continuous monitoring and managing the impact of climate change on business operation, we will establish a scientific and effective risk governance structure with a clear division of responsibilities to ensure that the Company takes appropriate action on climate risks, and promotes the integration of climate-related risks into the established risk management framework at the same time, including integrating into the daily risk identification and assessment process, which ensures that significant climate risks are fully considered in the development of business strategies.

Establish and Strengthen the Review on Climate Risk Management Policies and Operational Contingency Plans
• Based on climate risk level, we will develop a consistent climate risk management policy, to clarify its commitment and strategies to address and adapt to climate change, and establish and strengthen the review on pre-warning system and operational contingency plans based on more frequent extreme weather, to ensure the effectiveness of handling business interruption risk at the place of production operation.

Incorporate Climate Resistance Initiatives into the Day-to-day Business Operations
• We will incorporate climate resistance initiatives in the principal place of operation and consider local climate risk levels when assessing the choice of place of operation in the future. We will increase efforts on energy conservation and emission reduction to respond to industrial and national policies, so as to enhance the climate resistance of our business.

Build Internal Capacity for Addressing Climate Risk
• We will adopt a top-down approach to enhance the understanding and awareness of climate change of the staff at all levels, conduct training for risk managers and front-line staff to enhance their awareness of climate risks related to their areas of responsibility and enhance overall response coordination.

4.4 Practice of Green Office

We actively pay attention to the daily office and operation, guide employees to set up the concept of green office, practice energy conservation and emission reduction, and contribute to the construction of ecological civilization.

Paperless Office	Saving Paper	Saving Electricity	Waste Management
• Launch ERP, OA, MES and other systems to gradually replace the original paper records • Flexibly choose email, WeChat group and other ways to release notices and documents • Encourage remote video or teleconferencing	• Encourage electronic filing and reduce printing and photocopying • Advocate duplex printing and recycle paper printing • Set up warm slogans at the washbasin to guide staff to save paper	• Replace lighting lamps with LED energy-saving lamps, and partially set induction lamps • Strictly implement the Air-conditioning Management System, clarifying the conditions on opening air-condition and temperature settings • Encourage to make full use of natural light and ventilation in the office	• Classification management of household garbage • Recycle ink cartridge and toner cartridge • Replace disposable paper cups with sterile ceramic ones in the office

5. PEOPLE-ORIENTED PRINCIPLE

We adhere to the people-oriented principle, actively protect the rights and interests of employees, improve the compensation and welfare, pay attention to talent training, care and help employees, ensure the health and safety of employees, devote to build a united, stable, high-quality talent team, and grow up and make progress together with employees.

5.1 Protection of Employees' Rights

We strictly comply with the *Labor Law of the People's Republic of China* (《中華人民共和國勞動法》), *Labor Contract Law of the People's Republic of China* (《中華人民共和國勞動合同法》), *Employment Promotion Law of the People's Republic of China* (《中華人民共和國就業促進法》) and *Trade Union Law of the People's Republic of China* (《中華人民共和國工會法》) and other laws and regulations, and formulate a series of personnel management systems, including Employee Handbook, Employee Recruitment Management System, Employee training System and Overtime Management System, so as to comprehensively guarantee the standardization and transparency of employee management, protect the legitimate rights and interests of employees, and facilitate their career development and promotion.

Labor Rights

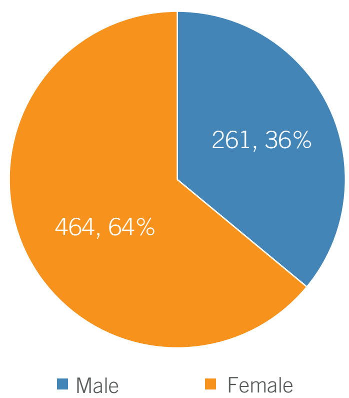
We respect every employee, make sure that every employee has equal recruitment, labor, compensation, training and promotion rights, adhere to the development principles of "equality, trust and friendship (平等、信任、友愛)" in the process of recruitment and personnel management, and eliminate discrimination and unfair treatment on employees because of race, color, gender, age, family, ethnic tradition, religion, nationality and others. In addition, we pay attention to the vulnerable groups and actively promote the employment of the disabled. As of the end of the Reporting Period, there are 4 disabled employees in the Company. We strictly comply with the Regulations on Prohibition of Child Labor (《禁止使用童工規定》) and completely reject child labor. Before the recruitment interview, we require the applicants to fill in their personal information and provide their ID cards to verify their real age. If any minors under the age of 16 are found, we will not hire them. We reject forced labor and all employees enjoy the right to rest and work diligently on a voluntary basis.

Staff Recruitment

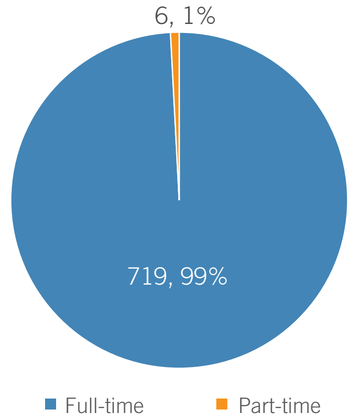
We are committed to promoting employee's diversity and fairness in recruitment. Through the establishment of Employee Recruitment Management System, we promote the standardization and process of recruitment. We adhere to recruit talents and set up a variety of recruitment channels, including through headhunting companies, talent markets, recruitment websites, colleges and universities. At the same time, in order to meet the personnel needs of each department, we issued the Internal Recommendation and Reward System of the Company's Employees to encourage in-service employees to recommend the right person to required positions, and reward the employees who make successful recommendations. During the Reporting Period, we recruited 32 employees through internal referrals.

By the end of the Reporting Period, the Group has a total of 725 employees, representing an increase of 88 employees or 13.81% compared with last year.

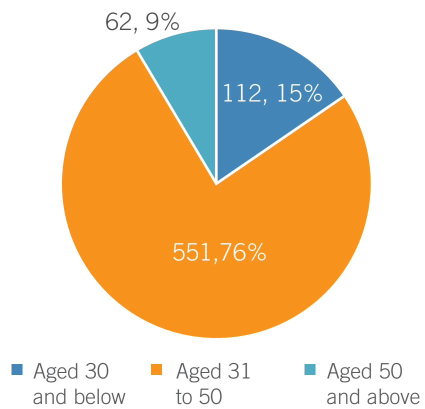
Employees by gender (persons, %)



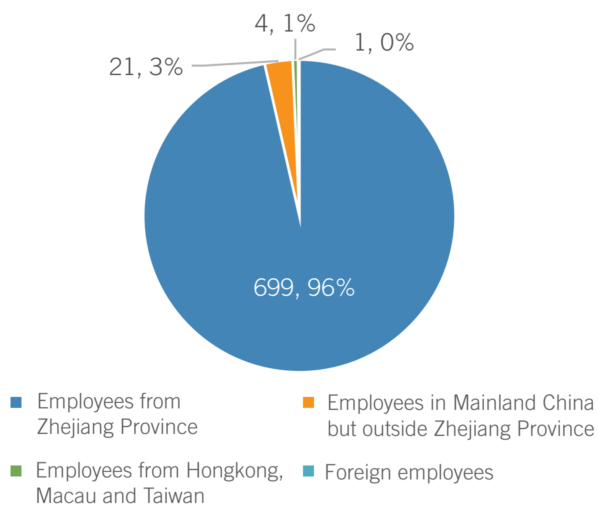
Employees by employment type (persons, %)



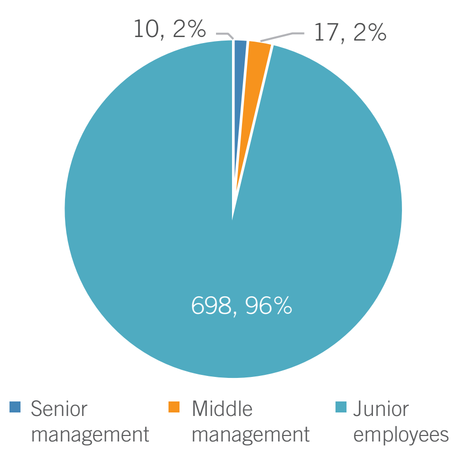
Employees by age (persons, %)



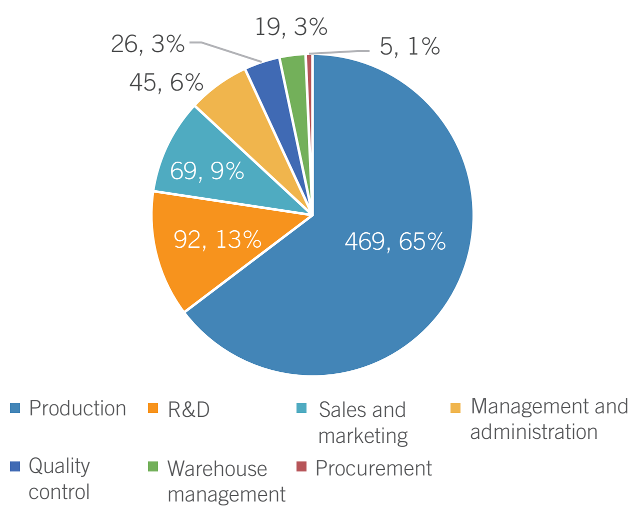
Employees by region (persons, %)



Employees by rank (persons, %)

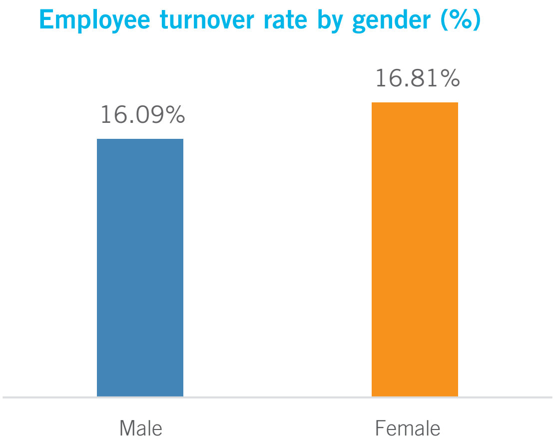


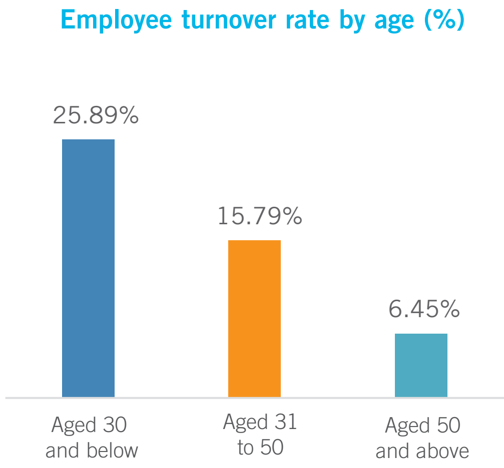
Employees by function (persons, %)



Environmental, Social and Governance Report

During the Reporting Period, the total employee turnover rate of the Group was 16.55%, and all the departed employees were employees from Zhejiang Province.





Compensation and Benefit

In order to provide rich and competitive compensation package to every employee, and to ensure that every employee enjoys an open and transparent assessment reward standard, we established the *Salary Management System*, which establishes clear salary structure, comprising basic salary, post salary, performance salary, overtime payment, bonuses and special post allowance, etc.

In addition, we have developed a Welfare Management System to provide employees with a variety of benefits:

Pay six social insurance and one housing fund (六險一金), such as social insurance, provident fund, employer liability insurance and others
Enjoy statutory holiday, and marriage leave, maternity leave, pregnancy examination leave, paternity leave, breastfeeding leave, industrial injury leave, bereavement leave and others
Distribute gifts on special festivals, such as Dragon Boat Festival, Mid-Autumn Festival, Spring Festival and Lantern Festival, and provide exclusive benefits for female employees on Women's Day
Provide employees with birthday benefits, high temperature allowance, communication allowance, transportation allowance, working meal allowance
Timely provide compensation for staff in need, disability and hospitalization, and actively pay attention to them
Organize travel, team building, free physical examination and others

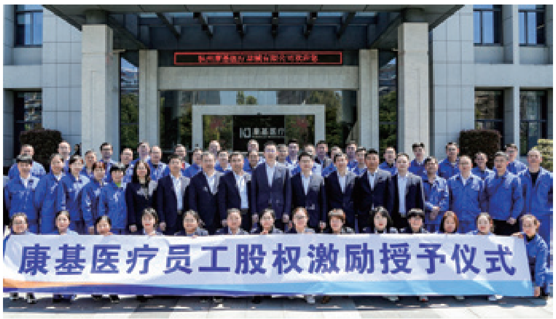
5.2 Support Staff Development

The sustainable development of talent is a powerful driving force for us to move forward and plays a key role in the realization of the Company's strategy. Through internal and external resources of the enterprise, we establish standardized talent structure and training plans, establish technical skills evaluation tools, and improve skills certification standards. According to the position standard system, we have also established the quality model and evaluation model to provide a systematic guarantee for talent development and evaluation.

During the Reporting Period, we implemented employee equity incentive to encourage employees who make contributions to the Company's development, and to continuously motivate employees.

Ceremony for Employee Equity Incentive Grant

On March 30, 2021, we held a ceremony for employee equity incentive grant, and granted restricted share units to a total of more than 50 middle managers, professional and technical personnel, and front-line staff, which reflects our corporate culture and talent strategy of "people-oriented, appreciate talent (以人為本、注重人才)", and further stimulates the work enthusiasm of the employees, and enhances the cohesion of talent.



Employee Promotion

We provide a well-established promotion mechanism for all employees other than senior management. Employee positions are mainly divided into two categories, namely management and technology positions, and corresponding promotion channels have been established respectively, which are divided into 10 post levels. Based on the principle of giving full play to the potential and combining the results of annual assessment and individual ability, we offer fair promotion opportunities to employees.

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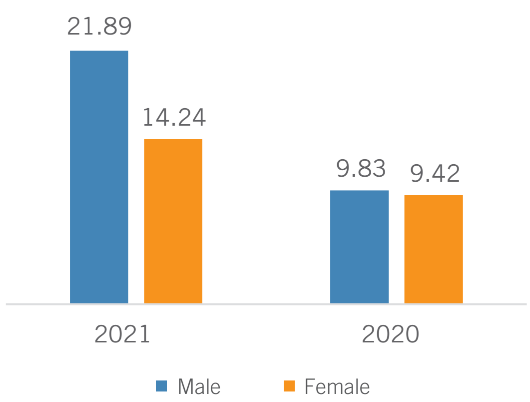
Employee Training

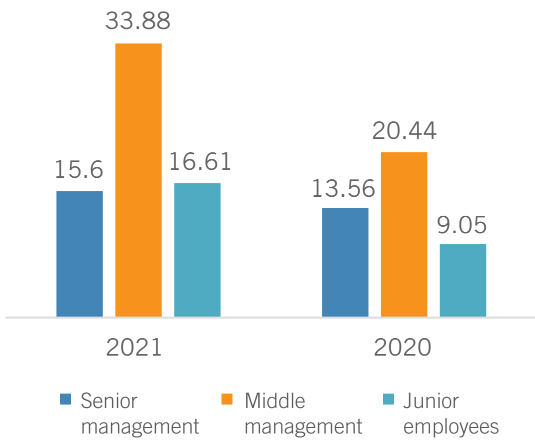
We actively provide employees with opportunities and space for career development, and set up a sound employee training system to help improve their professional ability and comprehensive quality. In accordance with the Employee Training System, we formulate annual training plans, organize and carry out targeted training by introducing excellent external training resources and supporting excellent employees to study abroad.

During the Reporting Period, we set up Kangji School, built internal trainer team, and organized more than 150 training sessions, reaching 100% of the training coverage. The total number of participants was 2,770, the total training hours was 12,327 hours, and the average training hours of employees was 17 hours, representing an increase of 78% compared with 2020.

Average training hours of employees by gender (hours)



Average training hours of employees by rank (hours)



Establishment teach-in of Kangji School

Outstanding internal trainer awarding

One-page Training for Front-line Staff

During the Reporting Period, we have totally carried out three sessions of "one-page training for front-line staff (一線員工一頁紙培訓)", covering safety, lean production, the should knowledge for workshop, etc. We have designed and developed 23 one-page training materials, and adopt the training method under which the supervisor concentratedly trains the training class leader and the class leader teaches the front-line staff, which enables front-line staff to master knowledge and improve their abilities through regular multi-frequency training and regular evaluation and analysis. The total number of participants in this training activity was approximately 1,400 persons, and the one-time pass rate of staff was more than 80%.

Lean Production Management Project

During the Reporting Period, we continued to carry out lean production management projects, and carried out activities, such as 6S benchmarking team selection, group proposal improvement, annual excellent individual proposal selection, "An Efficient Day of Team leader (班組長高效一天)", and lean learning by front-line staff through on-site guidance, so as to stimulate employees' potential for improvement and enhance their awareness and ability of improvement.

New employee induction

Risk management training on medical devices

Medical electrical equipment safety training

Pre-job training on groups

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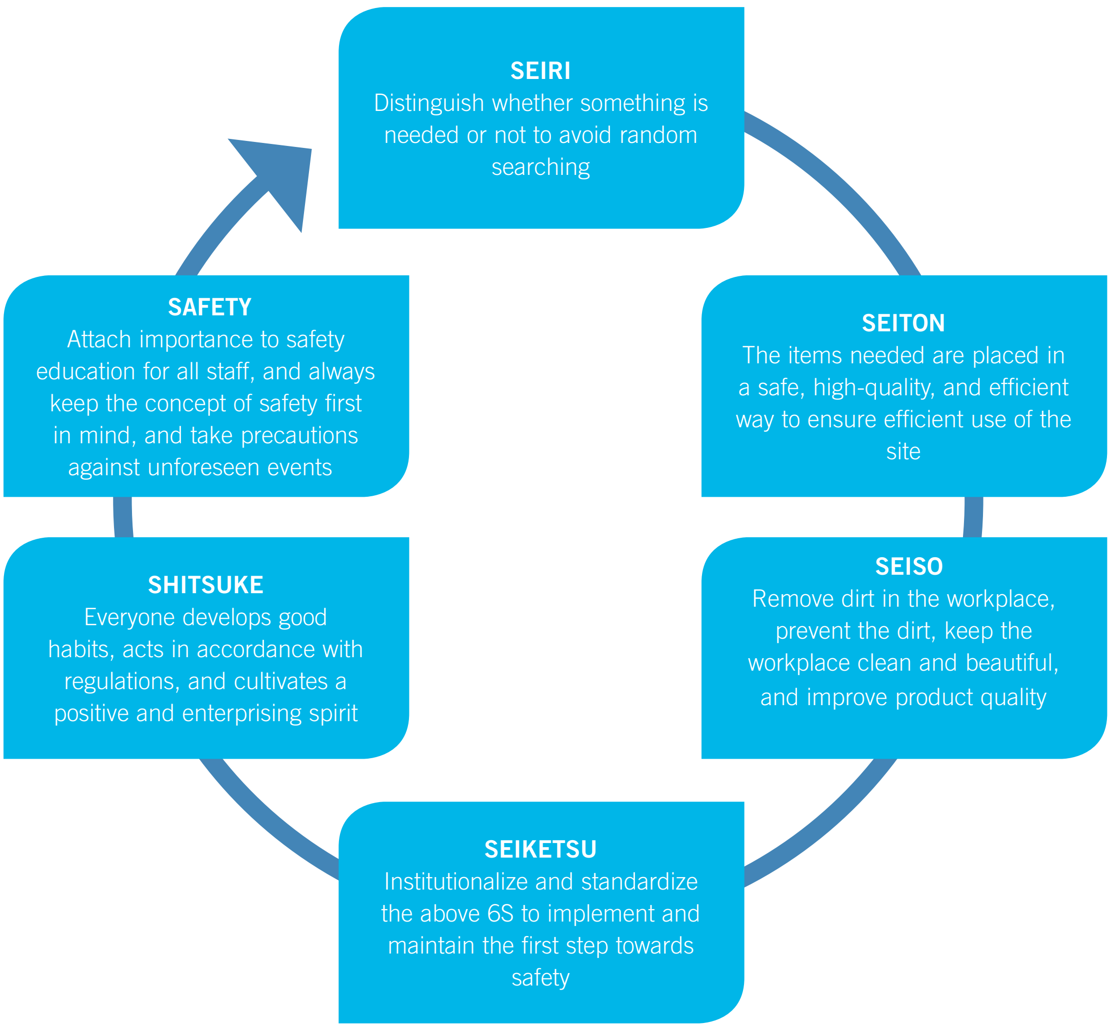
5.3 Strict Control over Occupational Health and Safety

We strengthen the implementation of the main responsibility for work safety, promote the construction of work safety standardization, continuously improve the work safety level, provide a safe and healthy working environment for employees, and make every effort to ensure the occupational health and safety of employees.

The Management System

We attach great importance to work safety, and strive to build a safety line to protect the occupational health and safety of employees. We actively implement the *Law of the People's Republic of China on Work Safety* (《中華人民共和國安全生產法》), *Fire Control Law of the People's Republic of China* (《中華人民共和國消防法》) and other laws and regulations, and formulate more than 30 safety management systems, such as the *Work Safety Inspection System, the Site Safety Management System*, the *Work Safety Responsibility System*, the *Occupational Disease Prevention Management System*, and the *Safety and Health "three simultaneous" Management System for Construction Project* (《建設項目安全健康"三同時"管理制度》). We set up "6S" management method to comprehensively strengthen the Company's safety management and prevent safety accidents.



We have obtained the national second-level certificate for work safety standardization and set up the department of safety and environmental protection, which is responsible for the management of the Group's work safety, occupational health and environmental protection. Full-time safety personnel regularly patrol the production site to find and eliminate potential safety hazards, and organize safety training and emergency drills.

Work Safety

We strictly carry out safety inspection, formulate targeted inspection plans, carry out safety management inspection, on-site safety inspection and special safety inspection, and timely take effective measures to rectify hidden dangers, register and file the rectification, and recheck and confirm in the next inspection.

Safety management inspection	On-site safety inspection	Special safety inspection
• Filling in the safety record and ledger • Implementation of various management systems and basic safety work • Safety technology and safety knowledge education on operators and special operators	• Inspecting production and construction sites according to the professional standards, rules and regulations for technology, equipment, storage and transportation, electrical, fire fighting, instrument, inspection and maintenance, industrial hygiene and other professional requirements • Implementation of each safety production discipline and operation rules by employees • Implementation of each safety measures in production, maintenance, construction and other direct operations • Usage of safety identification, hazard notification, protection of all kinds of equipment and facilities, protective equipment for operators • Cooperating to check the possession of the certificate of the operators	• Seasonal safety inspection: In Spring, focus on lightning protection, anti-static, anti-thawing leakage; In Summer, focus on preventing heat, preventing lightning, preventing collapse, preventing food poisoning, flood control and flood control; In Autumn, focus on fire prevention, anti-freezing and heat preservation; In Winter, focus on fire prevention, explosion-proof, anti-poisoning, anti-freezing and anti-skid • Safety inspection on holidays: check the safety, security, fire, mechanical equipment, safety equipment and facilities, spare parts and so on before holidays

Environmental, Social and Governance Report

In order to continuously improve employees' awareness on work safety and help them get familiar with the Company's safety system and prevention measures, we actively organize various forms of work safety related training and drill, require employees to sign the Responsibility Statement of Safety Management Objectives (《安全目標管理責任書》), and carry out "three-level" safety education and examination for new employees. Through training, we emphasize the importance of work safety and effectively enhance the safety awareness of employees. During the Reporting Period, we conducted more than 21 safety-related training sessions, involving 758 staff and 2,389 hours of safety training.

Fire safety training

Training on safety operation of ultrasonic welding machine

Training on safety operation of automatic water valve assembly machine

We have prepared comprehensive emergency plans, 3 special emergency plans and 6 on-site emergency disposal plans. During the Reporting Period, we actively carried out safety drills, covering personnel evacuation, emergency escape, fire extinguisher operation and others, with high staff participation.

In the past three years, there have been no work-related fatalities. During the Reporting Period, there was 1 work-related injury and the number of days lost due to work injury was 21 days.

Occupational Health

We strictly comply with the *Law of the People's Republic of China on Prevention and Control of Occupational Diseases* (《中華人民共和國職業病防治法》), adhere to the policy of "Prevention first, combined prevention with control (預防為主，防治結合)", formulate the *Occupational Disease Prevention Management System*, and pass the ISO 45001 occupational health and safety system certification, to protect the occupational health of employees and to provide safe and healthy working environment for employees. We regularly invite the third party to conduct tests on the occupational-disease-inductive factors in the workplace and issue the test report. We organize the occupational health examination of employees in special positions every year and issue the report.

In order to strengthen the prevention of occupational diseases and work-related injuries, we have prepared safety operation instructions for special positions, distributed safety equipment, such as goggles, earplugs, masks and protective caps, to employees and required them to wear them correctly and in a standard manner, and organized employees to participate in physical examination every year. During the Reporting Period, we provided free physical examination for 537 employees, including 315 for welfare physical examination, 146 for occupational physical examination, 29 for single hearing physical examination and 47 for physical examination in economic development zone.

Through 6S management, we have greatly improved the workshop environment and provided a healthy working environment for our employees.

Repeatable product carving workshop

Injection molding workshop for disposable products

Production line of disposable trocars

Production line of disposable ligation clips

Environmental, Social and Governance Report

5.4 Caring about People

We are committed to promoting democratic management, providing channels for communication, and listening to the voice from employees. At the same time, we attach great importance to the work-life balance, providing culture experience activities with rich forms and contents for employees to enrich their spare time life and strive to improve team cohesion.

We encourage the employees to provide harmony and mutual assistance, build the sincerity and mutual trust between employees and enterprises, and actively create an equal and smooth communication environment. Employees can provide opinions and suggestions through meetings, interviews, phone calls, emails, WeChat and other means. Relevant departments can provide solutions quickly after understanding employees' demands and strengthen communication between employees of different departments. In terms of communication with senior leaders, we encourage employees to report problems to department managers and help senior leaders to understand employees' real opinions on the Company. During the Reporting Period, we held three employee communication meetings, fully listening to the voice from the employees, understanding the public opinion, solving the canteen dishes, dining subsidies, parking spaces and other related issues, and promoting the effective communication between the employees and the management.

Employee communication meeting in the first anniversary upon listing

Employee seminar on the theme of " listen to your heart, help your development (聽心聲、助發展)"

Improve employee catering
On October 30, 2021, we established the employee catering committee and held the first meeting of the first session of employee catering committee. In order to improve employees' satisfaction, we have formulated relevant rules and regulations to supervise and manage the canteen. In response to the food problems reported by employees, we promoted the canteen to regularly develop new dishes to ensure that they are not the same every week. In order to solve the hygiene issue of dishes, we organized members of the catering committee to the canteen on duty every day, and urged the canteen to deal with the dining-related problems found on the spot. In addition, we have raised the standard of food allowance for employees, so that employees can eat well and achieve basic satisfaction.

During the Reporting Period, we also organized a variety of spare time activities through the labor union, such as participating in and winning the second prize of the singing contest of "Ode to the party's grace and follow the party (頌黨恩、跟黨走)" held in Tonglu County, inviting famous calligrapher to visit Kangji and send "Blessing (福)", and organizing the tasting and voting activity of "I participate in my New Year's Goods (我的年貨我參與)", in which employees participated with enthusiasm.

6. EPIDEMIC PREVENTION AND CONTROL AND CHARITY

We actively assume social responsibilities, transmit positive energy, and strive to practice the mission of the development of human health. Against the backdrop of the normalization of the COVID-19 epidemic, we took immediate prevention and control measures to resume production and operation in the shortest time possible, maintain a safe and healthy working environment in our offices and production facilities, and take prevention and control measures to ensure the health and safety of our employees. At the same time, we actively contribute the strength of the Company and eagerly help the social to fight epidemic to make contribution to social charity.

6.1 Implementing Epidemic Prevention and Control

To strengthen the prevention and control of COVID-19 epidemic, we formed a leading group for prevention and control of infectious diseases with the chairman of the Board of the Company as the general director, the administration department as the coordinator and heads of all departments as members, and formulated the COVID-19 Emergency Plan (《新型冠狀病毒肺炎應急預案》) and put it into effect. We have taken effective measures to ensure the health of employees and the stability of production and operation in accordance with the requirements of the phased epidemic prevention and control.

COVID-19 prevention and control measures	• Establish a WeChat group of the Company for COVID-19 prevention and control to carry out joint prevention and control. The national map of middle and high risk region for epidemic and local epidemic prevention and control requirements, such as disinfection requirements for imported materials, will be sent to all departments on a daily basis. • Set up a temporary quarantine shed, reserve the gate of the Company as the only entrance and exit, designate responsible staff to manage the visits of employees and outsiders, and strengthen temperature measurement, health code inspection and information registration, etc. • Collect the health status and travel track of employees and their family members, provide care to employees, and make work resumption schedule according to the health status of employees. Pick up staff who returned to work, and manage them during the ordinary course of business. • Timely understand the situation of external stakeholders such as suppliers, distributors and customers, assess risks and develop measures to address risk. • Carry out work related to prevention and control inspection in and over our plant and personnel, disinfection and file retention. Public areas are regularly disinfected, indoor ventilation are kept, face-to-face meetings are cancelled, and lunch boxes are provided in the canteen and employees are arranged to have a meal separately in batches. • Ensure the purchase of prevention and control materials (such as masks, goggles, protective clothing, disinfectants, thermometers, etc.) and distribute them to employees. • Hang banners and post special information on prevention and treatment of infectious diseases on propaganda boards.

6.2 Spirit of Charity

We actively participate in social charity activities, and send warmth and help to people in need. During the Reporting Period, we carried out charity activities, such as medical donation, voluntary blood donation and clothing donation, and provided work-study opportunities for college students near the resident communities, reflecting social responsibility and social value in the dedication.

Medical Donation
In September 2021, in order to support the development of medical career in less-developed areas in central and western China, we committed to donate RMB6.3 million to Yilu Tongxing Charity Foundation in Guangzhou (廣州市益路同行慈善基金會) to provide endoscopic diagnosis and treatment technology training for gynecologists and urologists. The first installment of RMB3.3 million has been donated during the Reporting Period.

Blood Donation
(無償獻血)

In October 2021, we jointly launched a voluntary blood donation activity with Tonglu Blood Station and Jiande Blood Bank. Under the leadership of chairman Zhong, more than 150 employees participated in the activity and donated approximately 32,000 CC of blood.

Clothing Drive

In May 2021, we donated more than 30 boxes and 2,000 pieces of seasonal clothing to the less-developed areas in western China.

Summer Work-study Program

In June 2021, we launched a summer social practice program to provide work-study opportunities for college students near our resident communities. As of August 31, 2021, a total of 39 students received summer work-study positions.

Independent Auditor's Report

EY 安永

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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 102 to 165, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 ("**HKSAs**") 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.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment for trade receivables	
As at 31 December 2021, the net carrying value of trade receivables amounted to RMB81,119,000, after netting off a loss allowance for impairment of RMB4,154,000, representing 2.4% of the Group's total assets. 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 losses 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. The Group's disclosures about the impairment of trade receivables are included in notes 2.4, 3 and 17 to the financial statements.	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.

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 HKSAs 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 HKSAs, 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.

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
22 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	690,263	511,490
Cost of sales		(127,337)	(80,020)
Gross profit		562,926	431,470
Other income and gain	5	120,785	57,100
Selling and distribution expenses		(46,515)	(48,894)
Administrative expenses		(62,674)	(78,002)
Research and development costs		(36,001)	(25,220)
Other expenses		(3,828)	(26,337)
Finance costs	7	(196)	(42)
PROFIT BEFORE TAX	6	534,497	310,075
Income tax expense	10	(77,708)	(50,925)
PROFIT FOR THE YEAR		456,789	259,150
Attributable to:			
Owners of the parent		456,789	250,296
Non-controlling interests		–	8,854
		456,789	259,150
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(750)	(457)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		(750)	(457)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the Company's financial statements into presentation currency		(44,153)	(196,459)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		(44,153)	(196,459)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(44,903)	(196,916)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		411,886	62,234
Attributable to:			
Owners of the parent		411,886	53,380
Non-controlling interests		–	8,854
		411,886	62,234
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	12	RMB37.31 cents	RMB26.27 cents
Diluted	12	RMB37.08 cents	RMB25.97 cents

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	87,585	63,251
Prepayment for property, plant and equipment		443	3,375
Right-of-use assets	14(a)	19,796	21,571
Financial asset at fair value through profit or loss	19	111,233	–
Intangible assets	15	119	33
Deferred tax assets	24	2,778	2,004
Total non-current assets		221,954	90,234
CURRENT ASSETS			
Inventories	16	68,376	51,442
Trade receivables	17	81,119	87,407
Prepayments, other receivables and other assets	18	4,422	9,643
Financial assets at fair value through profit or loss	19	60,814	548,428
Pledged deposits	20	–	1,061
Cash and cash equivalents	20	2,953,659	2,232,046
Total current assets		3,168,390	2,930,027
CURRENT LIABILITIES			
Trade payables	21	18,261	11,407
Other payables and accruals	22	74,095	51,521
Lease liabilities	14(b)	1,695	1,465
Deferred income	23	636	636
Tax payable		21,885	10,417
Total current liabilities		116,572	75,446
NET CURRENT ASSETS		3,051,818	2,854,581
TOTAL ASSETS LESS CURRENT LIABILITIES		3,273,772	2,944,815

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,273,772	2,944,815
NON-CURRENT LIABILITIES			
Lease liabilities	14(b)	2,351	3,585
Deferred income	23	1,272	1,908
Deferred tax liabilities	24	9,748	2,711
Total non-current liabilities		13,371	8,204
Net assets		3,260,401	2,936,611
EQUITY			
Equity attributable to owners of the parent			
Share capital	25	88	88
Reserves	27	3,260,313	2,936,523
Total equity		3,260,401	2,936,611

Mr. Zhong Ming
Director

Ms. Frances Fang CHOVANEC
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Attributable to owners of the parent										
	Share capital RMB'000 (note 25)	Share premium account* RMB'000	Share held for share award arrangement* RMB'000	Capital reserve* RMB'000 (note 27)	Share option and award reserve* RMB'000 (note 27)	Statutory surplus reserve* RMB'000 (note 27)	Exchange fluctuation reserve* RMB'000 (note 27)	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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 Medical Instrument Co., Ltd. ("**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 Medical (Hong Kong) Limited (formerly known as LYFE Capital Blue Arch (Hong Kong) Limited) ("**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.

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Attributable to owners of the parent									
	Share capital RMB'000 (note 25)	Share premium account* RMB'000	Share held for share award arrangement* RMB'000	Treasury shares* RMB'000	Capital reserve* RMB'000 (note 27)	Share option and award reserve* RMB'000 (note 27)	Statutory surplus reserve* RMB'000 (note 27)	Exchange fluctuation reserve* RMB'000 (note 27)	Retained profits* RMB'000	Total RMB'000
At 1 January 2021	88	2,808,820	(2)	–	33,301	18,001	35,723	(196,916)	237,596	2,936,611
Profit for the year	–	–	–	–	–	–	–	–	456,789	456,789
Other comprehensive loss for the year:										
Exchange differences related to foreign operations	–	–	–	–	–	–	–	(44,903)	–	(44,903)
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	–	(44,903)	456,789	411,886
Shares repurchased (note 25(h))	–	–	–	(51,074)	–	–	–	–	–	(51,074)
Shares cancelled (note 25(h))	–	(46,786)	–	46,786	–	–	–	–	–	–
Dividend declared (note 11)	–	–	–	–	–	–	–	–	(45,307)	(45,307)
Share-based payments (note 26)	–	–	–	–	–	8,285	–	–	–	8,285
Transfer to statutory surplus reserve	–	–	–	–	–	–	41,731	–	(41,731)	–
At 31 December 2021	88	2,762,034	(2)	(4,288)	33,301	26,286	77,454	(241,819)	607,347	3,260,401

* These reserve accounts comprise the consolidated reserves of RMB3,260,313,000 (2020: RMB2,936,523,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		534,497	310,075
Adjustments for:			
Finance costs	7	196	42
Bank interest income	5	(33,288)	(11,777)
Investment income from financial assets at fair value through profit or loss	5	(18,297)	(5,367)
Fair value gains on financial asset at fair value through profit or loss	5	(31,604)	(2,943)
Loss on disposal of items of property, plant and equipment	6	122	100
Depreciation of property, plant and equipment	13	9,515	7,474
Depreciation of right-of-use assets	14(a)	2,267	697
Amortisation of intangible assets	15	78	33
Impairment of trade receivables, net	17	614	1,388
Recognition of deferred income	23	(636)	(636)
Share-based payment expense	26	8,285	18,001
		471,749	317,087
Increase in inventories		(16,934)	(14,520)
Decrease/(increase) in trade receivables		5,674	(15,783)
Decrease/(increase) in prepayments, other receivables and other assets		5,221	(6,829)
Increase in trade payables		6,854	2,089
Increase in other payables and accruals		22,400	4,619
Cash generated from operations		494,964	286,663
Interest received		762	1,088
Interest paid		–	(42)
Income tax paid		(59,977)	(66,665)
Net cash flows from operating activities		435,749	221,044
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(30,865)	(17,833)
Proceeds from disposal of items of property, plant and equipment		–	21
Purchases of items of intangible assets		(164)	–
Purchases of financial assets at fair value through profit or loss		(5,097,980)	(2,778,996)
Proceeds from sales of financial assets at fair value through profit or loss		5,575,149	2,268,273
Purchases of equity investment at fair value through profit or loss		(80,000)	–
Investment income from financial assets at fair value through profit or loss		18,297	5,367
Decrease in pledged deposits		1,061	379
Interest received		28,702	13,708
Increase in time deposits with original maturity of over three months		(574,293)	(101,897)
Net cash flows used in investing activities		(160,093)	(610,978)

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from shareholders		–	37,417
Proceeds from issue of shares		–	2,858,319
Share issue expenses		–	(128,878)
Shares repurchased		(51,074)	–
Principal portion of lease payments	28(b)	(1,493)	(194)
Interest paid		(196)	–
Dividend paid		(44,847)	(212,563)
Capital reduction		–	(402,290)
Net cash flows (used in)/from financing activities		(97,610)	2,151,811
NET INCREASE IN CASH AND CASH EQUIVALENTS		178,046	1,761,877
Cash and cash equivalents at beginning of year		2,034,337	469,336
Effect of foreign exchange rate changes, net		(34,550)	(196,876)
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,177,833	2,034,337
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	20	2,953,659	2,232,046
Time deposits with original maturity of over three months when acquired		(775,826)	(197,709)
Cash and cash equivalents as stated in the consolidated statement of cash flows		2,177,833	2,034,337

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	
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
Kangji Hong Kong	Hong Kong 21 December 2015	United States dollars ("**US$**") 111,423,135	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 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.

2.1 BASIS OF PREPARATION *(continued)*

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 2021. 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

The nature and the 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 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 amendments 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 does not have any Covid-19-Related rent concessions for the year ended 31 December 2021.

2.3 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	*Reference to the Conceptual Framework*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 17	*Insurance Contracts*[2, 5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*[2]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2, 4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to HKAS 8	*Definition of Accounting Estimates*[2]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[1]

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

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

3 No mandatory effective date yet determined but available for adoption

4 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

5 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.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* 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 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

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 labour 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.

2.4 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.

2.4 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. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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.

2.4 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.

2.4 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	3-5 years

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 60 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.

2.4 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 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 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.

2.4 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.

2.4 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 consolidated 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IMPAIRMENT OF FINANCIAL ASSETS *(continued)*

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 its 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 payables, net of directly attributable transaction costs.

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

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL LIABILITIES *(continued)*

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.

TREASURY SHARES

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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 labour 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, which are not restricted as to use.

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INCOME TAX *(continued)*

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 the 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 the year 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 year.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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).

2.4 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 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 the 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.

2.4 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.

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 11 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 functional currency 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 year, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the year and their profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

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.

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 year, 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 aging for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's 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.

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

	2021 RMB'000	2020 RMB'000
Mainland China	641,753	475,756
Other	48,510	35,734
Total	690,263	511,490

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

(b) Non-current assets

	2021 RMB'000	2020 RMB'000
Mainland China	107,558	87,434
Other	385	796
Total	107,943	88,230

The non-current asset information above is based on the locations of assets and excludes financial instruments and 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:

	2021 RMB'000	2020 RMB'000
Customer A	125,400	131,063
Customer B	76,534	51,186

5. REVENUE, OTHER INCOME AND GAIN

An analysis of revenue is as follows:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers	690,263	511,490

REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Disaggregated revenue information

	2021 RMB'000	2020 RMB'000
Type of goods		
Sale of medical instruments	690,263	511,490
Geographical markets		
Mainland China	641,753	475,756
Other	48,510	35,734
	690,263	511,490
Timing of revenue recognition		
Goods transferred at a point in time	690,263	511,490

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:

	2021 RMB'000	2020 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of medical instruments	767	444

(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.

5. REVENUE, OTHER INCOME AND GAIN *(continued)*

An analysis of other income and gain is as follows:

	2021 RMB'000	2020 RMB'000
Other income		
Government grants*	34,345	36,226
Bank interest income	33,288	11,777
Investment income from financial assets at fair value through profit or loss	18,297	5,367
Foreign exchange gains, net	3,115	–
Others	136	787
	89,181	54,157
Gain		
Fair value gains on financial asset at fair value through profit or loss	31,604	2,943
	120,785	57,100

* 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.

6. PROFIT BEFORE TAX

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

	Notes	2021 RMB'000	2020 RMB'000
Cost of inventories sold		127,337	79,761
Depreciation of property, plant and equipment	13	9,515	7,474
Depreciation of right-of-use assets	14(a)	2,267	697
Amortisation of intangible assets*	15	78	33
Impairment of trade receivables, net**	17	614	1,388
Write-down of inventories to net realisable value***		–	259
Lease payments not included in the measurement of lease liabilities	14(c)	471	73
Auditor's remuneration		2,600	3,020
Research and development costs		36,001	25,220
Government grants		(34,345)	(36,226)
Bank interest income		(33,288)	(11,777)
Investment income from financial assets at fair value through profit or loss		(18,297)	(5,367)
Foreign exchange differences, net		(3,115)	25,039
Losses on disposal of items of property, plant and equipment		122	100
Listing expenses		–	32,314
Fair value gains on financial asset at fair value through profit or loss		(31,604)	(2,943)
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		66,930	42,342
Pension scheme contributions		4,767	361
Staff welfare expenses		8,634	5,220
Share-based payment expense		5,219	13,498
		85,550	61,421

* 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.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities (note 14(b))	**196**	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:

	2021 RMB'000	2020 RMB'000
Fees	**306**	289
Other emoluments:		
Salaries, allowances and benefits in kind	**4,201**	3,307
Pension scheme contributions	**183**	105
Share-based payment expense	**3,066**	4,503
	7,450	7,915
	7,756	8,204

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.

On 6 May 2020, 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.

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

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	2021 RMB'000	2020 RMB'000
Mr. JIANG Feng	102	102
Mr. GUO Jian	102	102
Mr. CHEN Weibo	102	85
	306	289

There were no other emoluments payable to the independent non-executive directors during the year (2020: 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
2021					
Executive directors:					
Mr. ZHONG Ming	–	990	37	–	1,027
Ms. SHENTU Yinguang	–	782	32	–	814
Ms. CHOVANEC*	–	2,429	114	3,066	5,609
	–	4,201	183	3,066	7,450
Non-executive directors:					
Ms. CAI Li	–	–	–	–	–
Mr. CHEN Gang	–	–	–	–	–
	–	4,201	183	3,066	7,450
2020					
Executive directors:					
Mr. ZHONG Ming	–	549	23	–	572
Ms. SHENTU Yinguang	–	469	23	–	492
Ms. CHOVANEC*	–	2,289	59	4,503	6,851
	–	3,307	105	4,503	7,915
Non-executive directors:					
Ms. CAI Li	–	–	–	–	–
Mr. CHEN Gang	–	–	–	–	–
	–	3,307	105	4,503	7,915

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 two directors (2020: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2020: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	3,004	1,497
Pension scheme contributions	81	70
Share-based payment expense	2,744	12,214
	5,829	13,781

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 2021	Number of employees 2020
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$1,500,000	2	–
HK$3,000,001 to HK$3,500,000	–	2
HK$4,000,001 to HK$4,500,000	–	2
HK$4,500,001 to HK$5,000,000	1	–
	3	4

During the year, RSUs were granted to three non-director and non-chief executive highest paid employees (2020: four) 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.

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% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. 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 year.

10. INCOME TAX EXPENSE *(continued)*

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% (2020: 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 2.5% (2020: 5%) during the year.

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

	2021 RMB'000	2020 RMB'000
Current – Mainland China		
Charge for the year	68,808	48,423
Deferred tax (note 24)	8,900	2,502
Total tax charge for the year	77,708	50,925

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:

	2021 RMB'000	2020 RMB'000
Profit before tax	534,497	310,075
Tax at the statutory tax rate of 25% in Mainland China	133,625	77,519
Preferential tax rates enacted by local authority	(47,400)	(33,250)
Additional deductible allowance for research and development expenses	(4,050)	(2,644)
Tax losses not recognised	112	–
Non-deductible expenses for tax purposes	1,313	1,162
Effect of withholding tax at 5% and 10% on the distributable profits of the Group's PRC subsidiaries (note 24)	9,690	2,589
Effect of tax rate differences in other jurisdictions	(15,600)	5,549
Effect of tax rate changes on deferred taxes	18	–
Tax charge at the Group's effective tax rate	77,708	50,925

Notes to Financial Statements

11. DIVIDENDS

On 25 March 2021, the board of directors recommended a final dividend of HK4.4 cents per share, amounting to a total of approximately HK$55,097,000. The final dividend was approved by the Company's shareholders at the annual general meeting and paid in June 2021.

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.

	2021 HK$'000	2020 HK$'000
Proposed final – HK17.23 cents (2020: HK4.4 cents) per ordinary share	214,544	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 amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB456,789,000 (2020: RMB250,296,000), and the weighted average number of ordinary shares of 1,224,312,412 in issue during the year (2020: 952,797,910 ordinary shares, as adjusted to reflect the capitalisation issue).

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, the assumption that 7,708,633 (2020:10,978,558) 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:

	2021 RMB'000	2020 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	456,789	250,296

	Number of shares	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,224,312,412	952,797,910
Effect of dilution – weighted average number of ordinary shares arising from share options and RSUs	7,708,633	10,978,558
	1,232,021,045	963,776,468

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
31 December 2021						
At 1 January 2021:						
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
At 1 January 2021, net of accumulated depreciation	36,810	18,174	1,501	4,901	1,865	63,251
Additions	–	10,614	6,064	1,657	15,636	33,971
Transfers	9,542	189	–	–	(9,731)	–
Disposal	–	(122)	–	–	–	(122)
Depreciation provided during the year (note 6)	(2,820)	(3,552)	(1,513)	(1,630)	–	(9,515)
At 31 December 2021, net of accumulated depreciation	43,532	25,303	6,052	4,928	7,770	87,585
At 31 December 2021:						
Cost	58,785	43,177	13,015	12,479	7,770	135,226
Accumulated depreciation	(15,253)	(17,874)	(6,963)	(7,551)	–	(47,641)
Net carrying amount	43,532	25,303	6,052	4,928	7,770	87,585
31 December 2020						
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

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 60 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 2020	17,012	12	17,024
Additions	–	5,244	5,244
Depreciation charge (note 6)	(387)	(310)	(697)
As at 31 December 2020 and 1 January 2021	16,625	4,946	21,571
Additions	–	499	499
Depreciation charge (note 6)	(385)	(1,882)	(2,267)
Exchange realignment	–	(7)	(7)
As at 31 December 2021	**16,240**	**3,556**	**19,796**

(b) Lease liabilities

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

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	**5,050**	–
New leases	**499**	5,244
Accretion of interest recognised during the year (note 7)	**196**	42
Exchange realignment	**(10)**	–
Payments	**(1,689)**	(236)
Carrying amount at 31 December	**4,046**	5,050
Analysed into:		
Current portion	**1,695**	1,465
Non-current portion	**2,351**	3,585

The maturity analysis of lease liabilities is disclosed in note 33 to the financial statements.

14. LEASES *(continued)*

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

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	196	42
Depreciation charge of right-of-use assets	2,267	697
Expense relating to short-term leases (included in administrative expenses and selling and distribution expenses) (note 6)	471	73
Total amount recognised in profit or loss	2,934	812

(d) The total cash outflow for leases is disclosed in note 28(c) to the financial statements.

15. INTANGIBLE ASSETS

	Software RMB'000
31 December 2021	
Cost at 1 January 2021, net of accumulated amortisation	33
Additions	164
Amortisation provided during the year (note 6)	(78)
At 31 December 2021	119
At 31 December 2021:	
Cost	867
Accumulated amortisation	(748)
Net carrying amount	119
31 December 2020	
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

16. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	40,442	27,201
Work in progress	6,736	6,411
Finished goods	21,198	17,830
	68,376	51,442

17. TRADE RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	85,273	90,947
Impairment	(4,154)	(3,540)
	81,119	87,407

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:

	2021 RMB'000	2020 RMB'000
Within 3 months	66,649	66,645
3 to 6 months	9,480	11,836
6 to 12 months	3,371	6,777
1 to 2 years	1,445	2,117
Over 2 years	174	32
	81,119	87,407

17. TRADE RECEIVABLES *(continued)*

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

	2021 RMB'000	2020 RMB'000
At beginning of year	3,540	2,152
Impairment losses, net (note 6)	614	1,388
At end of year	4,154	3,540

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 2021

	Gross carrying amount RMB'000	Expected credit loss rate %	Expected credit loss RMB'000
Less than 1 year	81,890	2.51	2,052
1 to 2 years	1,876	32.08	602
2 to 3 years	1,315	99.43	1,308
Over 3 years	192	100.00	192
	85,273		4,154

As at 31 December 2020

	Gross carrying amount RMB'000	Expected credit loss rate %	Expected credit loss RMB'000
Less than 1 year	87,882	2.98	2,623
1 to 2 years	2,846	25.64	730
2 to 3 years	211	85.40	179
Over 3 years	8	100.00	8
	90,947		3,540

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 RMB'000	2020 RMB'000
Prepayments	2,047	5,765
Other receivables	1,556	1,209
Prepaid expenses	819	2,669
	4,422	9,643

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 2021 and 2020, the loss allowance was assessed to be minimal.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 RMB'000	2020 RMB'000
Current		
Unlisted investments, at fair value	60,814	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.

	2021 RMB'000	2020 RMB'000
Non-current		
Unlisted equity investment, at fair value		
Shenzhen Jingfeng Medical Technology Co., Ltd.	111,233	–

The above equity investment was classified as financial asset at fair value through profit or loss as it was mandatorily designated as such.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2021 RMB'000	2020 RMB'000
Cash and bank balances	1,496,645	744,071
Time deposits	1,457,014	1,489,036
	2,953,659	2,233,107
Less:		
Pledged time deposits for potential transactions on financial assets at fair value through profit or loss	–	(1,061)
Cash and cash equivalents	2,953,659	2,232,046
Denominated in RMB	1,585,513	94,053
Denominated in US$	1,355,375	2,048,303
Denominated in HK$	12,617	89,690
Denominated in SGD	154	–
Cash and cash equivalents	2,953,659	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 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.

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:

	2021 RMB'000	2020 RMB'000
Within 3 months	18,148	11,404
3 to 6 months	95	–
6 to 12 months	8	2
Over 12 months	10	1
	18,261	11,407

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

22. OTHER PAYABLES AND ACCRUALS

	2021 RMB'000	2020 RMB'000
Contract liabilities	2,902	828
Payroll payables	20,186	12,885
Other payables	30,175	28,152
Taxes other than income tax	14,629	7,668
Accrued expenses	6,203	1,988
	74,095	51,521

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

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

23. DEFERRED INCOME

	2021 RMB'000	2020 RMB'000
Government grants	1,908	2,544

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

	2021 RMB'000	2020 RMB'000
At the beginning of the year	2,544	3,180
Recognised as income during the year (note 6)	(636)	(636)
At the end of the year	1,908	2,544
Current	636	636
Non-current	1,272	1,908
	1,908	2,544

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.

24. DEFERRED TAX

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

DEFERRED TAX LIABILITIES

2021

	Fair value adjustments arising from financial assets at fair value through profit or loss RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2021	16	2,695	2,711
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(16)	9,690	9,674
Settlement during the year	–	(2,637)	(2,637)
At 31 December 2021	–	9,748	9,748

2020

	Fair value adjustments arising from financial assets at fair value through profit or loss 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	2,589	2,605
Settlement during the year	–	(7,300)	(7,300)
At 31 December 2020	16	2,695	2,711

24. DEFERRED TAX *(continued)*

DEFERRED TAX ASSETS

2021

	Share-based payment expense RMB'000	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 2021	–	32	457	260	873	382	2,004
Deferred tax credited/(charged) to profit or loss during the year (note 10)	571	50	14	–	234	(95)	774
At 31 December 2021	571	82	471	260	1,107	287	2,778

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)	32	192	39	(65)	(95)	103
At 31 December 2020	32	457	260	873	382	2,004

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:

	2021 RMB'000	2020 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	2,778	2,004
Net deferred tax liabilities recognised in the consolidated statement of financial position	9,748	2,711

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 RMB9,690,000 (2020: RMB2,589,000) have been recognised for withholding taxes that would be payable on the unremitted earnings for the year ended 31 December 2021.

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 RMB389,925,000 (2020:RMB205,360,000). 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.

25. SHARE CAPITAL

	2021	2020
Authorised:		
5,000,000,000 (2020: 5,000,000,000) ordinary shares of US$0.00001 each		
US$	50,000	50,000
Issued and fully paid:		
1,245,876,500 (2020: 1,252,207,500) ordinary shares of US$0.00001 each		
US$	12,459	12,522
RMB	87,555	88,000

A summary of movements in the Company's issued share capital, share premium, share held for share award arrangement and treasury shares 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	Treasury shares 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 and 1 January 2021		1,252,207,500	88	2,808,820	(2)	–
Shares repurchased	(h)	–	–	–	–	(51,074)
Shares cancelled	(h)	(6,331,000)	–	(46,786)	–	46,786
At 31 December 2021		1,245,876,500	88	2,762,034	(2)	(4,288)

(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.

25. SHARE CAPITAL *(continued)*

(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 Fortune Spring KangJi 1 Limited ("**ESOP BVI**") (note 26).

(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.

(h) The Company purchased 7,031,000 of its shares on the Stock Exchange for a total cash consideration of HK$62,085,000 (equivalent to approximately RMB51,074,000), of which 6,331,000 shares were cancelled during the year ended 31 December 2021 (equivalent to approximately RMB46,786,000). The remaining of 700,000 shares were cancelled on 27 January 2022.

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 the 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.

26. SHARE-BASED PAYMENTS *(continued)*

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 RSU 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.

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 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 the following vesting schedule: 580,000 shares upon Listing; 1,180,000 shares on the first anniversary of the vesting commencement date; 1,180,000 shares on the second anniversary of the vesting commencement date; and 1,180,000 shares on the third anniversary of the vesting commencement date.

On 26 March 2021, a total of 5,620,000 underlying shares under the RSU Plan were granted to a management team member and 56 employees. Pursuant to the RSU Plan agreements, RSUs will be vested according to the following vesting schedule: 1,124,000 shares on the first anniversary of the vesting commencement date; 1,124,000 shares on the second anniversary of the vesting commencement date; 1,124,000 shares on the third anniversary of the vesting commencement date; 1,124,000 shares on the fourth anniversary of the vesting commencement date; and 1,124,000 shares on the fifth anniversary of the vesting commencement date.

26. SHARE-BASED PAYMENTS *(continued)*

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

	Number of options	Weighted average exercise price RMB per share
At 31 December 2020 and 31 December 2021	4,120,000	6.787

The fair values of the RSUs and options granted during the year were RMB11,867,000 (2020: 13,498,000) and nil (2020: RMB9,175,000), respectively, for which the Group recognised a corresponding share-based payment expense of RMB3,806,000 (2020: 13,498,000) and RMB3,066,000 (2020: RMB4,503,000) for the year ended 31 December 2021.

On 24 January 2021, the Administrator determined to extend the share purchase period of the RSUs granted on 6 May 2020. The incremental fair value resulting from the extension at the modification date was RMB1,413,000, which was recognised immediately to profit or loss.

The fair values of the RSUs and share options granted 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 key inputs to the model used:

31 December 2021

	RSUs
Expected volatility (%)	31.54-44.30
Risk-free interest rate (%)	0.04-0.79
Early exercise multiple	2.2-2.8

31 December 2020

	RSUs	Share options
Expected volatility (%)	43.00	37.00
Risk-free interest rate (%)	0.46	0.58
Early exercise multiple	2.8	2.8

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. Details of the movements in the capital reserve are set out in the consolidated statement of changes in equity.

SHARE OPTION AND AWARD RESERVE

The Group's share option and award reserve represents the share-based compensation reserve, details of the movements are set out in the consolidated statement 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 financial statements of the entities of which the functional currency is not RMB.

28. 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 RMB499,000 (2020: RMB5,244,000) and RMB499,000 (2020: RMB5,244,000), 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.

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(B) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES:

2021

	Lease liabilities RMB'000
At 1 January 2021	5,050
Changes from financing cash flows	(1,689)
New leases	499
Interest expense	196
Exchange realignment	(10)
At 31 December 2021	4,046

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

(C) TOTAL CASH OUTFLOW FOR LEASES

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

	2021 RMB'000	2020 RMB'000
Within operating activities	471	73
Within financing activities	1,689	194
	2,160	267

29. COMMITMENTS

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

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
Buildings	768	1,876
Plant and machinery	130	503
	898	2,379

30. 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 these financial statements, the Group had the following transactions with related parties during the year:

	2021 RMB'000	2020 RMB'000
Payments on behalf of the Group		
LYFE Capital Fund-A, L.P.	–	30
ARDIAN DIRECT ASIA III L.P.	–	36
Axiom Asia IV, L.P.	–	57
LYFE Capital Fund, L.P.	–	183
Keyhole Holding Limited	–	2,041
	–	2,347

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

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

	2021 RMB'000	2020 RMB'000
Short-term employee benefits	8,237	5,728
Pension scheme contributions	321	242
Share-based payment expense	6,162	18,001
Total compensation paid to key management personnel	14,720	23,971

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

31. 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:

2021

FINANCIAL ASSETS

	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Cash and cash equivalents	–	2,953,659	2,953,659
Trade receivables	–	81,119	81,119
Financial assets included in prepayments, other receivables and other assets	–	1,556	1,556
Financial assets at fair value through profit or loss	172,047	–	172,047
	172,047	3,036,334	3,208,381

FINANCIAL LIABILITIES

	Financial liabilities at amortised cost RMB'000
Trade payables	18,261
Lease liabilities	4,046
Financial liabilities included in other payables and accruals	36,378
	58,685

31. 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)*

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

32. 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, financial assets included in prepayments, other receivables and other assets, trade payables, lease liabilities and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

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

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

For the fair value of the unlisted equity investment, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

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

Below is a summary of significant unobservable input to the valuation of financial instrument together with a quantitative sensitivity analysis as at 31 December 2021:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investment	Back-solve from recent transaction price	Discount for lack of marketability ("**DLOM**")	11% to 29%	5% decrease/increase in DLOM would result in increase/decrease in fair value by RMB6,761,000/(RMB6,761,000)

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 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	–	60,814	111,233	172,047

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	–	548,428	–	548,428

The Group did not have any financial liabilities measured at fair value as at 31 December 2021 and 2020.

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 (2020: nil).

33. 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 and 2021, 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
Year ended 31 December 2021			
If the RMB weakens against the US$	5	20,770	67,395
If the RMB strengthens against the US$	(5)	(20,770)	(67,395)
If the RMB weakens against the HK$	5	583	1,152
If the RMB strengthens against the HK$	(5)	(583)	(1,152)
Year ended 31 December 2020			
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)

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.

33. 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 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	85,273	85,273
Financial assets included in prepayments, other receivables and other assets					
– Normal**	1,556	–	–	–	1,556
Cash and cash equivalents					
– Not yet past due	2,953,659	–	–	–	2,953,659
	2,955,215	–	–	85,273	3,040,488

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total 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
	2,234,316	–	–	90,947	2,325,263

* 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.

33. 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 2021				
	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	113	18,148	–	–	18,261
Lease liabilities	–	536	1,296	2,478	4,310
Financial liabilities included in other payables and accruals	36,378	–	–	–	36,378
	36,491	18,684	1,296	2,478	58,949

	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
	30,143	11,708	1,462	3,729	47,042

33. 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 2021 and 31 December 2020.

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 2021 RMB'000	As at 31 December 2020 RMB'000
Trade payables	**18,261**	11,407
Other payables and accruals	**74,095**	51,521
Lease liabilities	**4,046**	5,050
Debt	**96,402**	67,978
Total assets	**3,390,344**	3,020,261
Gearing ratio	**2.8%**	2.3%

34. EVENTS AFTER THE REPORTING PERIOD

On 18 January 2022, Kangji Hong Kong, a wholly-owned subsidiary of the Company, entered into an equity investment agreement with Hangzhou Weijing Medical Robot Co., Ltd. ("**Hangzhou Weijing**") and its then shareholders, pursuant to which Kangji Hong Kong agreed to subscribe for 32.75% equity interests in Hangzhou Weijing at a consideration of RMB340,000,000. Additionally, Kangji Hong Kong agreed to acquire 2.25% equity interests in Hangzhou Weijing from its then shareholders at a consideration of RMB22,870,000.

Given that Kangji Hong Kong will become the single largest shareholder of Hangzhou Weijing upon completion of the investment and is entitled to appoint a majority of the directors to Hangzhou Weijing's board of directors thus acquiring control over Hangzhou Weijing, Hangzhou Weijing will become an indirect non-wholly-owned subsidiary of the Company.

35. 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:

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**7,560,602**	7,261,242
Total non-current assets	**7,560,602**	7,261,242
CURRENT ASSETS		
Due from subsidiaries	**2**	8,468
Due from a related party	**–**	2
Financial assets at fair value through profit or loss	**–**	459,434
Cash and cash equivalents	**1,768,514**	1,654,073
Total current assets	**1,768,516**	2,121,977
CURRENT LIABILITIES		
Due to subsidiaries	**1,198**	1,104
Other payables and accruals	**252**	146
Total current liabilities	**1,450**	1,250
NET CURRENT ASSETS	**1,767,066**	2,120,727
TOTAL ASSETS LESS CURRENT LIABILITIES	**9,327,668**	9,381,969
Net assets	**9,327,668**	9,381,969
EQUITY		
Share capital	**88**	88
Reserves (note)	**9,327,580**	9,381,881
Total equity	**9,327,668**	9,381,969

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

Note:

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

	Treasury shares RMB'000	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:							
Exchange differences	–	–	–	–	(209,923)	–	(209,923)
Total 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
Profit for the year	–	–	–	–	–	65,354	65,354
Other comprehensive loss for the year:							
Exchange differences	–	–	–	–	(30,568)	–	(30,568)
Total comprehensive income for the year	–	–	–	–	(30,568)	65,354	34,786
Shares repurchased	(51,074)	–	–	–	–	–	(51,074)
Shares cancelled	46,786	(46,786)	–	–	–	–	–
Dividend declared	–	–	–	–	–	(46,298)	(46,298)
Share-based payments	–	–	–	8,285	–	–	8,285
At 31 December 2021	(4,288)	2,762,034	6,787,000	26,286	(240,491)	(2,961)	9,327,580

(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.

36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 22 March 2022.

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
"CG Code"	the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules applicable during the Reporting Period
"China" or "mainland China"	People's Republic of China, excluding, for the purposes of this prospectus and for "PRC" or "State" geographical reference only and except where the context requires otherwise, Hong Kong, Macau and Taiwan
"Company", "Our Company" or "Kangji Medical"	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 Ming, Ms. SHENTU Yinguang, Fortune Spring ZM B Limited and Fortune Spring YG B Limited
"COVID"	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
"ESG"	environmental, social and governance
"ESOP BVI"	Fortune Spring KangJi 1 Limited
"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
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

Definition

"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股份有限公司), a joint stock company established under the laws of the PRC
"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
"OBGYN"	obstetrics and gynecology
"ODM"	original design manufacture
"Option(s)"	the option(s) to purchase Shares under the Pre-IPO Share Option Plan
"Pre-IPO Share Option Plan" or "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

Definition

"Reporting Period"	the year from January 1, 2021 to December 31, 2021
"Renminbi" or "RMB"	the lawful currency of the PRC
"RSU(s)"	restricted share unit(s)
"RSU Plan"	the restricted share unit plan of the Company as adopted on May 6, 2020
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary shares in the share capital of our Company of US$0.00001 each
"Shareholder(s)"	holder(s) of our Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchange and Clearing Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"USD" or "US$"	US dollars, the lawful currency of the U.S.
"VBP(s)"	volume-based procurement