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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

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Chairman's Statement

Dear shareholders,

In 2022, as the COVID-19 pandemic situation continued to fluctuate in China, it not only disrupted the normal operation of economic activities but also imposed significant impacts on the elective surgery volume, and thus on the demand for our products. Faced with severe external challenges, we responded actively and maintained a healthy financial position and stable operation by implementing flexible operational strategies with strong execution capabilities, which has laid a solid foundation for the Company's future development. Kangji Medical achieved operating revenue of RMB786.4 million in 2022, representing a year-on-year growth of approximately 13.9%. The non-HKFRS adjusted net profit attributable to owners of the parent for the Reporting Period was RMB498.7 million, representing a year-on-year growth of approximately 21.0%.

Kangji Medical, as a leading provider of medical device products for minimally invasive surgery in China, continued to focus on these surgical specialties including obstetrics and gynecology, general surgery, urology, and thoracic surgery. We remain committed to providing doctors and patients with comprehensive, high-quality, reliable, and accessible minimally invasive surgical overall solutions. We see it as our mission to promote and popularise minimally invasive surgery as well as to promote minimally invasive surgical techniques. Through building Kangji special academic platform, we cultivate connections with more doctors and professionals, create a professional and distinctive academic training and communication ecosystem, and promote advanced minimally invasive surgery techniques to propel continuous growth with Chinese minimally invasive surgeons.

In 2022, we continued to organise academic activities in such fields as obstetrics and gynecology, general surgery, and urology with more than 150 authoritative experts from across the country, which have generated over 2.4 million online views. To promote the single-site laparoscopic technique, facilitate the adoption of single-site surgeries, and enhance doctors' clinical skills, the Company invited more than 20 top experts to hold several large-scale offline academic conferences on gynecological single-site surgery during the year.

We will continue to build credible and impactful academic exchange and training platforms, construct a multidisciplinary, multi-product, and diversified academic ecosystem, and collaborate with clinical experts to promote the academic development of minimally invasive surgery.

After 18 years of endeavour and development, we have grown into a leading enterprise in the field of minimally invasive surgery in China. Our goal is to become a world-class medical device company. From taking the initiative to establish enterprise academician workstations and provincial-level enterprise research institutes in the field, to maintaining a long-term "medical and engineering cooperation" with Class IIIA hospitals in China for research and development and innovation, to heavily investing in the research and development of minimally invasive surgical imaging systems and minimally invasive surgical robots, all of these are our profound practice of upholding innovation and achieving ground-breaking development!

Looking ahead, we will continue to adopt the clinical oriented R&D approach and increase our R&D efforts on equipment and innovative product development. We are excited about the new site we have acquired for our new R&D center to be constructed in the next few years. It will significantly expand our capacity for advanced product design and research and development and in attracting top talent across business departments for the Company. We will continue to expand our international sales and marketing team, strengthen our sales and marketing capabilities in the overseas markets, in order to achieve rapid growth of overseas sales. We will also seek domestic and international strategic investment and partnership opportunities, with a focus on complementary products and technologies, in order to expand our scale and influence and drive higher returns on shareholders' equity.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. ZHONG Ming *(Chairman)*
Ms. SHENTU Yinguang
Ms. Frances Fang CHOVANEC
Mr. YIN Zixin (appointed on April 28, 2022)

Non-executive Directors

Ms. CAI Li
Mr. CHEN Gang (ceased to be Director on April 28, 2022)

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

COMPANY SECRETARY

Mr. WAN Siu Keung

AUTHORIZED REPRESENTATIVES

Mr. ZHONG Ming
Mr. YIN Zixin

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
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9997

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/calculated based on the audited financial information and financial statements is set out below:

	For the year ended December 31,				
	2022	2021	2020	2019	2018
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB'000
Revenue	**786,367**	690,263	511,490	503,467	353,670
Gross profit	**635,247**	562,926	431,470	423,175	289,297
Profit for the year	**461,174**	456,789	259,150	326,735	223,793
Non-HKFRS adjusted net profit for the year **	**476,101**	412,058	329,137	320,239	217,914
Profit attributable to owners of the parent	**478,735**	456,789	250,296	206,444	146,701
Non-HKFRS adjusted net profit for the year attributable to owners of the parent**	**498,711**	412,058	320,911	202,287	142,939
Earnings per share					
– Basic (RMB)	**39.63 cents**	37.31 cents	26.27 cents	20.11 cents	N/A
– Diluted (RMB)	**39.63 cents**	37.08 cents	25.97 cents	20.11 cents	N/A

	As at December 31,				
	2022	2021	2020	2019	2018
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB'000
Non-current assets	**861,151**	221,954	90,234	75,517	72,836
Current assets	**3,123,760**	3,168,390	2,930,027	717,265	462,394
Non-current liabilities	**112,434**	13,371	8,204	9,950	3,180
Current liabilities	**153,669**	116,572	75,446	267,372	48,125
Non-controlling interests	**345,810**	–	–	188,232	174,213
Total equity	**3,718,808**	3,260,401	2,936,611	515,460	483,925

* *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, 2022, the Company realized revenue of RMB786.4 million, representing an increase of 13.9% as compared to 2021. Our increase in sales was mainly attributable to a moderate growth in sales for the domestic market despite the impact from COVID related outbreaks and restrictions throughout the year, as well as strong growth in export. Domestic sales growth was mainly driven by faster growth in categories such as single-site trocars, disposable electrocoagulation forceps, and 4K endoscopic camera systems. Growth in export was mainly driven by growth in disposable trocars, polymer ligation clips and reusable products.

The Group's net profit attributable to owners of the parent for the Reporting Period increased by 4.8% from RMB456.8 million in 2021 to RMB478.7 million in 2022. The increase was mainly attributable to our sales growth, and partly offset by the increase of R&D expenses and to a lesser extent administrative expenses contributed by Hangzhou Weijing Medical Robot Co., Ltd.* (杭州唯精醫療機器人有限公司) ("**Weijing Medical**") since our acquisition. The Group's adjusted total net profit attributable to owners of the parent for the Reporting Period which excludes fair value gain on equity investment, foreign exchange difference, investment gain/loss from short-term financial products and share-based payment expense, increased by 21.0% from RMB412.1 million in 2021 to RMB498.7 million in 2022.

The Board has resolved to recommend the payment of a final dividend of RMB18.45 cents per Share for the year ended December 31, 2022.

Management Discussion and Analysis

OUR MISSION

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

BUSINESS REVIEW

2022 was a difficult year in terms of the COVID impact on China's domestic economy and operating environment. There were many disruptions to people's lives due to different waves of COVID outbreaks, regional lockdowns, and the evolving COVID restrictions. As a result, the hospital operating environment, patient flow and surgery volume were negatively affected compared to the prior year. While the first half of 2022 was challenging for the domestic market, the second half of the year witnessed some gradual recovery in elective surgery volume before the COVID outbreak in December, although regional COVID restrictions were on-going throughout the entire year. We weathered through the macroeconomic volatility without any major disruption to our operation, supply chain, or development plan. Towards the end of the year, with China's re-opening policy announced in December, the anticipation of post-COVID recovery rose quickly and our customers started to place more orders.

In the overseas market, demand for our products grew at a higher rate throughout 2022 as most of our overseas markets had relaxed COVID-related restrictions and our customers' operation had returned to normal level. Our export sales of RMB71.3 million for the year ended December 31, 2022 represented 46.9% growth from the previous year, or approximately 41.1% growth on a constant currency basis, excluding foreign exchange impact. The growth was also attributable to our export strategy to enhance our marketing and sales capability to reach further penetration into our top markets. During the Reporting Period, we added our overseas product registrations, mainly in South America through our overseas OEM customers or distributors. Our export sales expanded to more than 100 customers in 47 countries and regions for the year ended December 31, 2022 from approximately 85 customers in 45 countries and regions in the previous year.

In terms of domestic VBP, few new regional VBPs have taken place during the Reporting Period. For our core products, new implementations during the year included nine cities in Hunan province and Hebei province for disposable trocars and the four-province (Shandong, Shanxi, Hebei, and Henan) alliance VBP for polymer ligation clips. For disposable trocars, we switched to the non-distributor model similar to what we have done in Shandong and Fujian provinces whereas for polymer ligation clips and ultrasonic scalpels under VBP, we kept the distributor model. We have seen encouraging volume uptake for these newly implemented VBP product sales despite the headwinds from COVID on overall surgery volume. We expect the VBP implementation will benefit us over time in ways such as accessing and penetrating new hospitals, local market consolidation with higher market concentration towards leading domestic players, and increasing import substitution. In addition, we continued to see new growth opportunities for non-VBP products such as single-site trocars and disposable electrocoagulation forceps. There's still much room for these products to further penetrate the market and diversify our sales mix.

For the year ended December 31, 2022, we achieved revenue of RMB786.4 million, representing a year-on-year growth of 13.9% from 2021. The growth in revenue was mainly attributable to domestic growth of disposable products, new product sales growth, and strong growth in export sales. The Group's net profit attributable to owners of the parent for the year ended December 31, 2022 increased by 4.8% from RMB456.8 million in 2021 to RMB478.7 million. The increase was attributable to our sales growth, and partly offset by the increase of R&D expenses and to a lesser extent administrative expenses contributed by Weijing Medical since our acquisition. The Group's non-HKFRS adjusted net profit attributable to owners of the parent for the Reporting Period which excludes fair value gain on equity investment, foreign exchange difference, investment gain/loss from short-term financial products and share-based payment expense, increased by 21.0% from RMB412.1 million to RMB498.7 million.

Management Discussion and Analysis

R&D

As the largest domestic platform for medical device products devoted to minimally invasive surgery, we are constantly on the lookout for how we can serve the clinical needs better by improving our existing products or adding new products to our product portfolio which has expanded to include more medical equipment in the past two years. As part of our strategy, we expanded the team during 2022 to focus on medical equipment which can generate synergies with our other instruments and consumables as an integral surgical solution. Such examples included new product registrations such as 4K UHD fluorescence camera system and scalpel for ultrasonic & high frequency electrosurgical system. Other new product registrations in 2022 include multi-fire laparoscopic titanium clip applier with disposable titanium clip cartridge, multi-articular laparoscopic instrument (dual articulation) (外科機械臂腔鏡手術器械), and laparoscope (腹腔內窺鏡), to name a few.

In the Reporting Period, the Group added 11 new product registrations in mainland China excluding renewal of product registrations. In the overseas markets mainly in South America, we added 13 new product registration certificates including those obtained through our OEM customers or local distributors.

As at December 31, 2022, we have acquired the land use right in the amount of RMB28.5 million for a site as our new R&D center in Xiaoshan district of Hangzhou. Construction for a new R&D building will commence in the second half of 2023 and is expected to be completed in the next 3-4 years.

Sales and Distribution

In 2022, we focused on executing sales and marketing strategy in the following areas:

First, we continued to improve our distributor network and enhance the management and support infrastructure for our distributors. Our district sales managers are directly responsible for communicating with and recruiting and managing our distributors at local level. We continued to add new distributors who are capable for additional market coverage and/or for marketing our new products. We established two new local sales offices in Shanghai and Guangzhou respectively to provide better support to our distributors as well as more accessible after-sale support.

Second, despite the difficulty in organizing and conducting in-person academic promotion activities due to COVID outbreaks and restrictions, we kept our online training and academic promotion activities at a rigorous pace with the overall goal to increase our brand awareness and recognition. The online platform continued to expand the coverage of expert resources and reach of physicians. Through partnership with local hospitals, we launched Kangji-sponsored training centers for single-port procedures. The first two training bases which offer recurring clinical training sessions on single-port procedures were established successfully in the gynecology departments in two hospitals in Changsha and Wuhan respectively. We plan to replicate such training bases across other surgical specialties nationally in the future. Our sale of single-site trocars posted another year of strong growth in the Reporting Period thanks to our targeted academic promotion effort.

Third, in light of the evolving regional VBPs and regulatory trends, we continued to work with our distributors to identify areas to further diversify our product sales in the end markets.

Strategic Investment

We completed the acquisition of 35% controlling interest in Weijing Medical on February 14, 2022. Weijing Medical is primarily engaged in the research and development and production of surgical robotic products and instruments for laparoscopic surgery in China. Since the acquisition, Weijing Medical has become an indirect non-wholly-owned subsidiary of the Group. In 2022, it has mainly been focused on the clinical trial of its first product which has been on track. It has also relocated most of its staff to the brand new office in Hangzhou from Changzhou in Jiangsu province. For the year ended December 31, 2022, Weijing Medical contributed a loss of approximately RMB27.0 million to the consolidated profit or RMB9.5 million to the net profit attributable to the owners of the parent.

Forward Outlook

1) We will continue to adopt the clinical oriented R&D approach and increase our R&D efforts on equipment and innovative product development. By deepening our "equipment + instruments + consumables" synergistic product model, we aim to provide a one-stop solution for minimally invasive surgery.

2) We will continue to build credible and impactful academic exchange and training platforms, construct a multidisciplinary, multi-product, and diversified academic ecosystem, and collaborate with clinical experts to promote the academic development of minimally invasive surgery.

3) We will continue to expand our international sales and marketing team, strengthen our sales and marketing capabilities in the overseas markets, in order to achieve rapid growth of overseas sales.

4) We will continue to seek domestic and international strategic investment and partnership opportunities, with a focus on complementary products and technologies, and expand our scale and influence.

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,		
	2022	2021	Changes
	RMB' 000	RMB' 000	%
Disposable products			
Disposable trocars	364,946	334,123	9.2
Polymer ligation clips	192,511	178,440	7.9
Disposable electrocoagulation forceps	94,198	71,140	32.4
Ultrasonic scalpels	18,153	11,771	54.2
Other disposable products(1)	19,324	13,863	39.4
Sub-total	689,132	609,337	13.1
Reusable products			
4K endoscopic camera systems	20,557	6,165	233.4
Other reusable products(2)	76,678	74,761	2.6
Sub-total	97,235	80,926	20.2
Total	786,367	690,263	13.9

Notes:

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

(2) Other reusable products primarily include reusable trocars and reusable forceps.

Our revenue amounted to RMB786.4 million for the year ended December 31, 2022, representing an increase of 13.9% as compared to RMB690.3 million for the year ended December 31, 2021. The increase in revenue was primarily attributable to: (i) the increase in domestic sales, especially in disposable products such as single-site trocars and disposable electrocoagulation forceps, and reusable products such as 4K endoscopic camera systems; and (ii) the continuing strong growth in export sales as demand in overseas market continued to grow as well as our ongoing effort to expand our overseas channels, increase product registrations and overseas marketing activities.

Management Discussion and Analysis

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 RMB689.1 million for the year ended December 31, 2022, representing an increase of 13.1% as compared to RMB609.3 million for the year ended December 31, 2021. Such increase was mainly attributable to the year-on-year growth in revenue in disposable trocars, polymer ligation clips and disposable electrocoagulation forceps. Due to restrictions and lockdowns from COVID outbreaks in China, demand for disposable products had been affected by the decline in elective surgeries in 2022. During the Reporting Period, sales of disposable products accounted for 87.6% of our total revenue as compared to 88.3% in 2021.

Disposable trocars recorded revenue of RMB364.9 million for the Reporting Period, representing an increase of 9.2% as compared with RMB334.1 million in 2021. Disposable trocars accounted for approximately 46.4% of our total revenue during the Reporting Period as compared to approximately 48.4% in 2021. Sales of disposable trocars turned to year-on-year growth in the second half of 2022 after a slight decline in the first half of 2022 due to COVID impact. Both our export sales of disposable trocars and overall sales of single-site trocars exhibited strong growth in 2022. VBP for disposable trocars was effective in nine cities of Hunan province starting in January 2022 and in Hebei province starting in September 2022. Similar to Shandong and Fujian provinces, we have switched to the more direct sales model of engaging with logistics and external promotion partners in the VBP regions in Hunan and Hebei provinces while maintaining the distributor model for the remaining regions in Hunan province.

Polymer ligation clips recorded revenue of RMB192.5 million for the Reporting Period, representing an increase of 7.9% as compared to 2021. Sales of polymer ligation clips recovered less quickly and grew at a slower pace in 2022 partly due to the uncertainty in regional VBP. Implementation for four-province alliance VBP for polymer ligation clips commenced at the end of May in 2022 in Shandong province, followed by Henan, Hebei, and Shanxi provinces in July and early August in 2022. Post VBP, our sales for these regions exhibited positive year-on-year growth for polymer ligation clips stimulated by the general price cut and our broader access to hospitals.

Disposable electrocoagulation forceps continued to experience growth in demand and recorded high sales growth for the Reporting Period. This can be mainly attributed to a relatively underpenetrated market segment and our focused effort to drive sales across the product portfolio.

Reusable Products

Our reusable products recorded revenue of RMB97.2 million for the year ended December 31, 2022, representing an increase of 20.2% as compared with RMB80.9 million for the year ended December 31, 2021. Such increase was mainly due to the increase in sales of 4K endoscopic camera systems which was launched during the first half of 2021.

Sales Channel

Most of our revenue comes from sales to domestic customers. During the Reporting Period, we primarily sold our products to domestic distributors. To a lesser extent, we also sold to hospitals and other customers (primarily including distribution companies that we sell to who then distribute our products under VBPs or under the “two-invoice” system to hospitals). For overseas markets, our customers mainly include overseas ODM customers and overseas distributors.

Revenue from overseas markets was approximately RMB71.3 million for the year ended December 31, 2022, representing an increase of 46.9% in 2021. We recorded export sales growth of 41.1% for the Reporting Period on a constant currency basis in terms of US dollars (“USD”or “US$”), which is the transaction currency of our export sales. Growth of our export sales was strong during the Reporting Period due to our ongoing effort to expand overseas channels, increase product registrations in overseas markets and build up our export team. Revenue from overseas markets accounted for 9.1% of our total revenue for the year of 2022 as compared to 7.0% in 2021.

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

	For the year ended December 31,		
	2022	2021	Changes
	RMB'000	RMB'000	%
Domestic			
– Distributors	651,074	582,573	11.8
– Hospitals and other customers[1]	64,023	59,180	8.2
Sub-total	715,097	641,753	11.4
Overseas			
– ODM customers	60,978	43,703	39.5
– Distributors	10,292	4,807	141.1
Sub-total	71,270	48,510	46.9
Total	786,367	690,263	13.9

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 certain areas such as Shandong, Fujian, Hunan and Hebei provinces.

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, 2022, our cost of sales was RMB151.1 million, representing an increase of 18.7% as compared with RMB127.3 million for the year ended December 31, 2021. 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 2021, which was mainly driven by the growth of our products including ultrasonic scalpels and 4K endoscopic camera systems that utilize a higher proportion of raw materials. In the meantime, direct labor costs and manufacturing costs increased to a lower extent than that of sales revenue due to the effect of economy of scale.

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

	For the year ended December 31,			
	2022		2021	
	Amount	% of total	Amount	% of total
	RMB'000 (except percentages)			
Raw materials	77,901	51.5	59,850	47.0
Direct labor costs	39,414	26.1	37,278	29.3
Manufacturing costs[1]	33,805	22.4	30,209	23.7
Total	151,120	100.0	127,337	100.0

Note:

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

Management Discussion and Analysis

Gross Profit and Gross Margin

Our gross profit increased by 12.8% to RMB635.2 million for the year ended December 31, 2022 from RMB562.9 million for the year ended December 31, 2021, due to an increase in sales.

Our gross margin was 80.8% for the year ended December 31, 2022, down from 81.6% for the year ended December 31, 2021, which was primarily due to the change in product mix attributable to the decrease in sales contribution from disposable trocars and polymer ligation clips which have higher gross margins than our other products.

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

	For the year ended December 31,			
	2022		2021	
	Gross Profit RMB'000	**Gross Profit Margin**	Gross Profit RMB'000	Gross Profit Margin
Disposable products	**580,187**	**84.2%**	516,769	84.8%
Reusable products	**55,060**	**56.6%**	46,157	57.0%
Total	**635,247**	**80.8%**	562,926	81.6%

Other Income and Gains

Other income and gains for the year ended December 31, 2022 was RMB146.7 million, while for the year ended December 31, 2021, it was RMB120.8 million. The increase was primarily due to (1) an increase of RMB36.7 million in interest income arising from bank deposits; and (2) an increase of RMB18.6 million in government grants representing subsidies received from the local governments as compensation for expenses incurred for R&D activities, reward for financial contribution and capital expenditure incurred for certain projects.

Selling and Distribution Expenses

Selling and distribution expenses were RMB53.4 million for the year ended December 31, 2022, representing an increase of 14.8% as compared with RMB46.5 million for the year ended December 31, 2021. The increase was primarily due to the increase in (1) staff costs and share-based payment expenses associated with the RSUs granted along with the expansion of our sales and distribution staffs; and (2) the increase in marketing and promotion fees paid to external partners as a result of the implementation of VBP for disposable trocars in more provinces. The effect of such increase was partly offset by the decrease in expenses associated with advertising and academic promotion activities due to the travel restrictions under COVID-19 in the Reporting Period.

Administrative Expenses

Administrative expenses amounted to RMB71.3 million for the year ended December 31, 2022, representing an increase of 14.8% as compared with RMB62.1 million for the year ended December 31, 2021. The increase was mainly due to the contribution of administrative expenses by Weijing Medical as a result of the consolidation of its financials after the acquisition during the Reporting Period.

Research and Development Expenses

Research and development expenses for the year ended December 31, 2022 was RMB66.0 million, representing an increase of 83.3% as compared with RMB36.0 million for the year ended December 31, 2021, which was mainly due to (i) contribution of R&D expense in the amount of RMB24.7 million by Weijing Medical since our acquisition, and (ii) the increase in staff costs attributable to the expansion of our R&D team based in Xiaoshan district of Hangzhou.

Other Expenses

Other expenses primarily consist of donation, foreign exchange loss, investment loss from financial assets at fair value through profit or loss, and loss on disposal of assets. During the Reporting Period, we recorded other expenses of RMB27.3 million, which was primarily attributable to net foreign exchange loss and investment loss from our short-term financial products used for foreign exchange hedging purpose.

Income Tax Expenses

Income tax expenses were RMB102.0 million for the year ended December 31, 2022, representing an increase of 31.2% as compared with RMB77.7 million for the year ended December 31, 2021. The increase in income tax expenses was primarily due to the increase in taxable profit of our operating entities in mainland China for the Reporting Period as well as an increase in the amount of RMB11.6 million in withholding taxes associated with the distributable profits of our subsidiaries in mainland China.

Non-HKFRS Adjusted Net Profit for the Year

To supplement our audited consolidated statement of profit or loss and other comprehensive income which is presented in accordance with the 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, investment gain/loss from short-term financial products and share-based payment 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,	
	2022	2021
	RMB'000	RMB'000
Profit for the year attributable to owners of the parent	**478,735**	456,789
Add/(Less):		
Fair value gain on equity investment	**(22,705)**	(31,604)
Foreign exchange difference	**8,246**	(3,115)
Investment loss/(gain) from short-term financial products	**23,469**	(18,297)
Share-based payment expenses	**10,966**	8,285
Non-HKFRS adjusted net profit for the year attributable to owners of the parent	**498,711**	412,058

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 Shenzhen Edge Medical Co., Ltd.*（深圳市精鋒醫療科技有限公司）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. Included in the Group's net exchange loss of RMB3,197,000 in the Reporting Period was the exchange loss of RMB8,246,000 attributable to owners of the parent and the exchange gain of RMB5,049,000 attributable to non-controlling interests.

(3) Investment loss/(gain) from short-term financial products purchased mainly for hedging foreign currency fluctuations is non-operational in nature which is affected by the currency fluctuation of USD against RMB for the periods, the amount of which may not directly correlate with the underlying performance of our business operations. As the net investment gain of RMB18,297,000 in the corresponding period in 2021 is not significant, it was not excluded from the non-HKFRS adjusted net profit attributable to owners of the parent in the Company's annual report for the corresponding period in 2021.

(4) 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.

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 increased to 216 days in the Reporting Period as compared to that of 177 days for the year of 2021. The increase was attributable to the change in our product mix towards a higher proportion of higher valued products at the end of 2022 as well as a higher level of raw material in anticipation for our expansion of production in 2023.

Our trade receivable turnover days increased to 58 days in the Reporting Period as compared to that of 47 days for the year of 2021 due to the increase in short-term trade receivables at the year end of 2022 arising from a higher proportion of sales contributed in the second half of 2022.

Our trade payable turnover days remained stable at 47 days in the Reporting Period as compared to 43 days for the year of 2021.

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, 2022, we had cash and cash equivalents of RMB2,818.4 million, as compared with RMB2,953.7 million as of December 31, 2021. During the Reporting Period, the decrease in cash and cash equivalents of RMB135.3 million was primarily due to (1) the increase in net cash used in investing activities attributable to our increased capital expenditure; and (2) the increase in net cash used in financing activities attributable to dividends paid to shareholders, share repurchases and purchase of shares for restricted share unit plan by ESOP BVI.

As at December 31, 2022, most of our cash and cash equivalents were denominated in RMB, USD and HKD.

Net Current Assets

We had net current assets of RMB2,970.1 million as of December 31, 2022, representing a decrease of RMB81.7 million as compared with RMB3,051.8 million as of December 31, 2021.

Foreign Exchange Exposure

During the Reporting Period, the Group's operations were primarily based in mainland China. Assets, liabilities and transactions in the PRC are mainly denominated in RMB, while certain of the Group's overseas assets and transactions are denominated in USD or HKD. 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, 2022, the Group recorded an exchange loss of RMB3.2 million, as compared to an exchange gain of RMB3.1 million for the year ended December 31, 2021, primarily attributable to the exchange rate movements of USD against RMB.

Capital Expenditure

For the year ended December 31, 2022, the Group's total capital expenditure amounted to approximately RMB134.5 million, which was primarily used in purchasing machinery, equipment and land use rights, and construction of buildings. The Group's capital expenditure for the year ended December 31, 2021 was approximately RMB34.1 million.

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

	For the year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Plant and machinery	**31,532**	10,803
Construction in progress	**44,731**	5,905
Furniture and fixtures	**7,307**	6,064
Motor vehicles	**5,024**	1,657
Buildings	**63**	9,542
Leasehold improvements	**6,426**	–
Intangible assets	**1,534**	164
Land use rights	**37,890**	–
Total	**134,507**	34,135

Charge of Assets/Pledge of Assets

As of December 31, 2022, we did not have any charge of assets or pledge of assets.

Borrowings

As of December 31, 2022, 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, 2022, the gearing ratio of the Group was 3.8% (as of December 31, 2021: 2.8%).

Contingent Liabilities

As of December 31, 2022, we did not have any outstanding contingent liabilities.

Major Investments, Acquisition and Disposal

On January 18, 2022, Kangji Hong Kong, a wholly-owned subsidiary of the Company, entered into an equity investment agreement with, among others, Weijing Medical, and existing shareholders of Weijing Medical, to (i) subscribe for 32.75% equity interests in Weijing Medical at a consideration of RMB340 million; and (ii) acquire an aggregate 2.25% equity interests in Weijing Medical on a fully diluted basis from two of the shareholders at an aggregate consideration of RMB22,870,000. Weijing Medical is primarily engaged in the R&D and production of the endoscopic surgical instruments control system. Upon completion of the investment in February 2022, Weijing Medical, being held as to 35% by Kangji Hong Kong, has become an indirect non-wholly owned subsidiary of the Company and the financial results of Weijing Medical has been consolidated into the Company's consolidated financial statements. Please refer to the announcement of the Company dated January 18, 2022 for further details.

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

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, 2022, the Group had 885 employees (December 31, 2021: 725 employees). Total staff remuneration expenses including remuneration of the Directors and share-based payment expenses for the year ended December 31, 2022 amounted to RMB127.8 million (for the year ended December 31, 2021: RMB93.3 million).

The Remuneration Committee of the Company is responsible for reviewing the Company's emolument policy and structure for all remuneration of the Directors and senior management of the Company. The remuneration of Directors and senior management is determined with reference to the salaries of comparable companies and their experience, duties and performance. The remuneration of other employees is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice.

In recognition of the contributions of our Directors, senior management and employees and to incentivize them to further promote our development, the Company adopted the Pre-IPO Share Option Plan and the RSU plan on May 6, 2020. On May 25, 2022, the Shareholders have approved the increase of limit in respect of the number of Shares to be granted under the RSU plan from 26,810,000 Shares to 46,810,000 Shares. During the Reporting Period, ESOP BVI has purchased an aggregate of 20,000,000 Shares for the purpose of the RSU plan amounting to a total consideration of HK$125,039,105 (excluding brokerage fees and taxes). During the Reporting Period, no RSU under the RSU plan were granted to our senior management and employees. As of December 31, 2022, 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 47, 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 and executive master's degree in business administration from Cheung Kong Graduate School of Business (長江商學院) in October 2022. Mr. Zhong 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, 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 Model Worker of Hangzhou City (杭州市勞動模範) jointly by Hangzhou Municipal Committee of the Communist Party of China (中國共產黨杭州市委員會) and The People's Government of Hangzhou City (杭州市人民政府) in April 2022.

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

Ms. SHENTU Yinguang (申屠銀光), aged 43, is one of the founders of our Group. She was appointed as an executive Director on March 7, 2020. Ms. Shentu has also served as the vice general manager of our Company. Ms. Shentu is mainly responsible for overall management of the business, strategy and corporate development of the Group.

Ms. Shentu has been working in our Group for more than 15 years. Since the inception of our Group in August 2004, Ms. Shentu has held the positions of the vice general manager and the vice chairman of the board at Hangzhou Kangji. Ms. Shentu also serves as a supervisor of Kangyin Investment since June 2015.Ms. Shentu received her college degree in accounting (part-time) from China University of Geosciences (中國地質大學) in the PRC in August 2005. Ms. Shentu was awarded the Top Ten Innovation Women in Zhejiang (浙江十大創新女傑) by Zhejiang High-tech Enterprise Association (浙江省高新技術企業協會), Zhejiang Women Entrepreneur Association (浙江省女企業家協會), Zhejiang Scientific and Technological Innovation Entrepreneur Promotion Association (浙江省科技新浙商促進會), Zhejiang Technological and Innovative Enterprise Association (浙江省科技創新企業協會) and Sci-tech and Finance Times (科技金融時報) in 2019, the Tonglu Entrepreneur of the Year (年度桐廬企業家) by The People's Government of Tonglu County (桐廬縣人民政府) in December 2019, and the Outstanding Hangzhou Entrepreneur Award (風雲杭商獎) by Hangzhou Internationalization Innovation Forum (杭州國際化創新論壇) jointly held by Hang Zhou Culture Radio Television Group (杭州文廣集團), Hangzhou Federation of industry and Commerce (杭州市工商業聯合會), Hangzhou Municipal Bureau of Commerce (杭州市商務局) and several other governmental entities in January 2020. Ms. Shentu has also been a member of Chinese People's Political Consultative Conference of Tonglu County (桐廬縣政協) since January 2007.

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

Directors and Senior Management

Ms. Frances Fang CHOVANEC (陳芳), aged 44, 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.

Mr. YIN Zixin (尹自鑫), aged 37, was appointed as an executive Director on April 28, 2022. Mr. Yin has also served as a vice general manager at Hangzhou Kangji. He was one of our joint company secretaries for the period from March 7, 2020 to May 3, 2022. Mr. Yin joined the 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 has been a director at Hangzhou Kangji since August 2020 and a director at Hangzhou Weijing Medical Robot Co., Ltd. (杭州唯精醫療機器人有限公司) since February 2022. Mr. Yin is mainly responsible for investor relationships, investment and corporate governance matters of the 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 investments, and mergers and acquisitions.

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.

Non-Executive Directors

Ms. CAI Li (蔡俐), aged 39, 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). From September 2020 to November 2022, Ms. Cai served as 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), whose shares are listed on the Stock Exchange (stock code: 02185).

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

- a supervisor at Shanghai Deyu Deqi Enterprise Management Consulting Co., Ltd. (上海德虞得起企業管理諮詢有限公司) since November 2016;

- a 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 (諾為泰醫藥科技(上海)有限公司, formerly known as 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); 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 whose shares are listed on the Stock Exchange (stock code: 09886).

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

Independent Non-Executive Directors

Mr. JIANG Feng (姜峰), aged 60, 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 36 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.

Directors and Senior Management

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);
- the chairman since June 2021 at Weiyi Venture Capital (Suzhou) Co., Limited (唯醫創業投資(蘇州)有限公司), a company primarily engaged in early-stage investment projects of innovative medical devices;
- an executive director since December 2017 at Suzhou Innomd Medical Technology Service Co., Ltd. (蘇州英諾邁醫學科技服務有限公司), a company primarily engaged in provision of integrated solutions in respect of medical devices;
- a director since October 2017 at Xian Glodmag Nano Biotechnology Co., Ltd. (西安金磁納米生物技術有限公司), a company primarily engaged in development of nanomedicine; and
- a director since December 2017 at Diabesen (Beijing) Technology Co., Ltd. (戴雅貝森(北京)科技有限公司).

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

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

Mr. GUO Jian (郭建), aged 67, 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 49, 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 47, 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 43, 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 44, 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. YIN Zixin (尹自鑫), aged 37, was appointed as our vice general manager on March 7, 2020. Mr. Yin is mainly responsible for investor relationships, investment and corporate governance matters of the Group. See his biography above for details.

Mr. CHENG Da (程達), aged 45, 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.

Directors and Senior Management

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 43, 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 R&D 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 R&D. 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 R&D.

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 48, 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.

Mr. JU Jianyong (睢建勇), aged 47, 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 SECRETARY

Mr. WAN Siu Keung (溫兆強), aged 39, was appointed as one of our company secretary on May 3, 2022. He joined the Group in September 2020 as a senior finance manager and he has been subsequently appointed as a director and the company secretary of Kangji Medical (Hong Kong) Limited, a wholly-owned subsidiary of the Company, in January 2022 and December 2020 respectively.

Mr. Wan has over 16 years of experience in the fields of auditing, financial management and corporate secretary. Mr. Wan worked in Deloitte Touche Tohmatsu from 2006 to 2014 and his last position was an audit manager. From April 2014 to October 2016, Mr. Wan worked in the finance department of Jiayuan International Group Limited (stock code: 2768) and its predecessor, in which he had also acted as its company secretary from July 2015 to October 2016. From October 2016 to May 2020, Mr. Wan served as the financial controller of Synertone Communication Corporation (stock code: 1613).

Mr. Wan obtained his bachelor's degree in accounting and finance from the Hong Kong University of Science and Technology in May 2006. He is a member of the Hong Kong Institute of Certified Public Accountants and a chartered financial analyst ("CFA") of the CFA Institute.

The Board is pleased to present this Directors' Report together with the consolidated financial statements of the Group for the year ended December 31, 2022.

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.

A list of principal subsidiaries of the Company, together with the details of their places of incorporation and business, principal activities and issued shares or registered share capital, is set out in Note 1 to the consolidated financial statements.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW AND RESULTS

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

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

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

Market Risks

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

Any prolonged spread or emergence of COVID pandemic in China or elsewhere in the world 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 36 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the Reporting Period,

(i) the Group's largest supplier accounted for 12.9% (2021: 7.9%) of its total purchases, and the five largest suppliers accounted for 31.0% of its total purchases (2021: 25.1%); and

(ii) the Group's largest customer accounted for 11.8% (2021: 18.2%) of its total sales, and the five largest customers accounted for 28.2% of its total sales (2021: 40.5%).

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 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to the Shareholders of the Company as at December 31, 2022 amounted to RMB2,947.7 million (2021: RMB2,754.8 million).

BANK AND OTHER BORROWINGS

As of December 31, 2022, 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
Mr. YIN Zixin (appointed on April 28, 2022)

Non-executive Directors

Ms. CAI Li
Mr. CHEN Gang (resigned on April 28, 2022)

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 annual report, there were no changes to information which are required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Except for Ms. Frances Fang CHOVANEC and Mr. YIN Zixin, 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 reelection at annual general meetings of the Company. The appointments of Ms. Frances Fang CHOVANEC and Mr. YIN Zixin were effective from their respective appointment dates to the date of the first general meeting of the Company after their 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, no Directors had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party.

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

CONNECTED TRANSACTIONS

Details of related party transactions for the year ended December 31, 2022 are set out in note 32 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 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, 2022 are set out in the section headed "Management Discussion and Analysis" on page 14 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 2022, 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 49 to 103 of this annual report.

THE GROUP'S FACILITIES

Our corporate headquarters are located in Tonglu, Zhejiang province. All of our manufacturing facilities 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, 2022, we owned the land use right of five parcels of land with a total site area of approximately 90,166 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, 2022, we leased properties at various locations including Beijing, Shanghai, Hangzhou and Hong Kong with a total gross floor area of approximately 14,277.13 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 (Note 2)	408,500,000 (L)	33.57 (L)
	Interest of spouse (Note 4)	231,500,000 (L)	19.03 (L)
Ms. SHENTU Yinguang	Beneficiary of a trust (Note 3)	231,500,000 (L)	19.03 (L)
	Interest of spouse (Note 4)	408,500,000 (L)	33.57 (L)
Ms. Frances Fang CHOVANEC	Beneficial owner (Note 5)	4,120,000 (L)	0.34 (L)
Mr. YIN Zixin	Beneficial owner (Note 6)	4,125,000 (L)	0.34 (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.

(6) Mr. Yin is interested in the RSUs in respect of 4,125,000 underlying Shares granted to him in accordance with the RSU Plan.

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)	33.57 (L)
BOS Trustee Limited	Trustee of a trust (Notes 3)	231,500,000 (L)	19.03 (L)
Fortune Spring ZM B Limited	Beneficial owner (Notes 2)	408,500,000 (L)	33.57 (L)
Fortune Spring YG B Limited	Beneficial owner (Notes 3)	231,500,000 (L)	19.03 (L)
YG AA Limited	Beneficial owner	231,500,000 (L)	19.03 (L)
Keyhole Holding Limited	Beneficial owner (Notes 4)	216,190,500 (L)	17.77 (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, 2022 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 26,604,000 Shares on the Stock Exchange at an aggregate consideration of approximately HK$188.2 million (excluding brokerage fees and taxes) during the year ended December 31, 2022 (2021: approximately HK$62.1 million) at price ranging from HK$5.44 to HK$8.50. 26,563,500 Shares were cancelled during the year ended December 31, 2022 and the remaining 2,521,000 Shares were subsequently cancelled in February 2023. 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$)
October 11, 2022	500,000	5.62	5.49	2,785,100.00
October 12, 2022	395,000	5.72	5.44	2,191,499.50
October 13, 2022	701,500	5.74	5.58	3,996,936.55
October 14, 2022	192,500	5.89	5.8	1,131,207.00
October 17, 2022	2,500	5.94	/	14,850.00
October 18, 2022	14,500	6.05	6.04	87,684.40
October 19, 2022	368,500	6.17	6.1	2,262,553.15
October 20, 2022	231,000	6.28	6.06	1,433,239.50
October 21, 2022	732,000	6.39	6.26	4,624,629.60
October 24, 2022	836,500	6.48	6.08	5,175,927.40
October 25, 2022	626,500	6.37	6.14	3,921,138.20
October 26, 2022	743,000	6.41	6.24	4,707,053.60
October 27, 2022	816,500	6.4	6.31	5,188,775.85
October 28, 2022	783,500	6.43	6.23	4,936,520.10
October 31, 2022	521,000	6.36	6.12	3,287,978.90
November 1, 2022	869,000	6.46	6.26	5,546,479.40
November 3, 2022	803,500	6.6	6.38	5,182,333.95
November 4, 2022	596,500	6.71	6.59	3,967,500.45
November 7, 2022	447,000	6.81	6.68	3,030,391.80
November 8, 2022	310,500	6.85	6.75	2,104,786.35
November 9, 2022	929,000	6.86	6.65	6,278,089.10
November 10, 2022	1,435,500	6.68	6.19	9,284,670.45
November 11, 2022	510,500	6.88	6.7	3,465,376.10
November 14, 2022	428,000	7.13	6.91	3,031,780.80
November 15, 2022	131,000	7.2	7.06	938,038.60
November 16, 2022	390,500	7.28	7.24	2,838,154.00
November 17, 2022	329,500	7.39	7.07	2,367,721.10
November 18, 2022	620,000	7.44	7.34	4,592,712.00

Report of the Directors

Date	Number of shares repurchased	Highest purchase price per share (HK$)	Lowest purchase price per share (HK$)	Aggregate amount of purchase price (HK$)
November 21, 2022	801,000	7.4	7.32	5,916,746.70
November 22, 2022	957,000	7.36	7.2	6,967,055.70
November 23, 2022	390,000	7.34	7.24	2,846,337.00
November 24, 2022	259,500	7.38	7.33	1,911,658.65
November 25, 2022	649,500	7.38	7.24	4,784,476.80
November 28, 2022	392,000	7.48	7.19	2,898,612.50
November 29, 2022	232,000	7.73	7.54	1,786,794.40
November 30, 2022	306,000	7.83	7.74	2,388,697.20
December 1, 2022	481,500	7.94	7.82	3,796,338.60
December 2, 2022	945,500	8.06	7.89	7,555,301.40
December 5, 2022	692,000	8.16	7.98	5,610,528.40
December 6, 2022	950,000	8.33	8.11	7,843,295.00
December 7, 2022	829,500	8.43	8.3	6,963,237.75
December 8, 2022	500,000	8.5	8.23	4,192,550.00
December 9, 2022	431,000	8.38	8.13	3,534,631.00
December 12, 2022	581,000	8.49	8.28	4,853,267.30
December 13, 2022	500,000	8.36	8.17	4,130,300.00
December 14, 2022	310,500	8.34	8.21	2,572,958.25
December 15, 2022	390,000	8.28	8.13	3,207,828.00
December 16, 2022	220,000	8.48	8.2	1,842,500.00
December 19, 2022	94,500	8.44	8.24	785,673.00
December 20, 2022	169,500	8.37	8.15	1,401,578.55
December 21, 2022	65,500	8.29	8.16	538,403.45
December 30, 2022	191,000	8.18	7.9	1,547,157.30
Total	26,604,000			188,249,055

ESOP BVI purchased a total of 20,000,000 Shares (2021: nil) on the Stock Exchange at an aggregate consideration of approximately HK$125.0 million (excluding brokerage fees and taxes) during the year ended December 31, 2022 (2021: nil) for the purpose of incentivizing the employees of the Group in the future.

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, 2022.

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 are not subject to the provisions of Chapter 17 of the Listing Rules, whereas the RSU Plan constitutes a share scheme involving existing Shares under Chapter 17 of the Listing Rules with effect from January 1, 2023. 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, all of which have been granted prior to the Global Offering. 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.

(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, 2022, 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 0.34% 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, 2022	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	0.34%

(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 RSU Plan constitutes a share scheme involving existing Shares under Chapter 17 of the Listing Rules with effect from January 1, 2023.

(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.

The maximum entitlement of each Participant under the RSU Plan shall not exceed any limits that may be imposed under the Listing Rules or other applicable laws and regulations from time to time as amended and in force.

(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 3 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. There is no amount payable on application or acceptance of the RSUs.

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 initial overall limit on the number of underlying Shares to be granted under the RSU Plan is 26,810,000 Shares. On May 6, 2020, 6 management team members and employees were approved by the Board to be grantees under the RSU Plan with a total of 21,190,000 underlying Shares under the RSU Plan. On March 26, 2021, 57 management team members and employees were approved by the Board to be grantees under the RSU Plan with a total of 5,620,000 underlying Shares under the RSU Plan.

On May 25, 2022, the Shareholders have approved the increase of overall limit in respect of the number of underlying Shares to be granted under the RSU Plan from 26,810,000 Shares to 46,810,000 Shares. During the Reporting Period, ESOP BVI has purchased an aggregate of 20,000,000 Shares for the purpose of the RSU Plan amounting to a total consideration of HK$125,039,105 (excluding brokerage fees and taxes). During the Reporting Period, no RSU under the RSU Plan were granted to our senior management and employees. As of December 31, 2022, a total of 26,810,000 underlying Shares have been granted under the RSU Plan.

Details of RSUs granted and outstanding under the RSU Plan are as follows:

					During the Reporting Period					
Grantees	Date of grant	Vesting date/period	Purchase Price	Closing price of Shares immediately before grant date	No. of RSUs outstanding as of January 1, 2022	No. of RSUs granted	No. of RSUs exercised	No. of RSUs cancelled	No. of RSUs lapsed	No. of RSUs outstanding as of December 31, 2022
Director										
Mr. YIN Zixin	May 6, 2020	May 6, 2020	RMB6.448	N/A	4,125,000	–	–	–	–	4,125,000
Five highest paid individuals										
In aggregate	May 6, 2020	May 6, 2020	RMB6.448	N/A	10,720,000	–	–	–	–	10,720,000
	March 26, 2021	Between March 26, 2022 to March 26, 2026	HK$9.036	HK$10.1	3,000,000	–	–	–	–	3,000,000
Other grantees										
In aggregate	May 6, 2020	May 6, 2020	RMB6.448	N/A	6,345,000	–	–	–	–	6,345,000
	March 26, 2021	Between March 26, 2022 to March 26, 2026	HK$9.036	HK$10.1	2,620,000	–	–	–	–	2,620,000
Total					26,810,000	–		–	–	26,810,000

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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 Medical Robot Co., Ltd.* (杭州唯精醫療機器人有限公司) ("**Weijing Medical**"), and existing shareholders of Weijing Medical, to (i) subscribe for 32.75% equity interests in Weijing Medical at a consideration of RMB340 million; and (ii) acquire an aggregate 2.25% equity interests in Weijing Medical on a fully diluted basis from two of the shareholders at an aggregate consideration of RMB22,870,000. Weijing Medical is primarily engaged in the R&D and production of the endoscopic surgical instruments control system. Upon completion of the investment in February 2022, Weijing Medical, being held as to 35% by Kangji Hong Kong, has become an indirect non-wholly owned subsidiary of the Company and the financial results of Weijing Medical has been consolidated into the Company's consolidated financial statements.

Saved as disclosed above, during the year ended December 31, 2022, 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, 2022:

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, 2022 (RMB million)	Actual usage up to December 31, 2022 (RMB million)	Unutilized net proceeds as at December 31, 2022 (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	11.3	18.3	246.0	within three to five years
to build up production capabilities for pipeline products	10.2	284.7	260.1	275.1	60.7	79.0	196.1	within six years
For funding our R&D activities, including:								
to establish an R&D centers	17.0	474.5	433.5	458.5	46.2	53.9	404.6	within four years
for development and expansion of our product pipeline	8.0	223.3	204.0	215.8	35.5	82.6	133.2	within five to six years
For investing in our sales and marketing activities, including:								
to be used in our domestic sales and marketing activities(2)	15.0	418.6	382.5	404.5	8.0	26.1	378.4	within four to five years
to increase our overseas sales	5.0	139.6	127.5	134.9	0.8	1.2	133.7	within three to five years
For funding potential strategic investment and acquisitions	25.0	697.8	637.5	674.3	127.4	207.5	466.8	within five years
For our working capital and general corporate purposes	10.0	279.1	255.0	269.7	53.0	125.3	144.4	within four to six years
Total	**100.0**	**2,791.1**	**2,550.0**	**2,697.1**	**342.9**	**593.9**	**2,103.2**	

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 of the Company will be held on May 25, 2023. 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 22, 2023 to May 25, 2023 both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Computershare 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, 2023. Shareholders whose names appear on the register of members of the Company on May 25, 2023 will be entitled to attend and vote at the AGM.

(b) For determining the entitlement to the proposed final dividend for the year ended December 31, 2022 subject to the approval by the Shareholders at the AGM, the register of members of the Company will be closed from June 1, 2023 to June 7, 2023 both days inclusive. In order to qualify for the proposed 2022 Final Dividend, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Computershare at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on May 31, 2023.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend ("2022 Final Dividend") of RMB18.45 cents per Share for the year ended December 31, 2022 payable on or about July 10, 2023 to the Shareholders whose names appear on the register of members of the Company on June 7, 2023, subject to the approval of the Shareholders at the AGM.

The 2022 Final Dividend will be payable in cash to each Shareholder in RMB or HKD (to be converted from RMB at the exchange rate to be announced by the People's Bank of China on or about May 25, 2023). Shareholders will be given the option of electing to receive all (but not part, save in the case of HKSCC Nominees Limited, which may elect to receive part of its entitlement in RMB) of the 2022 Final Dividend in RMB. The relevant dividend currency election form will be despatched to the Shareholders as soon as practicable after the record date of June 7, 2023. Further details with respect to dividend currency election will be announced in due course.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

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, 2022 have been audited by Ernst & Young. A resolution for the re-appointment of Ernst & Young as the auditors of the Company for the 2023 financial statements will be proposed at the AGM.

DONATION

During the year ended December 31, 2022, the Group made charitable and other donations amounting to RMB620,000.

EVENTS AFTER THE REPORTING PERIOD

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

APPRECIATION

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

By order of the Board
ZHONG Ming
Chairman of the Board

Hangzhou, PRC
March 27, 2023

Corporate Governance Report

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report contained in the Company's annual report for the year ended December 31, 2022.

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.

BOARD COMPOSITION

During the year ended December 31, 2022 and at the date of this annual report, the Board comprised the following Directors:

Executive Directors

Mr. ZHONG Ming *(Chairman)*
Ms. SHENTU Yinguang
Ms. Frances Fang CHOVANEC
Mr. YIN Zixin (appointed on April 28, 2022)

Non-executive Directors

Ms. CAI Li
Mr. CHEN Gang (resigned on April 28, 2022)

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.

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 review any measurable objectives for implementing such Board Diversity Policy, and monitor and report annually in our corporate governance report about the implementation of the Board Diversity Policy.

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.

The Board recognises the importance of gender diversity in the both the Board and workforce level. The Group employs staff by talents and respect its staff's personal choices, regardless of gender, age, religion, nationality etc. As at December 31, 2022, the gender ratio in the Board is male 62.5% to female 37.5%, whereas the overall gender ratio in the workforce (including senior management) is male 62.1% to female 37.9%.

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 company secretary of the Company updates and provides 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, 2022 is summarized as follows:

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

Notes:

A: attending seminars or conferences

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

C: 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 C.2.1 of the CG Code 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 Company has a professional management team to monitor the operations of the subsidiaries.

The Board considers that vesting the roles of chairman and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Company. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors, except for Ms. Frances Fang CHOVANEC and Mr. YIN Zixin, 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 reelection at annual general meetings of the Company. Ms. Frances Fang CHOVANEC and Mr. YIN Zixin have entered into service contracts with the Company for their appointment as an executive Director for an initial term from their respective dates of appointment until the first general meeting of the Company after their 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 which commenced from their respective appointment dates for an initial term of three years and thereafter (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 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.

The Board has established mechanisms to ensure that independent views and input are available to the Board: (i) the Chairman will at least hold one meeting with independent non-executive Directors and without the presence of other Directors; and (ii) the independent non-executive Directors participate in board committees (including Audit Committee, Nomination Committee and Remuneration Committee) meetings to bring independent views, advice and judgment on important issues relating to the Company's strategy, policy, financial performance.

During the Reporting Period, one general meeting was held and 5 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	5/5	1/1
Ms. SHENTU Yinguang	5/5	1/1
Ms. Frances Fang CHOVANEC	5/5	1/1
Mr. YIN Zixin (appointed on April 28, 2022)	4/4	1/1
Ms. CAI Li	4/5	1/1
Mr. CHEN Gang (resigned on April 28, 2022)	1/1	N/A
Mr. JIANG Feng	5/5	1/1
Mr. GUO Jian	5/5	1/1
Mr. CHEN Weibo	5/5	1/1

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. 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, 2022. 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 and separately from the Board, but will not rely purely on information provided voluntarily by the Company's senior management and will make further enquiries when necessary.

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.

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, 2022. 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 3 meetings to mainly discuss and consider the following: review the audited financial statements for the year ended December 31, 2021 and the related disclosures included in the annual report; review the interim financial statements and the interim report; make recommendation to the Board on the re-appointment and approve the remuneration of the external auditor; review the Company's financial reporting process, risk management, internal control system and internal audit function.

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	3/3
Mr. JIANG Feng	3/3
Ms. CAI Li	3/3

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 2 meetings to discuss and consider the following: make recommendations to the Board on the new appointment of Mr. YIN Zixin as an executive Director and 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	2/2
Mr. JIANG Feng	2/2
Mr. GUO Jian	2/2

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; and make recommendations to the Board on the remuneration of Directors and senior management for the year ended December 31, 2022.

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

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.

During the Reporting Period, the ESG Committee held 1 meeting to discuss and consider the following: discuss and determine the Group's ESG risks and opportunities, and make decisions on important ESG management work for the year; identify the risks and opportunities brought by climate change to the Group's future business operations, assess the possibility and impact of relevant risks and opportunities, and formulate targeted response plans and measures, and approve the ESG report of the Company for the year ended December 31, 2021.

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

Name of Directors	Number of attendance/ required attendance
Mr. ZHONG Ming	1/1
Ms. SHENTU Yinguang	1/1
Ms. Frances Fang CHOVANEC	1/1

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the Directors of the Company during the year ended December 31, 2022 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 19 to 20 of this annual report) for the year ended December 31, 2022 falls under the following bands:

Band of remuneration	Number of individuals
HK$1,000,001 to HK$1,500,000	3
HK$1,500,001 to HK$2,000,000	1
HK$2,000,001 to HK$2,500,000	2
HK$4,000,001 to HK$4,500,000	1
HK$5,000,001 to HK$5,500,000	1

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibilities for the preparation of the financial statements for the year ended December 31, 2022 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 107 to 108 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, 2022 is as follows:

Type of services	Amount (RMB' 000)
Audit services	2,750
Non-audit services:	
– Consulting services	40
Total	2,790

COMPANY SECRETARY

Mr. WAN Siu Keung ("**Mr. Wan**"), the company secretary 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.

For the year ended December 31, 2022, Mr. Wan 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.

Information relating to the Group is mainly communicated to Shareholders through publication of notices, announcements and circulars at the websites of the Company and the Stock Exchange, and despatch of interim reports, annual reports and circulars to the Shareholders. Performance presentations and investor surveys were conducted where the Company's management team can solicit and understand the views of Shareholders.

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

To promote effective communication and to build an inter-relationship and communication channel between the Company and the Shareholders, the Company adopts 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 designated 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 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.

The Board has reviewed the implementation and effectiveness of the Shareholders' communication policy of the Company. Having considered the diverse channels of communication in place, the Board is satisfied that an effective Shareholders' communication policy has been properly implemented throughout the year ended December 31, 2022.

SHAREHOLDERS' RIGHTS

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

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

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

CONVENING AN EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

According to the Articles of Association, the Shareholders may put forward proposals at the general meetings of the Company for consideration. Any one or more Shareholder(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary 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@kangji.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, 2022.

ABOUT THE REPORT

Report Overview

This report is the third ESG report issued by Kangji Medical Holdings Limited (hereinafter referred to as the "Group" or "we" or "Kangji Medical"), 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 the contents of which may cover previous years or be extended to 2023 as applicable. Please find the ESG Index of this report on the official Website of Kangji Medical.

Preparation Basis

This report is prepared in accordance with the requirements of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (hereinafter referred to as "HKEX" or the "Stock Exchange") and with reference to the recommendations of the latest Sustainability Standards issued by the Global Reporting Initiative (GRI). Such procedures include identifying and ranking main stakeholders, identifying and ranking material ESG-related issues, determining the scope of ESG reporting, collecting relevant materials and data, preparing the report based on the materials, and examining the information in the report.

Reporting Scope

The policy documents, statements, and data in this report cover the headquarters of the Group and its subsidiaries, 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 passed by the Board on March 27, 2023. 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.

ESG Reporting Principles

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

Quantitative principle: Develop ESG indicator management tools covering all departments, conduct regular statistics on quantitative key disclosure indicators including all "Environmental" categories and "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, and the disclosure and statistical methods remain consistent with the previous year.

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@kangji.com

STATEMENT FROM THE BOARD

The Board attaches great importance to the sustainable development performance of the Group, insisting on providing innovative, high-quality, and affordable products and services to customers and balancing the Company's impact on the environment and society with its business objectives through the development of effective strategies. The Board has established an ESG Committee responsible for assisting the Board in reviewing the Group's ESG-related strategies and monitoring the implementation of ESG initiatives, which include 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 ensuring that ESG issues to comply with the Group's development strategy. The ESG Committee reports on these matters to and discusses them with the Board every half year through meetings.

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 material 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, the Board also discussed the risks and opportunities that climate change may bring to the Group's future business operations, discussed and formulated response plans and measures based on the evaluation of the likelihood and impact of relevant risks and opportunities.

The Board also reviewed and evaluated the completion of environmental goals and confirmed that the corresponding measures are in alignment with the path of achieving the goals and the national strategy of "carbon peaking by 2030 and carbon neutrality by 2060". During the Reporting Period, we have formulated more detailed environmental targets that have been reviewed by the Board. For details, please refer to the "Green Operations" chapter of this report.

ABOUT US

Founded in August 2004, the Group is a high-tech enterprise specializing in R&D, production, and sales of minimally invasive surgical "equipment + instruments + consumables". The Group always adheres to and practices the clinical-oriented thinking of "originating from clinical practice, used for clinical practice" and the product R&D concept of "co-creation and co-construction of industry, academia, and research", insisting on providing high-quality, reliable, and accessible overall minimally invasive surgical solutions for doctors and patients in China and around the world. This is also the underlying logic that has enabled Kangji Medical to continuously grasp clinical needs, accurately solve clinical pain points, and successfully establish a leading position in the industry.

Currently, the Group provides its products and services in nearly 50 countries and regions worldwide and for more than 3,500 hospitals across China, including over 1,000 Class IIIA hospitals. At the same time, it has established long-term industry-academia-research collaboration with the top 20 Class IIIA hospitals in China, realising mutual empowerment and product transformation through co-creation and co-construction between R&D/marketing and clinical practice.

Major Honours

In the year of 2022, the list of honours received by the Group is as follows:

No.	Honours Received	Issuing Organization	Time of Issuance
1	National-level Specialized and New Small Giant Enterprise	Ministry of Industry and Information Technology of the People's Republic of China	August 2022
2	KJ-CSXT 300 ultrasound surgical system successfully selected into the Excellent Domestic Medical Equipment Product Catalogue	China Association of Medical Equipment	August 2022
3	Zhejiang Province Science and Technology Small Giant Enterprise	Science and Technology Department of Zhejiang Province	January 2023
4	Invisible Champion Enterprise in Zhejiang Province	Economy and Information Technology Department of Zhejiang Province	December 2022
5	4K UHD fluorescence camera system successfully listed on the 2022 Zhejiang Province's First Unit (Set) of Equipment List	Economy and Information Technology Department of Zhejiang Province	January 2023
6	2022 Zhejiang Province Academician Workstation	Office of the Coordinating Group for the Construction of Zhejiang Province Academician and Expert Workstations	October 2022
7	Zhejiang Province AAA-level "Contract-Abiding and Credit-Worthy" Publicity Enterprise	Zhejiang Provincial Administration for Market Regulation	August 2022
8	2022 Manufacturing Industry Leading Enterprise of Tonglu County	People's Government of Tonglu County	February 2023
9	2022 Manufacturing Industry Per-mu Contribution Leading Enterprise of Tonglu County	People's Government of Tonglu County	February 2023
10	Top 10 Science and Technology Innovation Enterprises of Tonglu County in 2022	People's Government of Tonglu County	February 2023

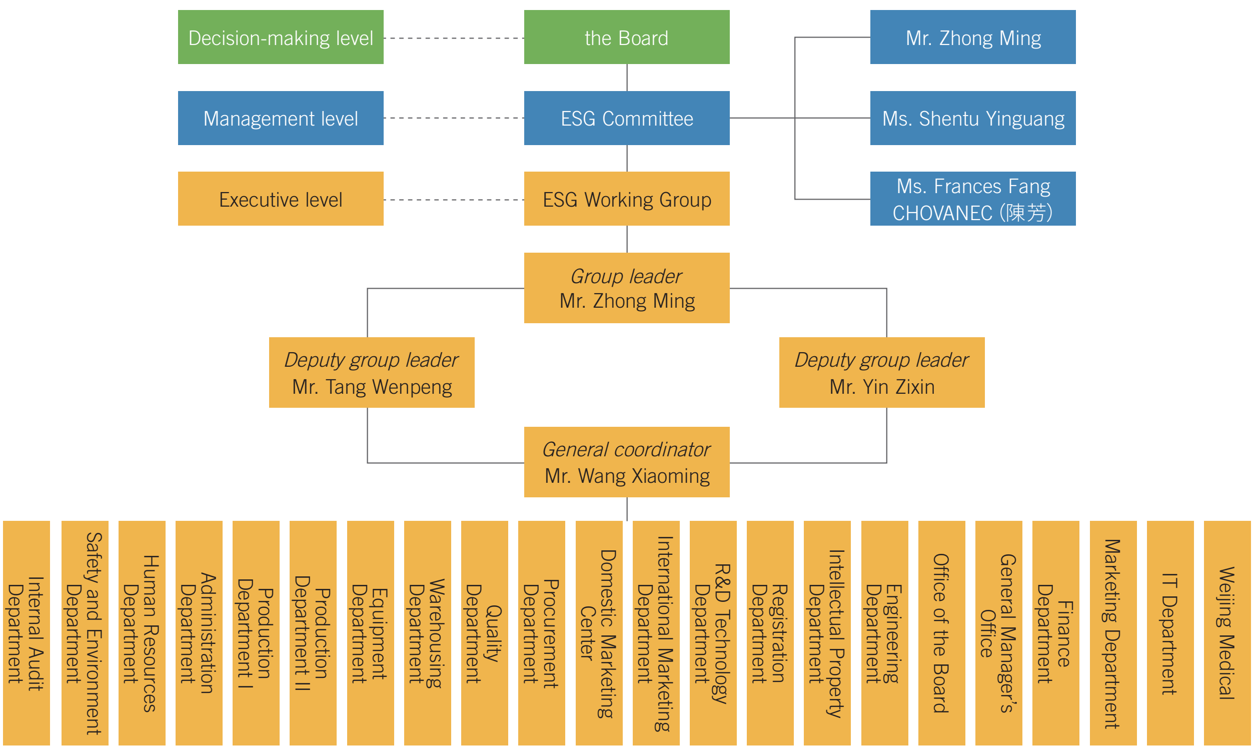
ESG GOVERNANCE

Kangji Medical fully integrates ESG into its business activities and management and strives to continuously improve its ESG management level, strengthening its compliance operations foundation and integrating sustainable development concepts throughout the Group. The Group has formulated an ESG Handbook to assist all employees in understanding ESG-related backgrounds. The Group has planned to incorporate ESG risks into its risk management system.

ESG Governance Structure

Kangji Medical has established a top-down ESG governance structure. Such governance structure consists of three levels: the Board, the ESG Committee, and the ESG Working Group, with a clear division of responsibilities and coordination at all levels. Among which, the Board, as the highest responsible organization in the ESG governance structure, is responsible for the review and approval of various ESG issues; the ESG Committee, as the core organization in the ESG governance structure under the Board, 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 governance structure, is responsible for the implementation of various ESG measures.

ESG GOVERNANCE STRUCTURE OF KANGJI MEDICAL



Stakeholder Engagement

Kangji Medical is 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 Group'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. The stakeholders that are important to the Group's business operations as well as communication and response channels are shown in the table below:

Stakeholders	Main Issues of Concern	Communication and Response Channels
Shareholders/Investors	Medical inclusiveness Anti-corruption Product safety and quality Intellectual property protection	Shareholders' general meeting Investor's meeting Earnings call Press release/announcement On-site visit and meeting Investor's hotline
Government/Regulators	Product safety and quality Medical inclusiveness Intellectual property protection Climate change management	On-site visit and meeting Policy Implementation Official correspondence Information disclosure
Suppliers	Product safety and quality Technology and innovation Responsible marketing Supply chain management	Phone/Email/WeChat/Questionnaire Supplier's meeting Investigation and visit Assessment on suppliers
Customers/Distributors	Medical inclusiveness Responsible marketing Product safety and quality Technology and innovation	Phone/Email/WeChat/Questionnaire Academic promotion Distributors' meeting Training
Partners	Product safety and quality Intellectual property protection Supply chain management Anti-corruption	Phone/Email/WeChat/Questionnaire On-site visit and meeting
Doctors/Patients	Product safety and quality Responsible marketing Technology and innovation Intellectual property protection	Training Industry meeting

Environmental, Social and Governance Report

Stakeholders	Main Issues of Concern	Communication and Response Channels
Employees	Employee welfare and compensation Employee rights and interests protection Occupational health and safety Talent development	Phone/Email/WeChat/Questionnaire Internal meeting Employee activity Training
Media/Social organization	Technology and innovation Exhaust emission management Medical inclusiveness Responsible marketing	Press release/announcement Interview Meeting
Community/Public	Exhaust emission management Wastewater/waste management Occupational health and safety Responsible marketing	Community activity Volunteer service

Materiality Assessment

During the Reporting Period, we identified and summarized 22 material 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 the Group. During the Reporting Period, combined with the characteristics of the Group's operations and development, we mainly added or adjusted issues that are of concern to stakeholders, including climate change management, medical inclusiveness, and employee rights and interests protection.

Through policy research, media analysis, industry benchmarking, and questionnaire surveys for internal and external stakeholders, we assess and rank the materiality 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 4 issues of high materiality, 17 issues of moderate materiality, and 1 issue 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.

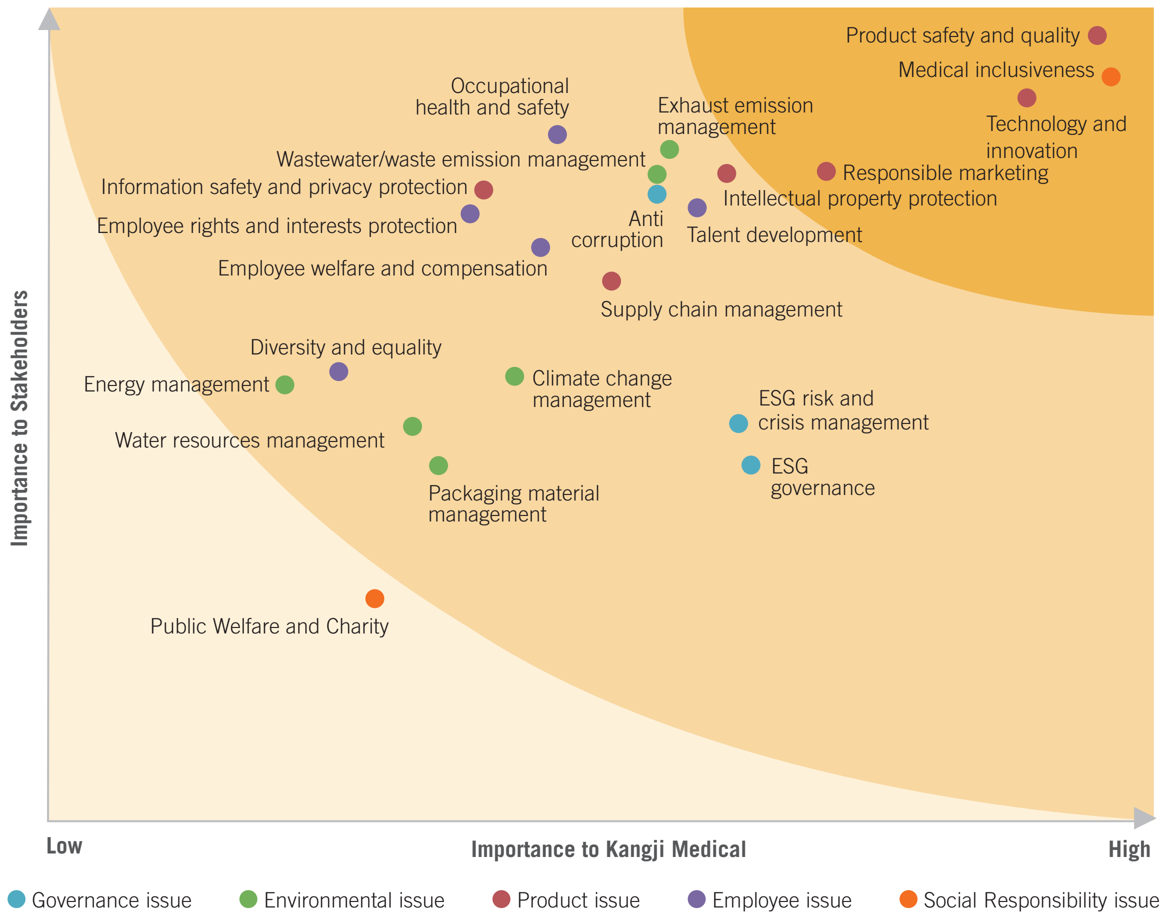
Assessment

- 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 materiality 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.

Analysis Process of Material Issues



Issues of high materiality (4 items)	Issues of moderate materiality (17 items)		Issues of general materiality (1 item)
Product safety and quality	Intellectual property protection	Exhaust emission management	Public Welfare and Charity
Medical inclusiveness	Occupational health and safety	Anti-corruption	
Responsible marketing	Wastewater/waste emission management	Information safety and privacy protection	
Technology and innovation	Talent development	Employee welfare and compensation	
	Employee rights and interests protection	Diversity and equality	
	Supply chain management	Water resource management	
	Energy management	Packaging material management	
	ESG risk and crisis management	ESG governance	
	Climate change management		

PURSUIT OF QUALITY

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", Kangji Medical continuously improves its quality management system. We place customer value at the centre and strive to improve customer satisfaction with our products and services and keep pursuing higher quality development according to customer needs.

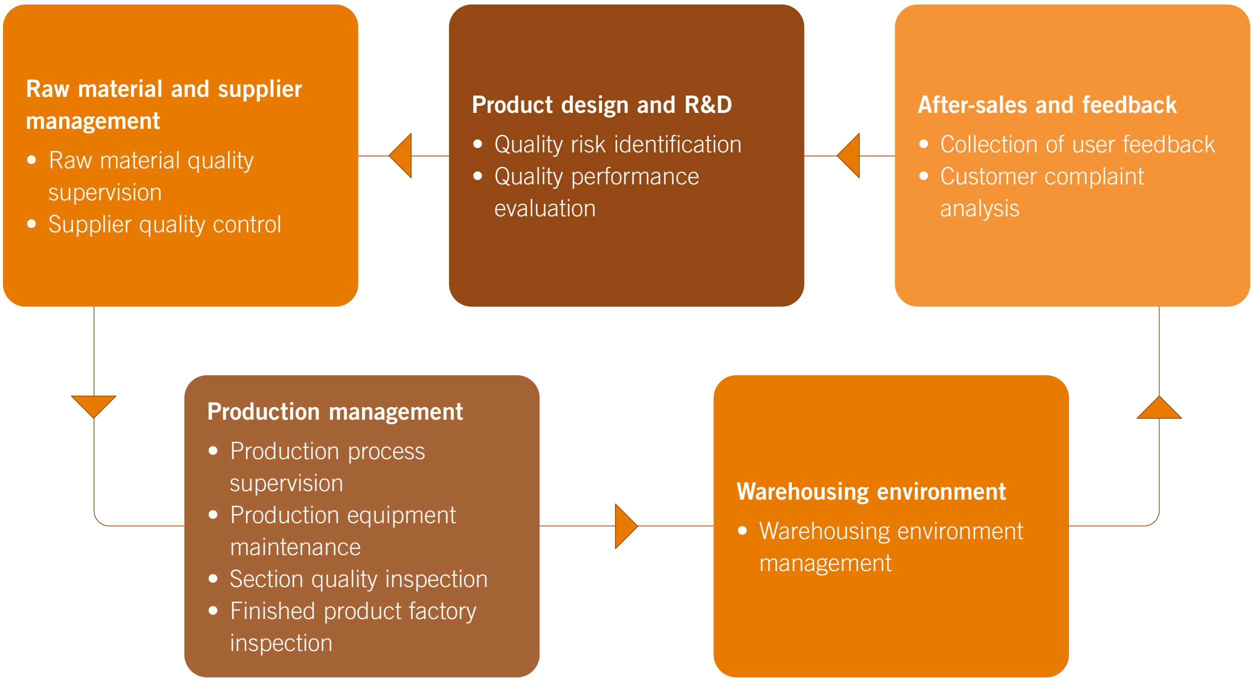
Product Quality Management

Kangji Medical is committed to providing customers with high-quality and reliable products. The Group's quality department is responsible for coordinating and managing product quality-related matters, including quality system construction, quality supervision, and awareness promotion, while harmonising relevant departments to carry out quality management throughout the entire product lifecycle. We have established a three-level quality management system document composed of quality manuals, control procedures, and operating specifications, strictly adhered to 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 Management for Medical Devices Trials and other regulations in the production and operation, implemented quality supervision responsibilities, standardised quality control operations, and continuously improved quality management.

We also attach great importance to the identification of and response to quality risks by developing the Risk Management and Control Procedure, which clarifies the specific requirements for quality risk identification, analysis, evaluation, and control throughout the entire process from product development to production and market launch, and establishing targeted management methods based on the characteristics of different products. The Group's quality department assists each department in conducting quality analysis for different sections such as product development, production, and evaluation, and, discusses solutions with relevant departments for identified risks to ensure product quality in multiple sections.

Quality Management System

Kangji Medical has established a quality control system for the entire product lifecycle that comprehensively ensures quality in every section from R&D and design, raw material procurement, product production, warehousing and transportation, to after-sales service, forming a closed-loop management system for product quality. We have established a comprehensive product risk identification and response management system to ensure product quality. Meanwhile, we have also adopted an ERP digital system to track relevant quality control records, ensuring the ability to fully trace factors that affect product quality, such as the product's raw materials, production processes, production equipment, operators, warehousing environment, and transportation routes. In 2022, we maintained the validity of CE certification and passed the examination of ISO13485 and ISO9001 quality management systems.



Kangji Medical Product Quality Management Process

Quality Management Measures

During the Reporting Period, we continued to improve our quality management in every section while safeguarding and enhancing product quality through various measures.

Product Design and R&D

We adopt the Product Lifecycle Management (PLM) digital system, which further facilitates the process of standardization of material management, transparency of project management, integration of design and production management, and closed-loop change management.

Raw Material and Supplier Management

We continue to strengthen our management of raw material inspection upon its arrival and supplier training, including:

- Improving relevant operating instructions to clarify the inspection requirements and standards for various raw materials and requiring relevant personnel to retain raw material inspection data and records. In the event of abnormal raw materials, timely feedback and on-site visits with suppliers are required to track corrective actions;

- Conducting supplier training to assist suppliers in understanding product usage scenarios and required manufacturing craftsmanship and environments, and improving their supply quality.

Production Management

We place a high value on quality control in the production section and arrange management teams with corresponding operational capabilities and professional skills according to the characteristics of different products. During the Reporting Period, we set up key production quality control points (such as welding strength inspection points, airtightness inspection points, and sealing inspection points) based on the characteristics of different products, and assigned quality inspection specialists at each node to fortify quality control in key sections. At the same time, we adopted a professional rotation system for quality inspection, which improved the professional competence of personnel and ensured sufficient reserves of quality control talents in all aspects.

We continuously improve product quality by optimizing production management processes, replacing high-precision production equipment, and implementing digital information systems. In the past two years, we have implemented a new production process execution system (MES) in the carving workshop and injection molding workshop, both with the highest level of automation, and gradually connected all relevant existing and new machinery and equipment to the system to ensure that product production management can include each machine and our employees can monitor product production status in real-time. Meanwhile, by optimising and upgrading the production equipment in the injection molding workshop and adopting electric servo injection molding machines, we have improved product manufacturing accuracy by approximately 57%.

We continue to strengthen our inspection of finished products and strictly address sub-standard products. Based on the characteristics of disposable and reusable products, we have developed quality tests for physical and chemical performance and clarified the testing procedures. Whenever sub-standard products are found, the inspectors will report to the relevant managers at all levels in a timely manner, and the managers will determine the handling method based on the evaluation level of the sub-standard situation, which includes repair, rework, and scrapping.

Warehouse Management

We also pay attention to the warehousing environment of our products to ensure that it will not affect product quality. We have developed and implemented the Warehouse Management Regulations, which set out clear management regulations for warehouse storage conditions, including fire prevention, temperature and humidity control, and mold prevention, and designed corresponding inspection and supervision mechanisms, with monthly inspection by the relevant departments of the Group.

After-Sales and Feedback

We continuously monitor and collect feedback from distributors, doctors, patients, and others regarding product quality and apply the feedback to product design and production sections, further enhancing product quality based on customer needs. Upon receiving complaints about product quality, the quality department of the Group, together with the relevant departments, will analyse the reasons, explore solutions, and provide improvement suggestions, while following up and supervising the improvement progress to ensure that the quality issues have been resolved.

In the event of any accidents or severe flaws in product quality, we will issue notices and recall products in accordance with the Control Procedures for Medical Device Notification and Recall to prevent similar accidents and potential harm from happening and minimize the consequences of accidents. In addition, we have developed and complied with the Control Procedure for Adverse Event Reporting to monitor and report quality accidents and adverse events, ensuring that harmful events that occur or may occur during the normal use of products approved for market launch and are unrelated to the expected use effects will be effectively controlled.

During the Reporting Period, we did not have product recall events because of product quality, safety, or other issues.

Advocating for a Culture of Quality

Improving employees' quality awareness and operational level is a key factor in enhancing the Group's product quality management effectiveness. During the Reporting Period, we organized quality training for all employees and set targeted courses for management and production personnel. Through lectures, seminars, Q&A sessions, and other means, we strengthened employees' understanding of the quality management system, improved their quality control skills, and raised the level of quality management.

Examples of training content	Target audience
Quality awareness training	Personnel responsible for quality management
Medical instruments adverse event detection meeting	Personnel responsible for production, quality, R&D, and registration management
Analysis and resolution of quality-related on-site problems	Team leaders responsible for production and quality on production lines
Promotion of medical instrument-related standards	Personnel responsible for production, quality, R&D, and registration management

We also continue to organise internal quality activities, including quality improvement proposal awards, Quality Control Circles (QCC), and quality knowledge contests, to enhance employees' quality awareness.

Quality Knowledge Contest

During the Reporting Period, we held the second internal quality knowledge contest within the Group, with a total of 266 employees participating from each department. We also actively participated in external quality competitions to learn and exchange quality knowledge and enhance employees' knowledge reserves, and won the team's third prize in the first "Excellence Cup" quality knowledge contest in Hangzhou City.

Service Quality Management

Kangji Medical actively listens to customer feedback, adhering to the enterprise's core value of "customer first" and striving to create high-quality services that satisfy customer needs. 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 internal management measures, to provide customers with more comprehensive, complete, and excellent services.

We are committed to building a leading sales service management system in the industry, building a first-class professional service team, creating a responsible marketing management system, and providing customers with comprehensive after-sales services to ensure and enhance our service quality in all aspects.

To meet the needs of the Group's overseas business expansion, we maintain a global perspective to improve sales service levels through system optimization and personnel training. We will continue to bring in international talents for markets, clinical trials, registration, and other fields, gradually build a global service network, ensure product compliance, and increase international market competitiveness. At the same time, we pay attention to protecting customers' privacy while providing safe and secure services.

Responsible marketing

"Customer first" is an unchanging core value of ours. We adhere to the concept of responsible marketing to ensure the compliance of products and services while continuously improving the quality of the product marketing section.

Compliance registration
Kangji Medical understands the importance of products entering the market in a compliant manner for the Group's market promotion. In the domestic market, we strictly abide by the Regulation on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》), the Administrative Measures for the Registration and Record-Filing of Medical Devices (《醫療器械註冊與備案管理辦法》), and other laws and regulations to implement filing management for Class I medical devices and registration management for Class II and Class III medical devices, ensuring that medical devices on the market are compliant. In the international market, to guarantee that exported products are in accordance with local medical device registration regulations, we continuously monitor and identify changes in laws and regulations where products are sold or potentially sold, and take corresponding measures for laws and regulations that need to be complied with before products go on the market. During the Reporting Period, we carried out qualification application and certification changes in response to laws and regulations issued by the European Commission such as the Medical Device Regulation (MDR) and the latest Medical Devices Ordinance (MedDO) in Switzerland, effectively ensuring the sales qualifications of products in relevant regions. Meanwhile, we actively handled the Certificate of Free Sale (CFS) to lay a foundation for future expansion into overseas markets.

Response to the New EU MDR Requirements
To respond to the new EU MDR requirements, during the Reporting Period, we initiated MDR certification projects and cooperated with a professional third-party consulting organisation to discuss the new regulations with relevant departments. We have determined the content that needs to be adjusted, updated, and improved in the quality management system documents to continuously optimize the quality management system.

To ensure that operation remains stable and unaffected by product registration issues, the Group's registration department is responsible for and supports all activities related to regulatory affairs requirements for medical instrument product registration, including:

- Establishing and maintaining a document database of domestic and international laws, regulations, and industry standards, and promptly identifying and taking responsibility for the training and dissemination of new regulations within the Group;

- Registering the Group's products, effectively managing and maintaining the registered products, and establishing a document database of relevant product registration.

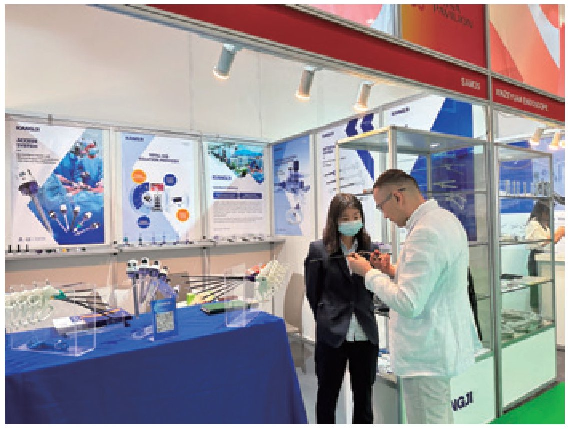
Marketing Model
Domestic Distribution Model: To provide more excellent, timely, and professional service to domestic customers, we have established a comprehensive distributor management system. In addition, we set up sales offices in Shanghai and Guangzhou during the Reporting Period to provide more support and improve after-sales service levels for distributors. In the distributor admission section, we have developed an applicable admission management system for distributors based on our business practices and strictly reviewed the qualifications and credit of distributors. In the daily management of distributors, we have formulated the Sales and Customer Management System (《銷售客戶管理制度》), decomposed the Group's market expansion plan and annual sales targets to each distributor, and performed assessments for them. At the same time, we are committed to creating a bright marketing environment with a series of measures to maintain the fairness and transparency of the distributor network. We conduct sufficient independent evaluations of all distributors and explicitly added clauses and attachments to the distributor agreement on anti-unfair competition and anti-commercial bribery, requiring distributors to sign the Anti-Commercial Bribery Commitment and continuously cultivating their awareness of anti-corruption and integrity.

Domestic Non-Distributor Model: Influenced by the national centralized procurement and regional volume-based procurement policy for medical devices, we have adjusted the distribution model for certain products included in VBP to the logistics distributor + promoter model, i.e. the Company directly sells the products to local distributors, and then logistics distributors will handle the sale and distribution of the products to designated hospitals. At the same time, the Company collaborates with local promoters to conduct academic promotion activities.

International Marketing Model: Our products are exported to more than 100 overseas customers in 47 countries and regions including the United Kingdom, Brazil, France, Mexico, and Turkey, with an annual compound growth rate of over 35%. We are building a new international marketing system, enriching and optimizing the strengths of the international marketing team and the international registration team, vigorously promoting the Kangji brand on the basis of compliance marketing, and striving to complete the transformation from OEM to a self-owned brand as soon as possible.

Participation in Overseas International Exhibitions

In 2022, Kangji Medical participated in the German MEDICA Exhibition and the 46th Arab International Medical Equipment Exhibition held in the United Arab Emirates, showcasing the Group's independently developed products, together with the introduction of the Company's future strategies and layout in the international market. During the exhibition, our products have received high attention and recognition from industry experts and new and old customers from Europe, Asia, America and other places, and established preliminary cooperative relationships with new customers. Kangji Medical has received high marks from customers all over the world.



Compliant Labelling and Proper Promotion

Kangji Medical has consistently ensured the legality and truthfulness of its product promotion and marketing, firmly rejecting excessive or false product advertising. We strictly abide by the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and relevant laws and regulations applicable to the sales location, and have formulated the Label and Language Control Procedures to clarify the requirements for the Group's label and language management and the responsibilities of relevant departments. For special requirements regarding product labelling from foreign customers, the Group's international marketing department will initiate the Preliminary Review of Label Design Changes, clarify the reasons and contents of the changes, and submit them for review by relevant departments to ensure that product labelling is in accordance with local laws and regulations.

We also prioritize the truthfulness of product promotion to ensure that customers understand the true functionality of our products. We have established guidelines for product promotion at exhibitions, social media, and other channels, specifying that before product promotion, we must follow the following content and procedures:

- Promotion is based on real experiments or clinical data and feedback on clinical applications and in avoidance of the use of specific vocabulary prohibited by laws and regulations;

- Confirm product parameters, characteristics, clinical effects, and other content with relevant departments before promotion to prevent false advertising;

- Ascertain that the promotion complies with local laws and regulations.

During the Reporting Period, Kangji Medical did not have any violations of relevant marketing regulations and regulations pertaining to product and service information and labelling.

After-Sales Service

Kangji Medical provides standardized after-sales service to and maintains communication with customers, while establishing a customer feedback system in accordance with the Customer Complaint Process, Customer Feedback Control Procedures, and Customer-Related Control Procedures to uphold the Group's service reputation. We have set up multiple channels for receiving after-sales and customer complaint information and applied targeted solutions for corresponding issues based on their categories, ensuring that customer issues receive effective feedback.

Domestic Distributor Feedback Channel
We value the efficiency of our distributors in resolving customer feedback and complaints, and the regional managers assist the distributors in their responsible areas to address customer issues and provide feedback. We require our distributors to promptly contact the regional managers and seek solutions upon receiving customer feedback. If products have quality issues, such issues will be classified based on their complexity. For major quality issues, the distributors will directly contact the Group's quality department for answers. For other issues, the distributors will provide feedback to the after-sales engineer for assessment and solutions. The after-sales engineer will regularly collect and report the issues raised by the distributors to the quality and R&D departments in order to aid in product improvement.

Overseas Service Feedback Channel
The Group's international marketing department is responsible for receiving complaints and feedback from overseas customers. After understanding the customer's needs, the department reports the issues to the relevant departments and develops solution plans. We also require the after-sales team to maintain contact with customers, stipulating that they must contact the customer within 1 working day of receiving a complaint and inform the customer of the results after completing the investigation within 7 working days.

After-sales service	2022	2021
Customer satisfaction – domestic (%)	**97.54**	97.44
Customer satisfaction – international (%)	**98.29**	95.35
Number of complaints (cases)	**12**	15

Privacy Protection

Kangji Medical respects and protects customer privacy and personal information. We strictly abide by laws and regulations such as the Data Security Law of the People's Republic of China (《中華人民共和國數據安全法》), the Personal Information Protection Law of the People's Republic of China (《中華人民共和國個人信息保護法》), and the Civil Code of the People's Republic of China (《中華人民共和國民法典》). We have developed and implemented privacy protection management systems including the Information System User Management System and Working Mobile Phone Management System to establish a customer privacy and data security protection system. We ensure the legal and compliant handling of customer information and strengthen employees' awareness of customer information protection through education and promotion. In terms of logistics, we comply with the regulations of logistics platforms, strictly keep customer privacy information confidential, and ensure that there is no privacy leakage in the logistics process.

During the Reporting Period, Kangji Medical did not have any incidents of violating customer information security or losing customer data.

Environmental, Social and Governance Report

CONTINUOUS INNOVATION

Kangji Medical upholds the core value of "innovation first" and firmly believes that product R&D and innovation are the driving force behind the development of the Group. We resolutely implement a clinical demand-oriented and rapid feedback-oriented R&D strategy to actively create a minimally invasive surgical solution platform of "equipment + instruments + consumables". By striving to build an open, inclusive, and mutually beneficial partnership, we promote innovation and development in the medical industry, enabling more people to enjoy the convenience brought about by medical technology.

During the Reporting Period, the Group (including Weijing Medical[1]) invested RMB66.02 million in R&D, accounting for 8.4% of sales revenue with an increase of 83.4% from 2021. In addition, the Group received approximately RMB6.16 million in government R&D and innovation subsidies in 2022.

R&D System

Kangji Medical is committed to building a clinical demand-oriented R&D system. We actively communicate with doctors and customers for their product usage experience during surgery and to timely understand the latest clinical demand, while cooperating with the registration, production, sales, and other departments in the R&D project proposal stage to determine the R&D direction.

We continue to improve the innovation system construction and have formulated systems such as the Design and Development Control Procedures (《設計開發控制程序》), R&D Investment Management Measures (《研發投入管理辦法》), New Product R&D Management Policy (《新產品研發管理制度》), and Technical Confidentiality System (《技術保密制度》) to clarify the R&D responsibilities of each department in each stage. In addition, we use project management software to standardize the design and development process and ensure project management efficiency.

During the Reporting Period, Kangji Medical reorganised the R&D team according to the disciplines involved in the product, and improved the R&D professionalism and efficiency through project management. Under the leadership of the deputy general manager in charge of R&D work, we have added the position of R&D director to manage different business departments and their respective project teams. Each project team is staffed with several R&D engineers to implement product development work.

As of the end of the Reporting Period, the total number of R&D personnel in the Group (including Weijing Medical) was 166, accounting for approximately 18.8% of the total number of employees.

R&D Incentive Mechanism

Kangji Medical adheres to a method of encouraging our R&D personnel to continuously carry out innovative work. We have formulated the R&D Performance Evaluation and Reward System to provide performance incentives based on employees' contributions to R&D work. We have also established the Patent Application Reward System to set up application and authorization rewards according to different types of patents to encourage employees to apply for patents for their R&D achievements. In addition, we carried out the innovative technology award evaluation during the Reporting Period, reviewing and evaluating the annual innovation plans of our R&D personnel and rewarding the winning employees.

1 Hangzhou Weijing Medical Robot Co., Ltd., invested and controlled by Kangji Medical, is an innovative enterprise that focuses on the R&D and application of minimally invasive surgical robots and artificial intelligence technology. With the support of intelligent robot technology, it establishes a smart medical robot platform, develops high-end intelligent medical equipment, empowers precision diagnosis and treatment, and leads the new future of intelligent surgery.

R&D Talent Training

Kangji Medical attaches great importance to the capacity building and career development of our R&D personnel, providing various types of training for employees at different stages to broaden their technical vision and enhance their professional abilities.

- New Recruit Training: We provide training on general standards such as the Regulation on the Supervision and Administration of Medical Devices, ISO13485 system, and Design and Development Control Procedures, as well as professional skills for new product design and development employees, helping them familiarize themselves with various regulations and requirements for medical device development;

- Product Understanding Training: We provide long-term product training for our R&D personnel at the business department level, helping employees understand product characteristics and fully consider product features during the R&D process to improve the R&D quality;

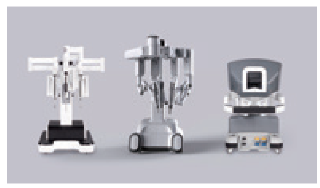
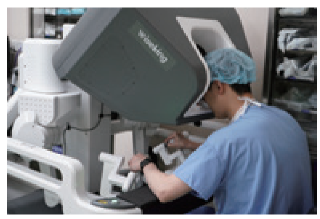
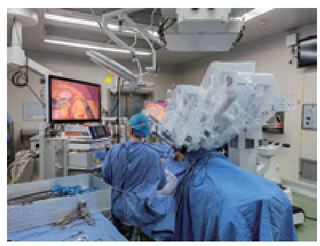
- Daily Communication and Training: We provide multi-angle training in project management, professional abilities, communication skills, and other areas through internal training within project teams, enhancing the comprehensive R&D capabilities of our R&D personnel.

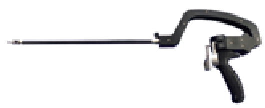
R&D Achievements

Kangji Medical is committed to continuously providing more effective medical devices, equipment, and consumables for doctors and patients. During the Reporting Period, we have achieved the following results in key research directions, including medical imaging, ultrasonic & high frequency, minimally invasive surgery robot, and low-temperature plasma:

Product Name	R&D Achievements
4K UHD fluorescence camera system	The 4K UHD fluorescence camera system developed by Kangji Medical has successfully made it onto the Zhejiang Province's First Unit (Set) of Equipment List. This system consists of a multi-prism optical spectral imaging system that enhances image quality, making it suitable for capturing, processing, and transmitting visible light and fluorescent images of the human body cavity's visual field area during endoscopic surgery to a monitor. Based on clinical feedback, we have added specialized functions such as anti-red overflow, smoke removal, intelligent gauze recognition, and moiré pattern removal to this system for higher surgical efficiency and fewer errors occurring. 

Environmental, Social and Governance Report

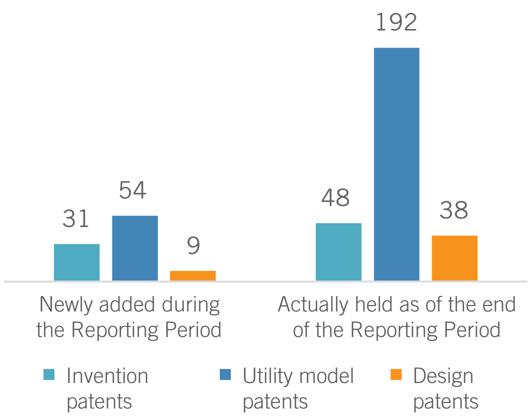
Product Name	R&D Achievements
Ultrasonic & high frequency electrosurgical system	The ultrasonic & high frequency electrosurgical system independently developed by Kangji Medical is currently the only surgical tissue management system that provides three modes of output: ultrasound, high-frequency bipolar, and a combination of ultrasound and high-frequency bipolar output with a single host and one surgical instrument. Without the need to change surgical instruments, this system can control minimal thermal damage while achieving fast local coagulation and cutting of 7mm large blood vessels, reducing operations carried out by doctors and improving surgical efficiency. Based on the research results of this product, we have applied for 3 invention patents and 5 utility model patents. As of the end of the Reporting Period, this product is under registration.  
Minimally invasive surgery robot	The minimally invasive surgery robot developed by Weijing Medical is a model of the combination of intelligent robot technology and minimally invasive surgical techniques in the medical industry, attracting the attention of many research institutions and companies worldwide. During the Reporting Period, Weijing's three-arm porous laparoscopic surgical robot successfully passed the type inspection of medical devices and obtained the type inspection report. It started clinical trials in May 2022 and has conducted clinical trials in the urology departments of several well-known Class IIIA hospitals since September 2022. At the same time, Weijing Medical has laid out a plan to iteratively develop a four-arm porous laparoscopic surgical robot, upgrading the structure and human-machine interaction performance of the patient's surgical platform. Not only has it expanded the endoscope's field of view and the working space of surgical instruments, but it has also optimized presurgical positioning operations and added operable surgical procedures. This technology has also reoptimised the interaction interface and interaction functions, making human-machine interaction more user-friendly and intelligent.   

Product Name	R&D Achievements
Low-temperature plasma system	The low-temperature plasma system developed by Kangji Medical consists of a highly efficient and stable high-frequency pulse power supply, which can quickly generate stable plasma and realise precise energy control. In addition, this system includes a surgical electrode identification module that can identify information such as the type and service life of surgical electrodes and automatically adapt the output power. This system has formed 2 invention patents, 2 utility model patents, and 1 software copyright and is currently under examination. At present, this product has completed prototype development and has begun the registration process. 
Multi-articular laparoscopic instrument (dual articulation)	The multi-articular laparoscopic instrument (dual articulation) independently developed by Kangji Medical has passed the special approval for innovative medical instruments in Zhejiang Province and obtained the first "Surgical Mechanical Arm Laparoscopic Surgical Instrument" medical device registration in China. On the basis of guaranteeing regular functions, this innovative instrument adds mechanical transmission design through single-handed operation, enabling multidimensional spatial surgical operations and improving operation precision, while also meeting the motion functions required by surgery robots. At the same time, it retains the advantages of quick, convenient, and low-cost hand-held operation of traditional instruments, saving patient costs and facilitating popularization and promotion.  

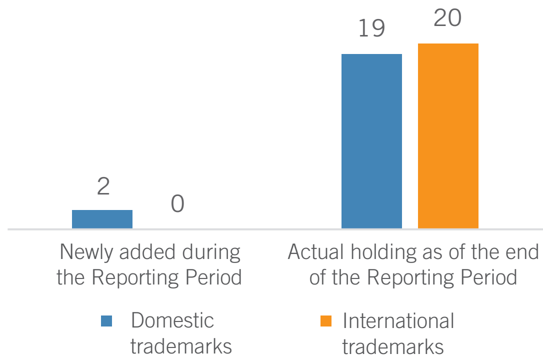
Environmental, Social and Governance Report

During the Reporting Period, we continued to enrich our intellectual property including patents, trademarks, and product registrations[2] as shown in the figure below. In addition, we have added 2 software copyright registrations during the Reporting Period.

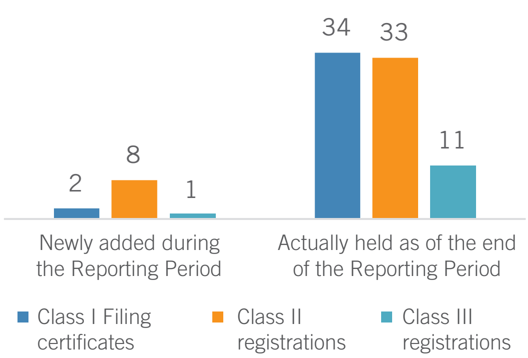
Number of patents (pieces)



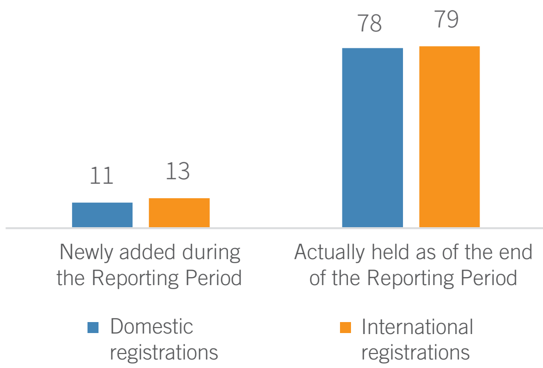
Number of trademarks (pieces)



Number of domestic registrations (pieces)



Total number of registrations (pieces)



Industry Mutual Progress

As a leading medical device company in China, Kangji Medical always takes it as its responsibility to promote the continuous improvement of the industry's technology level. The Group actively participates in national, provincial, city, and county-level industry association activities and serves in them, working together with outstanding peers to research and solve key and cutting-edge technological problems in the medical device industry and contribute to the development of the industry.

2 The number of international registrations includes product registrations obtained through OEM customers and local distributors. In addition, the 2021 ESG report disclosed a total of 44 international registrations, yet upon verification, 22 registrations were missing due to statistical methods. It should be corrected to 66 international registrations.

Medical Inclusiveness

Kangji Medical actively promotes medical inclusiveness and is committed to providing high-cost-effective products to doctors and patients. With the rapid rise of domestic medical device brands such as Kangji Medical, the monopoly position of foreign manufacturers has gradually been broken, which prompts foreign brands to significantly reduce their sales prices and increases doctors' choices while lowering patients' surgical costs.

Kangji Medical actively participates in the volume-based procurement of medical devices organized by national, provincial, and city medical insurance bureaus, providing high-quality and low-priced medical products to medical institutions in a volume-for-price manner. This not only effectively reduces the burden of patients' medical treatment, but also helps the country to reduce medical insurance expenses and significantly improves the domestication rate of products in the same categories. During the Reporting Period, our disposable trocars, ligation clips, ultrasonic scalpels, and other products have repeatedly won bids, consolidating the market-leading position of our trocars and other main products while increasing the market share of new products such as the ultrasonic scalpels.

At the same time, we are committed to providing doctors with smarter surgical equipment to reduce the difficulty of surgical operations, the pressure on doctors, and the trauma area of patients, while improving the treatment and diagnosis experience of doctors and patients.

Industry-Academia-Research Cooperation
Kangji Medical continues to cooperate with national-level research institutes, national key hospitals, and universities in medical device adaptation, and invites experts in relevant fields to visit our production line to jointly develop innovative medical devices that match clinical needs and fully leverage the advantages of "industry-academia-research" combination in technological R&D. During the Reporting Period, we participated in the selection activity of the "8th Batch of Excellent Domestic Medical Device Product Catalogue" entrusted by the National Health Commission of the People's Republic of China and initiated by the Chinese Association of Medical Equipment. The ultrasonic soft tissue cutting and hemostasis surgical equipment declared by the Group successfully entered the "8th Batch of Excellent Domestic Medical Device Product Catalogue."

Development of Intelligent Medical Devices
Kangji Medical has a long-term layout in the field of surgical robots. Weijing Medical, the subsidiary of the Group, continuously deepens its R&D and commercialization of technology in the field of minimally invasive surgical robots. While enhancing its technology level, it is committed to domesticating intelligent medical equipment and promoting the reduction of technology application costs. During the Reporting Period, Weijing Medical successfully developed a laparoscopic surgical robot system, which provides doctors with more information-rich images of the surgical area, facilitates the identification and immersive operation of the surgical area for doctors, and reduces the fatigue of doctors during surgery. At the same time, this system adopts a robotic "master-slave control algorithm" to help doctors achieve intuitive surgical operations with hand-eye coordination for higher surgical efficiency and quality.

Technology Promotion

Industry Standard Development

Kangji Medical actively participates in national and provincial investigation and research, product standard drafting, and product registration guidance and principle drafting in order to promote the standardized and high-quality development of the industry. During the Reporting Period, we have mainly carried out the following work:

- As the first drafting unit, we drafted the industry standard for Disposable Sterile Closure Clip and have submitted it to the National Standard Management Center for review;

- We participated in the solicitation of opinions and online discussion meetings for the Guidelines and Principles for the Registration Review of Ultrasonic Soft Tissue Cutting and Hemostatic Devices (2022 Admendment) drafted and hosted by the Center for Medical Device Evaluation of the National Medical Products Administration;

- We participated in the solicitation of opinions and online discussion meetings for the Provisions on the Supervision and Administration of Enterprises' Implementation of Primary Responsibilities for Quality and Safety of Medical Devices led and researched by the National Medical Products Administration.

Academic Exchange

Kangji Medical is committed to promoting minimally invasive surgical medical technology to assist in the development of the medical technology industry. The Group has built an online academic exchange platform including online weekly Saturday live procedure forum and Q&A session (康基週末手術間), post-operative nursing lectures (康基護理課堂), training series on single-site trocar products (康基單孔學院), and other surgical demonstrations, as well as content such as experience exchanges and academic promotion. We work with top academic experts nationwide through this platform to carry out academic promotion and training, provide Chinese minimally invasive surgeons with opportunities for communication and learning, and grow together with them. As of the end of 2022, the participation in the courses on the online academic exchange platform is as follows:

Course	Course Details
Weekly Saturday live procedure forum and Q&A session	93 top experts, 65 well-known hospitals, and a cumulative total of 1.64 million views
Training series on single-site trocar products (general surgery)	52 authoritative experts, 44 well-known hospitals, and a cumulative total of 830,000 views
Training series on single-site trocar products (gynecology)	40 clinical experts, training on single-site surgical techniques, and a cumulative total of 1.09 million views
Post-operative nursing lectures	12 nursing experts, nursing and operating room management, and a cumulative total of 145,000 views

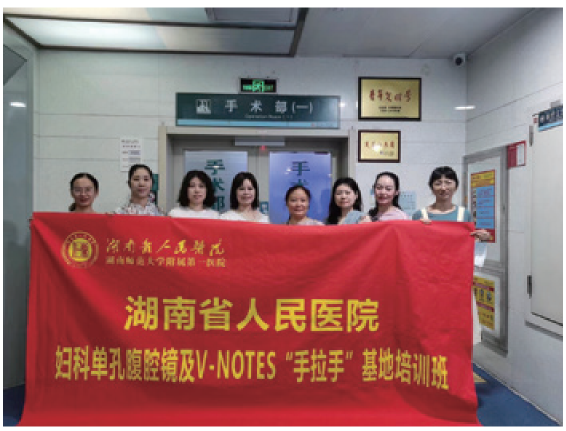
In addition to online promotion, we also actively organise offline academic conferences and training courses, providing opportunities for frontline clinical staff to communicate and helping industry talents improve their skills.

Urology Academic Conference

In 2022, Kangji Medical held a seminar on hot issues in minimally invasive urology and a department director forum. The seminar focused on the exploration of hot issues in the field of urology and invited well-known domestic experts and regional directors to give special lectures and surgical demonstrations on cutting-edge technologies and department management in the urology field.

Gynecology Single-Site Surgery Training Base

Kangji Medical launched a periodic project called "Single-Site Training Course." By cooperating with local hospitals for each session, we recruited local medical staff interested in single-site techniques and provided 2-3 days of single-site surgical training at the local hospital as the training base. The training content included single-site theoretical knowledge, simulated operations, and surgical visits, helping clinical doctors master and improve their single-site surgical skills.



Product Improvement

Kangji Medical continuously optimises product structure and production craftsmanship process in order to create products that are more convenient to use, more efficient to produce, and more affordable in price, as well as to actively promote medical inclusiveness and industry development.

We also encourage collaboration between the R&D and production departments to jointly optimise product design, production efficiency, and product quality. During the Reporting Period, we coordinated multiple departments to jointly improve the product structure, production process, and other aspects of two products: the veress needle and the gun-type needle holder. Such improvement has effectively increased production efficiency, product quality, and usability.

Optimisation of Veress Needle Structure for Higher Production Efficiency
During the Reporting Period, we improved the structure of the veress needle product, successfully transforming it from single-unit production to batch production for significantly greater production efficiency. At the same time, the improved veress needle has adopted a standardised structure that has solved the problem of difficult assembly after dismantling and disinfection and reduced product scrap rate. At present, a patent application has been filed for the improvement.

BUSINESS ETHICS

Kangji Medical adheres to business ethics of honesty, trustworthiness, incorruptibility, and self-discipline. As a Zhejiang Province AAA-level "Contract-Abiding and Credit-Worthy" Publicity Enterprise, we strictly abide by laws and regulations such as the Criminal Law of the People's Republic of China（《中華人民共和國刑法》）and the Anti-Unfair Competition Law of the People's Republic of China（《中華人民共和國反不正當競爭法》）to establish effective complaint procedures for assurance of fairness and impartiality. We comply with the principle of honesty and trustworthiness, prohibit corruption and bribery, and help create a clean and positive business environment.

During the Reporting Period, Kangji Medical did not have any confirmed corruption incidents or cases, nor were there any legal proceedings against the anti-unfair competition, anti-monopoly, and anti-trust practices.

Anti-Corruption

During the Reporting Period, Kangji Medical established and improved internal anti-corruption management systems, revised system documents such as the Integrity Management System, and standardised the management of anti-corruption matters. We added specific provisions as well as reward and punishment systems related to integrity practices to the Employee Handbook, strengthening employees' integrity standards.

Diversified Management System

During the Reporting Period, we developed different codes of conduct and integrity management measures for employees, suppliers, distributors, and construction units, comprehensively strengthening the construction of an integrity culture.

- Employee: Employees in positions with higher corruption risks (such as sales and procurement) are required to sign the Employee Integrity Commitment Letter;
- Supplier: Before beginning business cooperation, suppliers are required to sign the Supplier Code of Conduct that contains anti-corruption content;
- Distributor: The Anti-Business Bribery Commitment Letter is added to the distributor agreement;
- Construction unit: The Integrity Agreement is added to the construction contract.

Normalisation of Reporting and Supervision

Kangji Medical expects to cooperate with internal and external parties, accept internal and external supervision, and abide by and fulfil business ethics conventions for a positive and transparent business environment. To this end, we have established a dedicated supervision and reporting channel. We encourage all stakeholders to report any suspected illegal, irregular, or improper behaviour through the compliance supervision hotline and email, and promise to strictly keep the reporter and the reported information confidential. After receiving a report, the relevant department of the Group will timely accept and provide feedback in accordance with the Group's Integrity Management System, hold accountable for violations, and transfer serious violations of laws and disciplines to judicial authorities for processing.

Integrity Training

We continue to provide anti-corruption training for the Board and all employees to enhance anti-corruption awareness. During the Reporting Period, we provided anti-corruption training to all members of the Board and all senior and middle-level management personnel in the form of material circulation. At the same time, each department head circulated and studied anti-corruption training materials, the Group's integrity management system, and integrity promotion videos within their departments. The average training duration per person was approximately 1 hour.

Intellectual property protection

Kangji Medical is fully aware of the importance of intellectual property protection for promoting R&D and innovation and the long-term sustainable development of the Group. While strictly complying with relevant laws and regulations such as the Civil Code of the People's Republic of China (《中華人民共和國民法典》), the Patent Law of the People's Republic of China (《中華人民共和國專利法》), the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》), and the Trademark Law of the People's Republic of China (《中華人民共和國商標法》), we have formulated and updated internal regulations including the Intellectual Property Internal Management System and Design and Development Control Procedures to protect the Group's intellectual property work, firmly maintain our competitive advantage in independent innovation, and respect the intellectual property of others.

To better ensure the efficient progress of R&D work, we conduct patent searches on products that need to be developed in the design input stage according to the Design and Development Control Procedures in order to identify risks of patent infringement. Should such incidents occur, we will effectively avoid risks by changing the product design. At the same time, we cooperate with professional third-party law firms to lawfully avoid infringement risks. During the design input review stage, the Group adopts a multi-departmental collaborative approach to split the technology's critical parts and submit them to the relevant departments for review, confirming that all technologies do not infringe on the intellectual property of others before proceeding with further R&D.

Information Security Management

Kangji Medical strictly complies with the Civil Code of the People's Republic of China (《中華人民共和國民法典》), the Personal Information Protection Law of the People's Republic of China (《中華人民共和國個人信息保護法》), and the Cybersecurity Law of the People's Republic of China (《中華人民共和國網絡安全法》), and has formulated and implemented policies and systems such as the Information Security Management System, Network Permission Management Regulations, and Encryption Software Management System that cover management of computer rooms, server security, network security, computer security, virus prevention, data backup, and intellectual property protection, with an aim to continuously strengthen the protection of information data and ensure information security.

We implement information security control work from multiple aspects based on our business characteristics. During the Reporting Period, we have taken the following measures to strengthen information security protection:

- All computers are installed with strict data leak prevention software (IP Guard). Design documents, drawings, and important documents are encrypted after editing. Outbound files will not display file information without decryption. Employees are not allowed to send editable files externally without the permission of the management;

- The installation permissions of computer software are under strict management. If non-authorized software needs to be installed for work, it must be approved by the relevant department and processed by the IT department;

- The network firewall is configured with security policies, the commonly used virus ports are closed, and the external network access permissions are set according to departments;

- Professional technicians are arranged to conduct regular inspections and repairs of information security vulnerabilities and regularly back up important data to storage servers through scripts;

- Information security knowledge training is provided for employees to cultivate their awareness of information security prevention.

WIN-WIN PARTNERSHIP

Kangji Medical is committed to building a high-quality and sustainable supply chain. We have formulated and implemented policies such as the Procurement Control Procedures, the Supplier Evaluation Control Procedures, and the Procurement Management System to clarify the evaluation and management requirements for suppliers and ensure the quality of material procurement and standardize procurement behaviour. We uphold the concept of collaboration that benefits all parties and carefully manage the selection and admission of new suppliers and the assessment of long-term cooperative suppliers. At the same time, we have extensive cooperation with construction units and other service contractors, attach importance to the working environment of contractors, and strive to work hand in hand with our partners.

Supplier Management

In 2022, we revised the Supplier Evaluation Control Procedures in accordance with the ISO13485 quality management system, strengthened the supplier admission standards and admission thresholds, refined the supplier evaluation and examination standards, and standardised the guidance and education process for suppliers.

During the Reporting Period, a total of 718 suppliers cooperated with the Group, including 573 material suppliers, 110 equipment suppliers, and 35 construction suppliers, all of which were from Chinese mainland.

Supplier Admission

In the supplier admission section, the Group's procurement department, R&D technology department, quality department, and production department work together to carefully review the supplier's business qualifications, production and quality assurance capabilities, and quality system certification status. Only after passing the examination can they be included as qualified suppliers. Through systematic supplier selection methods, we select excellent suppliers that best meet the needs of the Group's business and ensure the stability of the supply chain from the source. The Group divides all material suppliers into A, B, and C categories[3] based on the importance of the supplied materials to the product and adopts different dynamic examination measures for suppliers of different categories.

Supplier Assessment

In the supplier assessment section, we assess and score our collaborating suppliers based on their supply quality, pricing, delivery timeliness, and after-sales service on an annual basis. Suppliers are categorized into four levels, A, B, C, and D, according to their score. In order to ensure corrective action and improve supply quality, we have strengthened the assessment of C-level suppliers and may send technical personnel to the site for coaching when necessary. D-level suppliers are considered unqualified, and the Group will prohibit purchasing their products or commissioning them for processing. If there are special circumstances, the Group will provide a limited time for improvement. If no improvement is made within that time, cooperation will be terminated.

Supplier Withdrawal

In response to severe situations such as substandard quality and delayed delivery, the quality department of the Group will issue a Supplier Corrective Measure Record, requiring suppliers to provide improvement measures and respond within the set deadline. The quality department will then confirm the effectiveness of the corrective effect. For suppliers that have consistently and severely failed to meet quality standards, the Company will evaluate and decide whether they can continue to be classified as qualified suppliers. If not, the qualified supplier withdrawal procedure will be initiated.

Supplier Communication and Training

Kangji Medical values collaborative innovation with suppliers and places great importance on maintaining healthy and good cooperative relationships with them. By providing feedback on annual supplier assessment results and any issues encountered during cooperation to suppliers, we actively seek solutions and optimization together. We also communicate and learn from important suppliers about new technologies and new materials. By visiting suppliers on-site, holding online meetings, and inviting them to visit our factories, we convey innovation demands to suppliers and provide them with relevant technical guidance and training. We make progress together through cooperation and communication.

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3 Suppliers in the A, B, and C categories are critical suppliers that affect product safety and performance, suppliers that provide general resources and materials, and suppliers that provide auxiliary resources and materials, respectively.

Environmental, Social and Governance Report

ESG Management in the Supply Chain

While we are striving to fulfill our sustainable development responsibilities, we also actively encourage our partners to fulfill their environmental and social responsibilities. We have incorporated ESG-related requirements such as business ethics, environmental impact, health and safety, and other factors into supplier management based on Kangji Medical's Supplier Code of Conduct and other institutional documents with an aim to take practical actions to strengthen the resilience of the supply chain. During the Reporting Period, we fully promoted the implementation of Kangji Medical's Supplier Code of Conduct and required new suppliers to sign a commitment to the code of conduct. We also gradually require long-term cooperative suppliers to supplement the signed code of conduct. As of the end of this Reporting Period, the number of suppliers that have already signed accounted for approximately 87% of the total number of qualified suppliers.

We have developed a supplier performance evaluation form that includes ESG-related factors such as occupational health and safety, anti-corruption, and legal compliance in the assessment of engineering suppliers, and signed the Integrity Agreement with such suppliers.

Kangji Medical adheres to the concept of green and low-carbon development and actively integrates the concept of sustainable development into supply chain management. We prioritize environment-friendly suppliers, encourage suppliers to use reusable packaging instead of disposable packaging, optimize the packaging materials used, and reduce waste emissions.

GREEN OPERATIONS

Kangji Medical attaches great importance to environmental management by integrating the concept of green development into production and operation and striving to reduce our impact on the environment within our operational scope. We continue to monitor the impact of climate change on the Group, while regulating energy use, increasing the use of new energy, and continuously pursuing green high-quality development.

Environmental Management System

Kangji Medical strictly abides by laws and regulations such as the Environmental Protection Law of the People's Republic of China（《中華人民共和國環境保護法》）, the Law of the People's Republic of China 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 People's Republic of China on Prevention and Control of Water Pollution（《中華人民共和國水污染防治法》）, and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste（《中華人民共和國固體廢物污染環境防治法》）, while maintaining the effectiveness of ISO45001 occupational health and safety management system and ISO14001 environmental management system certification.

During the Reporting Period, Kangji Medical continued to improve the functions of the Group's safety and environment department by hiring full-time environmental protection personnel, clarifying the department's responsibilities for the development of energy-saving and environmental protection systems, and identifying environmental-related laws and regulations. At the same time, the safety and environment department also guided and promoted the implementation of environmental compliance management and energy-saving and environmental protection work in each business department according to requirements, ensuring that the Group's environmental compliance in daily operations. Kangji Medical revised the Environmental Management System according to industry norms and the Group's actual situation and continuously improved the Group's environmental management level.

Environmental Management Objectives

During the Reporting Period, Kangji Medical completed the goals set for 2021, including carbon emissions, energy use efficiency, water use efficiency, and waste reduction. We also established related quantitative objectives for 2022 to support the Group's short-, medium-, and long-term green development:

Category	Environmental Objectives and Commitments for 2023-2025
Energy use	1. Starting from 2022, the comprehensive energy consumption density will decrease by 3% annually from 2023 to 2025. 2. By 2024, the total installed capacity of photovoltaic equipment will reach 1,600 kW, and the proportion of photovoltaic power generation to total electricity consumption will not be less than 15%. Starting from 2025, greenhouse gas emissions can be reduced by approximately 1125 tons annually.
Water resources use	1. Starting from 2022, the total water consumption density will decrease by 3% annually from 2023 to 2025. 2. The percentage of recycled water to total water consumption will not be lower than the level in 2022 from 2023 to 2025.
Greenhouse gas emissions	Starting from 2022, the greenhouse gas emission density will decrease by 3% annually from 2023 to 2025.
Waste Management	All hazardous waste generated will be transferred to qualified third-party units for recycling and disposal.
Wastewater/waste gas emissions	Qualified third-party units will be hired annually to conduct environmental protection tests, achieving 100% compliance in wastewater and waste gas emissions.

Climate Change Management

Climate change has become a global concern. In response to the impacts of climate change, Kangji Medical actively responds to the national "dual carbon" action, continuously identifies related risks and opportunities, and takes effective measures to address them. During the Reporting Period, Kangji Medical identified and evaluated climate risks and opportunities based on climate change trends and its own business sectors, and carried out climate-related risk management in accordance with the voluntary disclosure recommendations framework of the Task Force on Climate Related Financial Disclosure (TCFD) in order to mitigate or avoid the impact of climate change on the enterprise.

Climate Change Governance System

Kangji Medical has incorporated climate change issues into its ESG management system. The ESG Committee under the Board is responsible for managing climate-related risks and regularly reports to the Board on climate change management. Under the guidance of the ESG Committee, relevant departments take measures to address the risks and opportunities brought about by climate change. For more information on the ESG governance framework, please refer to the "Statement From the Board" and "ESG Governance Structure" sections of this report.

Environmental, Social and Governance Report

Low-Carbon Development Strategy

Kangji Medical recognizes that climate change will have an impact on the enterprise's value chain and will affect the Company's financial and strategic development. We have identified climate-related risks and opportunities based on the national macro environment, industry characteristics, and development planning, and have taken corresponding measures in production, supply chain, and daily operations. According to the analysis, the major climate change risks faced by the Group are policy and legal compliance risks, as well as physical risks such as floods and rising temperatures caused by climate change. The table below shows the corresponding risks and potential financial impact, as well as our response strategies:

	Risk Description and Potential Impact	Response Strategies
Transition Risk		
Policy and legal compliance risk	– As China pushes for the objective of "2030 Carbon Peak and 2060 Carbon Neutrality", national policies and regulations related to carbon emissions will continue to grow stricter. Kangji Medical may incur financial expenses related to carbon trading and equipment replacement to meet policy requirements. – In 2022, China launched a national carbon trading pilot market, which is expected to affect the operation of the power industry and lead to changes in electricity prices, resulting in fluctuations in energy expenses for Kangji Medical. This may also impact the operations of Kangji Medical's suppliers, leading to a chain reaction for the Group.	Kangji Medical has planned and deployed the use of clean energy, including: – Installing solar power generation equipment in existing and new industrial zones. – Working with green energy companies and power plants to explore the purchase of green electricity. – Gradually phasing out high-energy-consumption and high-polluting machinery and equipment while improving automation levels.

	Risk Description and Potential Impact	Response Strategies
Physical risks	Operational Environment – Changes in precipitation patterns caused by climate change may increase the risk of river overflow. Since Kangji Medical's main production, operation, and research facilities are located in river basins and low-lying terrains, floods and other impacts may cause problems such as interruption of water and power supply, damage to production and operation equipment, and employee safety issues, which interrupt the Company's operation and incur financial losses.	Kangji Medical has incorporated such risks into the management of its daily operations by developing the Emergency Operation Process Guidelines for Extreme Scenarios and equipping itself with emergency materials to ensure personnel and property safety. We have also adjusted equipment with high heat dissipation to locations with better ventilation conditions to reduce equipment temperatures, minimise equipment damage frequency, and enhance equipment lifespan.
	Extreme Weather – Frequent extreme weather events such as heavy rain, strong winds, and heat waves caused by climate change may pose a threat to property and personal safety and cause power interruptions that affect normal operations such as R&D and production. At the same time, increased high-temperature weather will affect equipment lifespan and increase the frequency and cost of maintenance or replacement of equipment.	
	Supply Chain and Logistics Impact – Physical risks caused by climate change may affect the production, logistics, and transportation sections of suppliers, causing operational interruptions due to insufficient raw material supply and thus, financial losses. At the same time, extreme weather may also affect the Group's logistics in the product delivery process, resulting in failure to deliver products on time and an impact on the Group's reputation.	Kangji Medical has made sufficient reserves for the supply chain section. When suppliers have insufficient supply due to force majeure, we will choose suppliers with matching capabilities to supplement in a timely manner. Meanwhile, in the logistics section, we choose to cooperate with logistics companies with comprehensive qualifications and large volumes to ensure smooth logistics.

Addressing climate change also brings development opportunities for Kangji Medical, which mainly include:

Opportunities	Opportunity Description	Management Strategy
Improved production efficiency and lower operating costs	In recent years, due to factors such as extreme weather and geopolitical conditions, energy prices in some regions have increased significantly. Kangji Medical improves production efficiency and reduces energy consumption by adopting more efficient equipment and optimising production processes in order to save expenses for energy.	Kangji Medical continues to upgrade and replace production equipment and operation equipment to reduce energy consumption with more efficient and lower energy-consuming equipment and by developing simplified production craftsmanship.
Climate change leading to an increase in diseases that expands the medical device market demand	The increase in global average temperature and frequency of extreme weather events will lead to more disease occurrences, which will raise the R&D and demand for medical devices because of the increase in disease frequency and types, thereby bringing more market development opportunities to the Group.	As a medical device platform company, Kangji Medical can assist society in responding to health challenges through continuous technological R&D and application. We always regard medical innovation as our mission and strive to satisfy the diverse needs of doctors and patients.

Risk management

Kangji Medical has planned to incorporate climate change risks, as a part of ESG risks, into its enterprise risk management system and risk assessment process. At the same time, we will gradually improve climate risk management policies and emergency plans, continuously strengthen measures to respond to climate change in daily operations, and enhance the ability to respond to climate risks and opportunities. During the Reporting Period, we have taken corresponding measures in the areas of energy structure, equipment efficiency, and production guarantee.

Optimising Energy Structure

Kangji Medical actively adjusts its energy usage structure and continues to adopt photovoltaic power generation equipment to support the production and operation of its industrial zones. During the Reporting Period, Kangji Medical has installed approximately 11,000 sq.m of photovoltaic power generation equipment that provides a total of approximately 820,000 kWh of electricity, accounting for approximately 15% of the total electricity consumption. Meanwhile, we plan to install another 11,000 sq.m of photovoltaic power generation equipment in 2024 to further increase the proportion of clean energy usage. In addition, when purchasing external power, we have included green electricity such as hydropower and wind power in our considerations.

Improving Equipment Efficiency

During the Reporting Period, we have upgraded high energy-consumption equipment in the production section to improve production efficiency and reduce energy consumption. In addition, we have replaced office and operation equipment with more energy-efficient alternatives to reduce the overall energy consumption of the enterprise. For details on our measures and results, please refer to the "Energy-saving Production" and "Green Office Operations" sections of this report.

Strengthening Production Guarantee

To respond to work and production stoppages and power shortages resulting from climate change, we mainly implemented the following measures during the Reporting Period:

- We have unified allocation of our electrical facility resources, such as limiting non-production electricity consumption by implementing timed and temperature-limited air conditioning in office areas, to respond to work and production stoppages caused by "power limitation" because of climate changes;

- We strengthened our communication and reserve with suppliers and increased the inventory of raw materials and components to ensure uninterrupted production;

- We strictly adhered to electricity usage guidelines by implementing measures including self-imposed power reduction, partial power outages, and staggered peak electricity consumption to avoid emergency power outages caused by insufficient power supply.

Indicators and Targets

To support Kangji Medical's green, high-quality development goals, we establish photovoltaic power generation indicators and targets in conjunction with the Group's future development plan to facilitate green transformation. For more details, please refer to the "Environmental Management System" chapter.

Energy-Saving Production

Kangji Medical strictly abides by laws and regulations such as the Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) and the Water Law of the People's Republic of China (《中華人民共和國水法》), emphasizing the optimisation of energy and water resource usage structures. We actively focus on analyses of trends in energy and water resource use and vigorously implement measures to save energy and reduce emissions in order to build a resource-saving enterprise in an all-round manner.

Improving Resource Usage Efficiency

Kangji Medical continues to improve its energy structure and usage efficiency by phasing out high-energy consumption equipment and adopting energy-saving craftsmanship. In addition, we regularly count and analyse energy usage during the production process to identify factors affecting energy usage efficiency and implement corresponding measures. We also focus on improving water resource management by optimising water usage structures, strengthening daily water conservation management, and promoting the use of water recycling technologies to improve water resource usage efficiency. The water for Kangji Medical's production and operation is provided by third parties, and the Group has not yet encountered any water resource shortages.

Equipment Upgrades

During the Reporting Period, we reduced resource consumption in the product production section by replacing outdated production equipment with more energy-efficient alternatives, which mainly include:

- Replaced a drying and injection moulding machine with a simpler manual operation process than old models and a new heat circulation system that has significantly reduced electricity consumption by approximately 58%. In addition, because this machine dissipated less heat, the average temperature of the workshop was lowered by 0.5°C，which effectively reduced the operating load on air conditioning to maintain the temperature in the workshop and achieved energy-saving and emissions reduction.

- Replaced traditional hydraulic injection moulding machines with electric servo models, which reduced energy consumption in the injection moulding process by approximately 45%.

- Replaced the dust treatment system in the polishing workshop with variable frequency fans, which saved approximately 35% of electricity consumption after upgrading to achieve higher energy usage efficiency;

- Added a two-stage reverse osmosis-based (RO) water purification system that collects and filters concentrated water from production for reuse, saving approximately 25% of water usage compared to the previous equipment;

- Replaced diesel forklifts and stacker trucks with electric vehicles.

Optimisation of Production Processes

During the Reporting Period, we constantly optimised our production craftsmanship processes to reduce resource usage, which mainly includes:

- Expanded the scale of carving and processing craftsmanship processes in replacement of traditional production craftsmanship processes to reduce intermediate processes such as wire cutting, punching, and broaching, and lower equipment energy consumption;

- Achieved cooling water recycling after transforming the water tank in the injection moulding workshop, resulting in an average monthly water savings of approximately 2,900 tons and a 95% water conservation efficiency.

Reduction of Packaging Materials

During the Reporting Period, we have replaced hard plastic packaging with soft plastic packaging for some products in use of packaging materials, which has effectively reduced the amount of packaging materials used and resulted in a total reduction of approximately 9 tons of packaging materials used for the whole year. At the same time, as the new packaging mode has reduced packaging volume by approximately 29%, our single shipment volume has significantly increased and less transportation was required for the same shipment volume, which saved energy consumption and effectively reduced waste gas emissions produced during transportation.

Resource Consumption Data

During the Reporting Period, we have included environmental data from construction sites in Weijing Medical's and Kangji Medical's industrial zones in our statistical scope, and the data regarding energy usage, greenhouse gas emissions, water resource usage, and packaging materials usage, as well as the changes from the previous year are as follows:

Indicator		Unit	2022	2021	Change proportion
Energy consumption	Total purchased power	kWh	4,727,082	3,674,790	28.64%
	Self-consumption of photovoltaic power generation	kWh	819,510	624,187	31.29%
	Total electricity consumption[note 1]	kWh	5,546,592	4,298,977	29.02%
	Electricity consumption density[note 2]	kWh/million of revenue	7,048	6,228	13.17%
	Gasoline[note 3]	Litres	57,443	57,187	0.45%
	Natural gas[note 4]	m^3	8,701	/	/
	Comprehensive energy consumption[note 5]	standard coal per ton	753.53	589.81	27.76%
	Comprehensive energy consumption density	standard coal per ton/ million of revenue	0.96	0.85	12.06%
Greenhouse gas emissions	Greenhouse gas emissions (Scope I) (direct energy)[note 6]	tons CO_2e	145.52	127.15	14.45%
	Greenhouse gas emissions (Scope II) (indirect energy)[note 7]	tons CO_2e	3,325.50	2,585.21	28.64%
	Total greenhouse gas emissions	tons CO_2e	3,471.02	2,712.36	27.97%
	Greenhouse gas emission density	tons CO_2e/million of revenue	4.41	3.93	12.25%

Note 1: The main reason for the greater increase in total electricity consumption for the Reporting Period is due to the increased electricity usage from Weijing Medical and engineering construction projects. The electricity consumption for production has slightly increased compared to 2021 due to more production output and new production lines.

Note 2: The density of energy consumption, greenhouse gas emission and other data in this report is based on the sales revenue of RMB1 million.

Note 3: This refers to the amount of gasoline used for official vehicles. The gasoline and diesel used for surface cleaning during the production process in the Reporting Period are not included in the energy consumption performance table for the Reporting Period and are only included in hazardous waste as waste oil since they produced minimal energy effect and usage.

Note 4: Due to the addition of natural gas usage equipment after the cafeteria renovation in the Reporting Period, a new natural gas consumption performance indicator has been added starting from June of 2022.

Note 5: All kinds of energy are converted into standard coal according to General Principles of Comprehensive Energy Consumption Calculation (GB/T2589-2020).

Note 6: 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 7: 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.

Indicator	Unit	2022	2021	Change proportion
Total water consumption[note 8]	tonnes	71,354	54,080	31.94%
Total amount of recycled water	tonnes	34,830	27,000	29.00%
Total water consumption density	tonnes/million of revenue	90.67	78.35	15.73%

Note 8: The main reason for the greater increase in total water consumption for the Reporting Period is due to the increased water usage from Weijing Medical and engineering construction projects. The water consumption for production has slightly increased compared to 2021 due to more production output and new production lines.

Indicator	Unit	2022	2021	Change proportion
Total consumption of packaging materials	tonnes	679.30	606.45	14.98%
• Plastics	tonnes	191.29	209.50	–8.69%
• Paperboard[note 9]	tonnes	505.51	395.57	27.79%
• Sponges	tonnes	0.50	1.38	–64.13%
Secondary utilization of packaging materials	tonnes	12.52	7.57	65.39%
Consumption density of packaging materials	tonnes/million of revenue	0.89	0.88	0.85%

Note 9: The reason for the greater increase in paperboard packaging materials for the Reporting Period is mainly due to the increase in disposable product output.

Reducing Pollutant Emissions

In its daily operations, Kangji Medical actively facilitates waste reduction and compliance management. By replacing and upgrading equipment in the production section, we have effectively reduced the emissions of wastewater, waste gas, and solid waste to ensure compliant emissions and protect the surrounding environment.

Wastewater Management

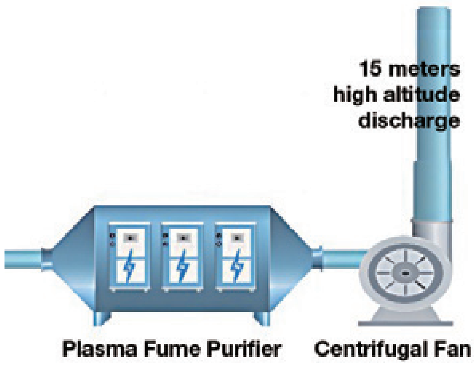
In order to ensure that relevant indicators meet the standards before discharging into the municipal sewage network, all of Kangji Medical's operating locations have implemented rain and sewage separation to collect and process wastewater from production and daily life. For wastewater containing hazardous substances during production, we employ qualified third parties to handle it after centralized collection. During the Reporting Period, we hired a third party to test the sewage treatment results, and it showed that all indicators met the standards required by laws and regulations.

During the Reporting Period, the Group continued to improve its water pollution prevention and control system to strengthen the emission management of water pollution in the production section. We also process the wastewater produced during the expansion work of the factory area by requiring that the wastewater from washing construction vehicles must settle in a sedimentation tank to meet discharge standards before being discharged into the municipal sewage network.

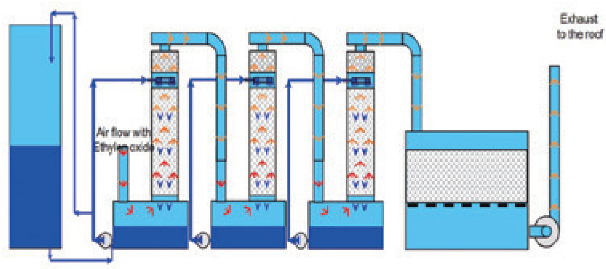
Waste Gas Management

Kangji Medical continuously strengthens the management of waste gas discharged to indoor working areas and outdoors and ensures compliant emissions by collecting and treating waste gas. Meanwhile, we regularly employ third-party testing agencies to conduct regular tests on waste gas emissions. During the Reporting Period, our test results met the standards required by laws and regulations.

During the Reporting Period, Kangji Medical installed a new oil mist purification system in the carving workshop. Through plasma adsorption, this system collects waste gas and oil pollutants from the production process and deposits them in an oil collection tank for centralised treatment. This measure reduces the concentration of oil mist in the workshop, improves the working environment for employees, and reduces external emissions of oil pollutants.

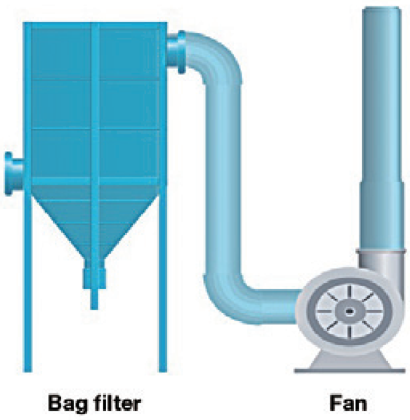


We also increased waste gas treatment equipment to collect ethylene oxide waste gas produced during sterilisation and convert it into ethylene glycol for recycling, which has reduced the concentration of non-methane total hydrocarbons in the sterilisation workshop and waste gas emissions.



Environmental, Social and Governance Report

We have upgraded the dust collection system to collect metal dust generated in the polishing workshop. With a combination of bag filters and blowing and spraying, this system can remove dust from the gas and collect the dust to effectively reduce dust emissions inside and outside the workshop and thus, alleviating air pollution.



In addition, we required that construction vehicles working at the construction sites be washed clean before entering external municipal roads to reduce the spread of dust from the construction sites due to vehicle movement. We also installed dust-proof nets around the construction sites and set up spray systems on the site walls to alleviate dust pollution at the construction sites.

Waste Management

Kangji Medical classifies and manages hazardous and non-hazardous waste separately. For hazardous waste, we have a special storage warehouse with a hazardous waste register and employ qualified third parties to regularly collect and dispose of hazardous waste, ensuring that it is in compliance with national environmental regulations. For non-hazardous waste, we actively carry out garbage classification work. We set up different types of garbage bins in office buildings and work zones, while improving employees' awareness of garbage classification through promotion, education, and various signs. At the same time, we sign garbage recycling and disposal agreements with local environmental sanitation companies for timely garbage collection and disposal every day. In addition, we require the construction party to collect and transport construction waste generated at the construction site, so that such waste can be properly disposed of.

We also carry out recycling work for waste including plastic materials and paperboard. During the Reporting Period, we collected reusable plastic materials from raw material packaging. 5.58 tons of plastic materials were recycled and used as fillers between the inner and outer product packaging after being safely treated. In addition, we delivered more than 15,000 paperboard boxes generated from raw material purchases to a paperboard supplier for transformation. 6.94 tons of paperboard were recycled as nearly 80,000 linerboard used for separation in packaging boxes.

Pollutant Emission Data

During the Reporting Period, our data on wastewater and solid waste, as well as the changes from the previous year, are as follows:

Indicator	Unit	2022	2021	Change proportion
Comprehensive sewage discharge[note 10]	tonnes	57,083	43,264	31.94%
Comprehensive sewage discharge density	tonnes/million of revenue	72.54	62.68	15.73%
Chemical oxygen demand COD emission[note 11]	tonnes	4.34	6.23	–30.36%
Ammonia nitrogen emission[note 12]	tonnes	0.98	1.05	–6.61%

Note 10: 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.

Note 11: Based on the COD concentration of sewage in the annual third-party test report, 76mg/L is taken in 2022.

Note 12: Based on the concentration of ammonia nitrogen in sewage in the annual third-party test report, 17.2mg/L is taken in 2022.

Indicator		Unit	2022	2021	Change proportion
Hazardous waste	Total amount of hazardous waste	tonnes	14.10	10.09	39.68%
	– Waste emulsion production	tonnes	6.63	8.24	–19.47%
	– Oil bearing metal production[note 13]	tonnes	5.26	0.95	452.58%
	– Production of waste packaging barrels	tonnes	0.48	0.32	50.87%
	– Other hazardous waste[note 14]	tonnes	1.73	0.59	193.22%
	Generation density of hazardous waste	tonnes/million of revenue	0.0179	0.0146	22.52%
	Total amount of hazardous waste disposal[note 15]	tonnes	18.40	7.75	137.42%
Non-hazardous waste	Total amount of non-hazardous waste	tonnes	45.09	33.60	34.20%
	– Office/domestic waste	tonnes	37.26	33.60	10.89%
	– Recyclables[note 16]	tonnes	7.83	/	/
	Generation density of non-hazardous waste	tonnes/million of revenue	0.0573	0.0486	17.90%

Note 13: The significant increase in oil bearing metal production for the Reporting Period is mainly because the Group made statistics on oil bearing metal for the first time in the fourth quarter of 2021 and the related data only includes the production volume of approximately one quarter.

Note 14: For statistical purposes, hazardous waste produced in small quantities or on occasion including waste organic solvents, waste lubricating oil, waste mineral oil, and printer cartridges will be included in other hazardous waste starting 2022. The hazardous waste produced individually and occasionally in the Reporting Period led to an increase in the total amount.

Note 15: In the Reporting Period, the Group invested more funds to employ qualified third-party units for compliant disposal of hazardous waste. Treating the production during the Reporting Period and clearing the historical inventory at the same time results in a significant increase in the volume of disposal.

Note 16: In the Reporting Period, the statistics of recyclables are added to the statistics of non-hazardous waste, which mainly include waste metal, waste paperboard, and waste plastic materials.

Green Office Operations

Kangji Medical advocates green and environmental protection concepts by integrating green environmental awareness into the Group's daily operations and the management work of office areas. We constantly optimise internal resource management and practice energy-saving and emission-reduction actions.

Technical Energy Conservation

- We reduce energy consumption caused by server equipment by deploying multiple business applications on one physical server through server virtualisation and purchasing office electronic equipment that meets the national energy efficiency label level 1;

- We reduce water resource consumption for plant irrigation by adopting the green automatic sprinkler system;

- We have phased out bio-alcohol oil stoves with natural gas equipment by renovating and upgrading the cooking equipment in the canteen to reduce waste gas emissions and improve energy usage efficiency;

- All lighting fixtures in the office areas have been replaced with energy-saving lighting fixtures to reduce power consumption;

- Water-saving faucets and toilet facilities have been replaced in office areas and employee dormitories.

Management of Energy Conservation

- We promote a paperless office by adopting online OA software for approval work, which has effectively saved office paper usage intensity by approximately 7%;

- We formulate an air conditioning management system that stipulates air conditioning can only be turned on when the highest temperature forecast for the day is 28°C or above and the lowest temperature is 10°C or below and the temperature for cold air should not be lower than 26°C while the temperature for warm air should not exceed 22°C。At the same time, the administrative department is responsible for turning on and off the central air conditioner as well as conducting irregular patrols;

- We formulate a system for official vehicle usage that calculates and ranks the fuel consumption per 100 kilometres of each vehicle every month. Drivers with fuel consumption lower than the standard will be rewarded in order to effectively reduce the fuel consumption of official vehicles.

EMPLOYEE CARE

Kangji Medical regards its employees as the core competitiveness for the sustainable development of the Group and adheres to the people-centred employment philosophy. We respect employees and safeguard their legitimate rights and interests. We care for employees and create a fair, harmonious, healthy, and safe working environment for them. We strive to build a high-quality talent team by providing clear career development paths and diversified training resources for employees and working together with them to make progress.

Employee Rights and Benefits

In order to effectively protect the legitimate rights and interests of employees, Kangji Medical strictly complies with laws and regulations such as the Labor Law of the People's Republic of China（《中華人民共和國勞動法》）, the Labor Contract Law of the People's Republic of China（《中華人民共和國勞動合同法》）, the Employment Promotion Law of the People's Republic of China（《中華人民共和國就業促進法》）and the Trade Union Law of the People's Republic of China（《中華人民共和國工會法》）, while formulating an internal regulation system including the Employee Handbook, Employee Recruitment Management System, and Employee Training System. We not only continuously improve the management of recruitment and dismissal, compensation and benefits, attendance and performance, and working hours and holidays, but we also standardize human resources management in a systematic manner to unleash employees' enthusiasm and creativity.

Employee Recruitment

Kangji Medical attaches great importance to the introduction of talents and implements an open, equal, and diversified talent employment policy. The Group has formulated and implemented the Employee Recruitment Management System for standardized and efficient recruitment procedures and compliant recruitment work. We supplement the Group with professionally matched talents through diverse recruitment channels including talent markets, recruitment websites, headhunting, referrals, campus recruitment, and WeChat public accounts. At the same time, we avoid possible discrimination or bias while fairly and justly screening and employing candidates from different backgrounds.

To improve talent reserve efficiency, we have issued the Internal Recommendation and Reward System of the Company's Employees, encouraging internal employees to recommend suitable candidates for required positions by giving rewards. During the Reporting Period, we actively prepared for academia-enterprise cooperation projects and planned to recruit fresh graduates for R&D, sales, production management, and other positions in 2023. Through cooperation with different professional colleges and universities, we introduce young talents to the Company.

We strictly comply with relevant laws and regulations such as the Regulations on Prohibition of Child Labor（《禁止使用童工規定》）and have formulated strict review mechanisms that completely eliminate the use of child labour from the source by carefully verifying the identity information of job applicants. Once relevant situations are found, we will strictly investigate and address them in accordance with laws and regulations. We encourage employees to strike a work-life balance and firmly reject forced labour. Through the implementation of the Company's Overtime Management System, we have formulated a reasonable scheduling system that reasonably controls the working hours of employees. We will pay overtime compensation or provide compensatory leaves for overtime work in accordance with laws and regulations, while ensuring that the overtime working hours of employees do not exceed legal requirements.

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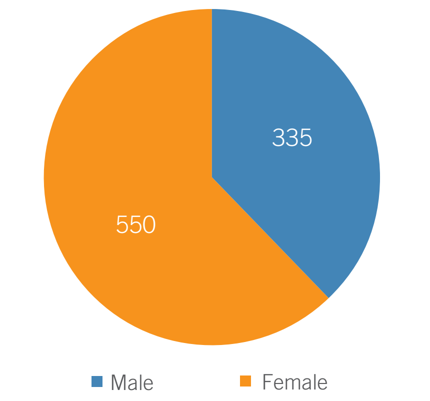
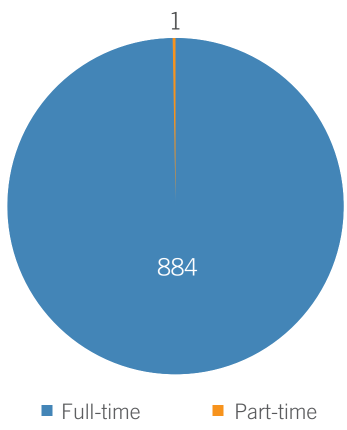
As of the end of the Reporting Period, the Group has a total of 885 employees[4], representing an increase of 160 employees or approximately 22.1% with last year.

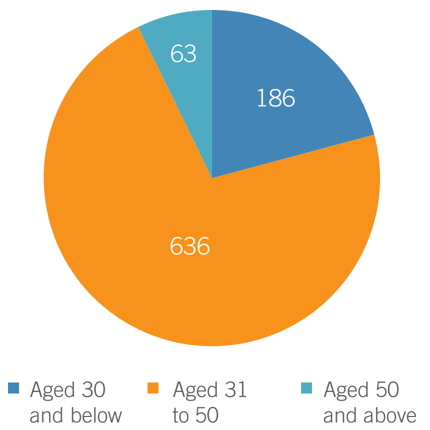
Employees by gender (persons)



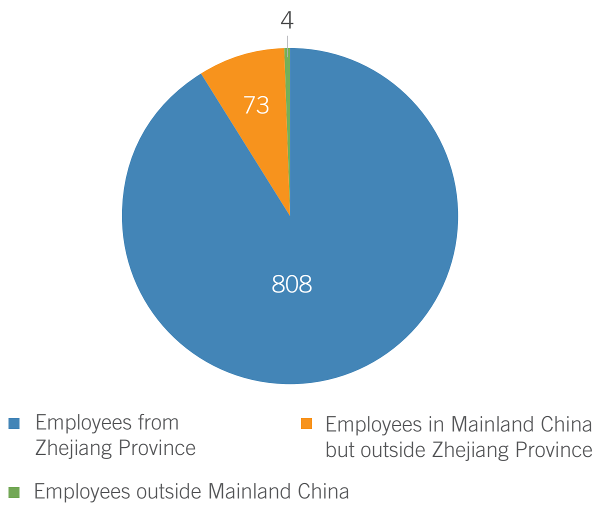
Employees by employment type (persons)



Employees by age (persons)



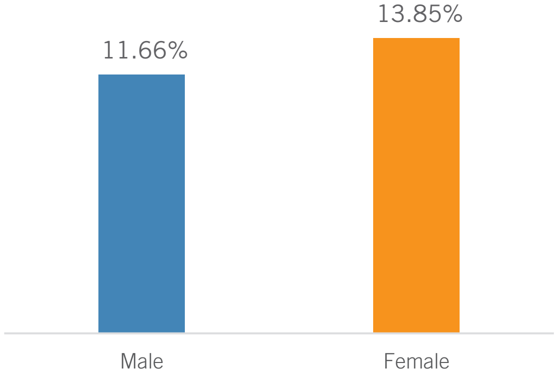
Employees by region (persons)



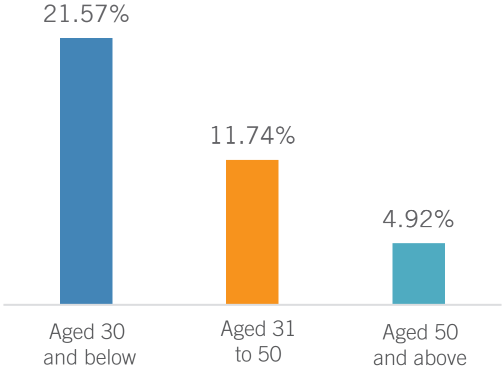
[4] During the Reporting Period, 75 employees from Weijing Medical have been added to the total number of employees.

During the Reporting Period, the total employee turnover rate[5] of the Group was approximately 13.1%, among which 105 employees (nearly 80% of whom were production workers) were from Zhejiang Province and 1 employee was an employee outside Mainland China.

Employee turnover rate by gender (%)



Employee turnover rate by age (%)



Diversity and Equality

Kangji Medical is devoted to creating a fair, inclusive, and diverse working environment. We protect our employees from discrimination based on gender, ethnicity, age, nationality, religion, and other factors in order to ensure that each employee receives fair and equitable treatment.

We respect and encourage the professional development of women. By strictly complying with national laws and regulations to protect the maternity and childcare leave of female employees, we achieved a retention rate of 100% after childcare leave during the Reporting Period. We employ disabled people to promote their employment opportunities, provided that they meet the business requirements. As of the end of the Reporting Period, the Company had 5 disabled employees. The Company effectively protect their legal rights and interests and provide them with social security benefits without charging any fees.

During the Reporting Period, we were not aware of any discriminatory incidents.

Remuneration and Promotion

Kangji Medical insists on building an open and transparent appraisal and reward system and has formulated the Employee Salary Management System to standardise the management of the remuneration and performance of all employees. We determine employee job grades and remuneration based on their work performance and ability with job value as the core, while providing employees with competitive remuneration packages in the industry. Through a clear and flexible promotion mechanism, we offer a clear career development path for talents in order to attract, motivate, and retain them in a more efficient manner.

5 The employee turnover rate = the number of employees resigning in the reporting year/the number of employees at the end of the reporting year* 100%. In addition, employees who have not passed the probationary period are not included in the number of resigned employees.

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Kangji Medical has designed diversified appraisal methods and established incentive plans based on the business characteristics of each department, including the knowledge patent award for R&D personnel and the selection of "Patent Stars" to encourage R&D innovation; the sales award for the marketing department to promote active market expansion; and the cross-departmental cooperation award to motivate efficient internal collaboration and operation. In 2022, the Company recognised outstanding employees of the year, outstanding new employees of the year, and employees with 10 and 15 years of service, and presented the annual improvement expert, quality star, and innovation technology awards. With spiritual value recognition and a sense of professional achievement, employees are willing to work with the Company for long-term and shared development.

Employee Benefits

Kangji Medical values the physical and mental health of its employees. By strictly implementing employee welfare policies in accordance with national laws and regulations, we provide medical mutual aid insurance for all employees who pay social security and purchase employer liability insurance for rehired retirees, interns, and probationary employees on the basis of the "Five Social Insurances and One Housing Fund" that all employees are entitled to by law.

Diverse Holidays and Subsidies

- We guarantee that all employees enjoy statutory holidays including marriage leave, maternity leave, prenatal checkup leave, and paternity leave on the basis of weekends off.
- We organise a trip for all employees every year (suspended during the COVID-19 pandemic control period).
- We provide birthday gifts, work anniversary souvenirs, and traditional holiday gifts for all employees.
- We provide communication, transportation, work meals, and accommodation subsidies, as well as benefits including heatstroke prevention to all employees.
- We provide non-local employees with travel reimbursement benefits for returning home during the Chinese New Year.
- The Group's labour union provides condolence money for employees who have family difficulties, lose immediate family members, are disabled, or are hospitalized.

Comfortable Working Environment

- We strive to create a more comfortable business environment for our employees by designing convenient rest areas such as lactation rooms, libraries, gyms, and lounges in our newly built office buildings.
- We implement 6S management in our production workshops to keep the workshop environment clean, tidy, bright, and less polluted.
- We arrange annual physical examinations for all employees and professional occupational disease examinations for employees in special positions.

Rich Cultural and Sports Activities

We have also organised a wealth of cultural and sports activities with the hope that our employees can strike a work-life balance, and maintain health and vitality. During the Reporting Period, our main activities include:

- Parent-Child Chinese Culture Lesson: Increase the time employees spend with their children and learn Chinese traditional culture together;

- Book Sharing Session: Read classic literature together, gain professional knowledge, and exchange experiences and feelings together;

- Kangji Sports Society: Regularly organise cultural and sports activities and encourage employees to work and live healthily;

- International Women's Day Outing: Organise an outing for female employees to explore historic towns and soothe their bodies and minds.

Employee Safety

Kangji Medical always places the occupational health and safety of its employees as its top priority and strives to provide them with a safe and healthy working environment. We strictly abide by laws and regulations including the Law of the People's Republic of China on Work Safety（《中華人民共和國安全生產法》）and the Fire Control Law of the People's Republic of China（《中華人民共和國消防法》）. In 2022, we have revised and implemented 24 management systems including the Work Safety Responsibility System and various emergency plans to continuously strengthen the safety production responsibility system and promote the construction of standardised safety production. At the same time, we continue to promote 6S management and fortify the safety accident prevention system.

In the past three years, Kangji Medical did not have any incidents involving work-related deaths. During the Reporting Period, there were 5 work-related accidents involving 5 injured employees and a total of 181 days lost due to work injury, among which 4 accidents were minor electric vehicles collisions that occurred during the commute to and from work and 1 accident involved a slip and fall in the cafeteria during mealtime.

Safety Risk Identification

We constantly implement safety inspection and examination systems and identify EHS legal compliance checklists based on product craftsmanship, equipment, processes, and other basic situations. By guiding and supervising each business department in accordance with regulations, we ensure that our daily operations are in compliance with laws and regulations. At the same time, each department identifies and detects potential safety risks through inspection forms.

To implement the hierarchical fire safety responsibility system and the position fire safety responsibility system, the safety and environment department is responsible for daily monitoring and identifying safety risk vulnerabilities during inspections. Should any safety risks be found, the relevant team will be notified to make improvements. Meanwhile, we implement a team leader's safety production responsibility system at the production end to organise daily safety inspections. For identified risks, we adopt the LEC evaluation method[6] to score such risks, distinguish risk levels, and efficiently and orderly take corrective measures. Team leaders are also in charge of checking whether employees wear protective equipment appropriately and use various fire-fighting equipment correctly, monitoring the inspection and maintenance of safety and fire-fighting facilities, persistently promoting safety awareness, and summarising safety work.

Operational Safety Guarantee

We have developed refined operational safety guarantee plans based on the characteristics of each department's business and included safety production days as a performance evaluation item for production management departments.

Standardised Operating Procedures

We have developed various management regulations and operation manuals such as the Laboratory Management Regulations and the Welding Operation Instruction Book in accordance with national laws and regulations and industry standards in order to guide and standardise employee safety operations.

Implementing 6S Management

Since the Group launched the lean management project in 2019, we have employed professional consulting companies to assist the production department in continuously promoting 6S management. Through a series of measures including standardising on-site management in production workshops, we have effectively improved employees' safety awareness and operating level.

Maintenance of Production Equipment

- We have developed an annual equipment maintenance plan and regularly maintain equipment in accordance with maintenance standards with an aim to conduct a small inspection once a year and a major inspection every three years;

- We have clarified equipment failure repair procedures. When mechanical equipment or water and electricity facilities fail, the equipment department will timely arrange engineers for repairs based on the emergency level. After the repair, on-site verification and inspection will be performed to ensure that the repair is successful;

- We strictly follow national regulations to inspect special equipment and regulate the use of special equipment.

Replacement of Automated Equipment

- AGV (Automated Guided Vehicle) carts: By deploying automated transport vehicles, automatic transport can be completed on fixed routes to reduce manual transportation and safety risks caused by manual labour.

6 The LEC evaluation method is a semi-quantitative safety evaluation method for potential hazardous sources in a hazardous working environment. The formula is D = L x E x C, where D represents the degree of risk level, L represents the likelihood of an accident occurring, E represents the frequency of personnel exposure to the dangerous environment, and C represents the consequences that may result from an accident.

- Welding manipulators: The electrode clamp welding process introduces manipulators for automatic welding in complete replacement of manual welding. It not only improves welding efficiency by more than 88% but also greatly lowers the labour intensity of workers and reduces the risk of occupational hazards.

AGV carts

Welding manipulators

Upgraded Safety Facilities

- We have upgraded the explosion-proof walls in the sterilisation workshop and engaged a professional third party to assess its safety. It has been certified as both safe and effective;

- We have improved the physical environment of the hazardous chemical warehouse by centrally storing alcohol and other flammable and explosive materials in explosion-proof cabinets;

- We have added and replaced high-definition monitoring equipment around and inside the factory areas to reduce the number of blind spots;

- We regularly inspect safety facilities and equipment including fire hydrants and extinguishers and will replace them whenever necessary;

- We have also added various safety warning signs, labels, and markings.

Equipped with Emergency Devices

- Loving medical kit: The Company has equipped each department with loving medical kits that contain commonly used emergency medications and items;

- Automatic external defibrillator (AED) emergency device: In order to save lives and reduce injuries, the Company is equipped with automatic external defibrillators, and employees are trained to use them to significantly enhance the effectiveness of pre-hospital first aid.

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Strict Management of Safety Risks for Outsiders

In addition to ensuring the production safety of the Group's employees, we also perform the safety management of external operating staff entering the Group's safety management areas. The mainly adopted measures include:

- Before entering the site, the safety and environment department will conduct face-to-face safety training for cooperating units and external operating staff, informing them of the safety management system and precautions to be followed and to sign a safety responsibility agreement;
- We set up safety protection facilities and safety signs at the construction sites. When entering the construction sites, external personnel must use personal protective equipment and wear standardised outfits correctly according to the regulations;
- We regularly conduct safety risk inspections. Should any safety risks be found, they are required to be rectified within a specified time. We regularly inspect for major hazardous sources on-site and for work safety. Any violations will result in warnings and penalties and be required to be rectified.

Emergency Plans and Safety Drills

The safety and environment department of the Group has formulated comprehensive and special emergency plans to respond to various safety accidents that may occur. During the Reporting Period, we organized two safety drills including firefighting operations and emergency evacuation.

Firefighting safety training

Firefighting safety drill

Occupational Disease Prevention

Kangji Medical strictly abides by 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》), formulate the Occupational Disease Prevention Management System, and pass the ISO 45001 occupational health and safety system certification.

To ensure the occupational health and safety of our employees and prevent occupational disease hazards, we regularly invite qualified third parties to conduct testing of occupational disease hazards including noise, dust, radiation, and toxic chemicals in the factories, office areas, and cafeterias, and issue testing reports for personnel who are exposed to hazardous factors in each scenario.

We post corresponding occupational disease hazard notification cards in the production areas according to the testing reports, reminding employees to pay attention to various hazardous sources and displaying relevant preventive measures. We reduce the risk of occupational diseases by installing dust and smoke removal devices and alarms.

We also organise occupational health examinations for employees in special positions, and the test results will be provided in the form of a report. We supply relevant employees with qualified labour protection equipment such as goggles, masks, and earplugs and instruct them on how to correctly use such equipment.

Safety Training

Kangji Medical has established an employee EHS training matrix according to its internal Safety Education and Training Management System, developed an annual training plan, and formulated corresponding safety training for each department and production process. We enhance the fun and effectiveness of training with various methods including offline classrooms, lectures, safety drills, and knowledge competitions, ensuring that all employees have the safety knowledge, qualifications, and skills required for their positions.

In 2022, we organised a total of 16 safety training sessions that include job safety and firefighting safety training, enterprise safety production responsibility and management personnel training, and general safety management training. They covered each department of the Company with a total of 1,810 participants and a total training time of 4,992 hours.

One Page Training

To strengthen safety production awareness and facilitate safety production management, we implement "One Page" safety knowledge training in the production department. By condensing one safety knowledge point on one A4 page in a simple, concise, and illustrated format and spending 5 minutes explaining it during the team morning meeting every day, we help employees quickly understand and comprehend safety production requirements. We have also established a safety training assessment mechanism. Employees who fail the assessment must participate in make-up exams to ensure that safety training is implemented effectively and that their safety awareness and self-discipline behaviour are continuously improved.

First Aid Training

To further enhance the emergency handling capabilities of employees in response to emergencies and accidents and their safety awareness, Kangji Medical organised a first aid training and examination with the Tonglu Red Cross Society in Zhejiang Province during the Reporting Period. More than 80 employees participated in the training and obtained first aid certificates.

Employee Development

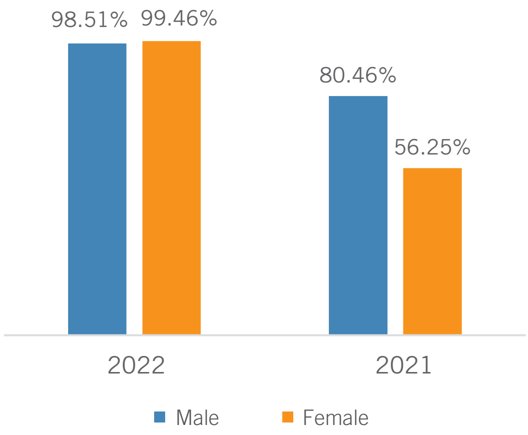
Kangji Medical has always believed that talent development is the inexhaustible driving force for the sustainable development of the Group. To this end, we continuously strengthen our talent training system and build a solid foundation with our high-quality teams by continuously improving our employees' professional skills and management levels.

To better identify and enhance the abilities required for employees' career advancement, Kangji Medical has improved the hierarchical training system. Based on the talent development sequence, the Group has set up a course system on the basis of the double rank channel. According to the rank sequence, employees on the corresponding ranks need to complete a series of matching courses, and the learning credits are one of the assessment conditions for promotion.

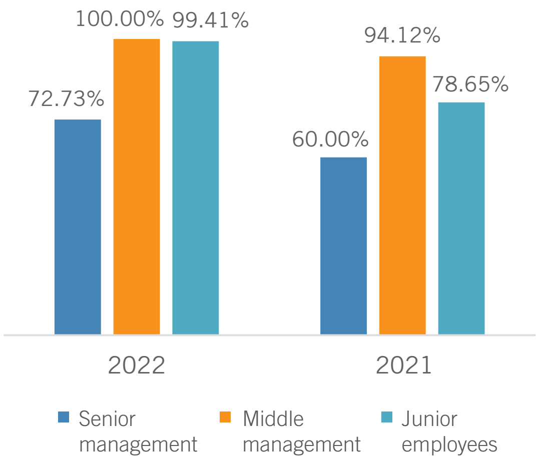
In 2022, we focused on strengthening the construction of the leadership teams' abilities and the training of new employees, launched a management cadre empowerment project, and cooperated with professional third-party organizations to complete organisational diagnosis and comprehensive cadre evaluation. For new employee training, we scheduled a 90-day onboarding training to help them quickly understand business content and realise knowledge transformation and ability improvement through cultural system training, on-the-job skill training, and other measures.

During the Reporting Period, we held a total of 215 training sessions, reaching 99.1% of the training coverage. The total number of participants was 6,233 and the average training hours was 27.3 hours per employee, representing an increase of 60.6% compared with 2021.

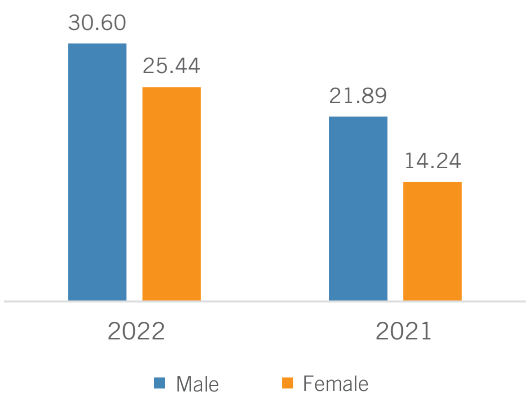
Proportion of trained employees by gender (%)



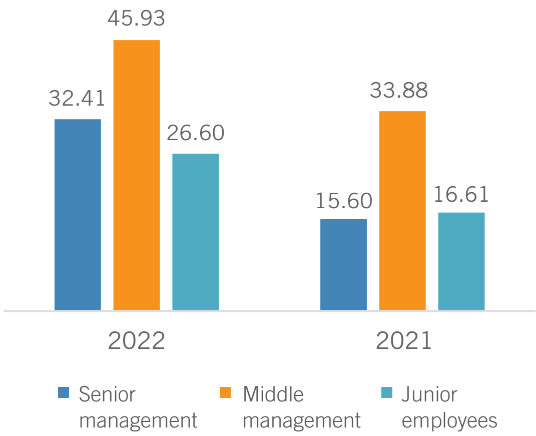
Proportion of trained employees by rank (%)



Average training hours of employees by gender (hours)



Average training hours of employees by rank (hours)



Environmental, Social and Governance Report

Empowered and Advance for Extraordinary Achievements: Management Cadre Empowerment Special Training

To further strengthen the Company's management cadre team and enhance the comprehensive quality of the management cadre, Kangji Medical has held the first Kangji Medical Management Cadre Empowerment Special Training. Since May 2022, the middle and senior management cadres of the Company have participated in a series of courses such as Manager's Role Recognition and Management Communication Based on DISC to actively learn about and apply excellent management tools and methods to daily management work with an aim to gradually internalise them into the team's high-efficiency convention and help the Company's business development from the perspective of management effectiveness.

SOCIAL RESPONSIBILITY

Kangji Medical's development cannot be separated from the support of the whole society. We actively undertake social responsibilities, support public welfare undertakings including medical care, education, and charity, spread positive energy, and make contributions to society. Under the normalization of the epidemic, Kangji Medical actively responds to the government's call, quickly implements epidemic prevention and control measures, stabilised the production and operation of the enterprise, and ensures the health and safety of employees.

Spread Love Through Charity

During the Reporting Period, Kangji Medical donated a total of RMB620,000 to the Charity Federation of Tonglu County (桐廬縣慈善總工會), Beijing Cherish Health Public Welfare Foundation (北京珍愛健康公益基金會) and Zhejiang Xinhua Love Education Foundation (浙江省新華愛心教育基金會).

Environmental, Social and Governance Report

In addition, under the leadership of the Party branch and the trade union, we actively participated in community public welfare activities.

Voluntary Blood Donation

To welcome the arrival of the 20th National Congress of the Communist Party of China, fulfil our corporate social responsibilities, and encourage employees to actively participate in public welfare activities, in September 2022, Kangji Medical's labour union joined hands with Tonglu Blood Station and Jiande Blood Bank to organise a voluntary blood donation activity themed "Warm Blood Ignites Life, Love Spreads Warmth". More than 100 people, including the Company's management team, party members, and frontline employees, participated in this voluntary blood donation activity with a total blood donation of 26,500 mL.

"Respect the Elderly Month" Activity

To further promote the traditional Chinese virtues of "respect, love, and help the elderly", in October 2022, representatives of Kangji Medical's Party branch donated a batch of bedding products to "school gate grandfathers" in the Liaison Centre Station of People's Congress Deputies of Fengchuan Street (鳳川街道人大代表聯絡中心站) as a token of gratitude for their silently guarding the children in the school.

Environmental, Social and Governance Report

Support for Epidemic Prevention and Control

In 2022, Kangji Medical continued to pay attention to the development of the Novel Coronavirus Pneumonia Epidemic and actively responded to the government's epidemic prevention and control policies by quickly implementing scientific epidemic prevention and control measures. Kangji Medical's COVID-19 epidemic prevention and control leading group proposed the principle of "scientific epidemic prevention, orderly production, and peaceful life" with a series of epidemic prevention and control measures to ensure the stability of the enterprise's production and operation as well as the health and safety of employees.

During the period of the dynamic clearing policy, Kangji Medical strictly adhered to the local government's epidemic prevention and control policies, actively responded to the government's call, and played a benchmark role as a local leading enterprise.

- To support the government's epidemic prevention requirements and provide a more convenient way for employees to do nucleic acid testing, we set up temporary nucleic acid testing and isolation points in the industrial zones. The management of the Group, after receiving nucleic acid testing training, provided nucleic acid testing services for all employees in two batches;
- We strictly implemented temperature measurement, code scanning, and registration for external personnel to ensure the safety and health of employees;
- We arranged for special personnel to perform daily disinfection of public areas and employee dormitories;
- We organised labour union representatives to visit volunteers who were on the frontline of local epidemic prevention and distribute epidemic prevention materials to them;
- We procured epidemic prevention materials and distributed them to employees;
- We carried out scientific epidemic prevention policy promotion, timely released epidemic prevention and control news, managed employee travel, and reported to the government;
- We encouraged online meetings to reduce face-to-face contact.
- We arranged for special personnel to separately store and 100% disinfect imported goods in accordance with the government's epidemic prevention requirements.

On 5 December 2022, after the government issued a notice to optimise and adjust epidemic prevention and control measures, we immediately took various measures, including but not limited to distributing masks, alcohol, and other epidemic prevention materials to employees for free, strengthening the disinfection of public places, arranging meals in batches, and distributing boxed meals, milk, and fruits. Through the large screens in the industrial zones, WeChat public accounts, union groups, and other platforms, the Company conveyed epidemic prevention knowledge, care, and condolences to employees, soothed their emotions to dispel fear and anxiety, and promote scientific epidemic prevention and orderly production.

Closed-Loop Epidemic Prevention Management, Support for Epidemic Prevention and Control

In May 2022, Tonglu County had a sudden outbreak of COVID-19. The government designated a closed-off area, a controlled area, and a prevention area, which greatly affected the Group's operational activities and employees' commuting. Immediately after that, we implemented industrial zone closure management at the request of the government. Upon receiving the notice, the Kangji Medical COVID-19 prevention and control leadership team held an emergency meeting to deploy epidemic prevention strategies, response measures, production arrangements, and logistical support during the closure period. The management of the Group led the efforts in the frontline, coordinated epidemic prevention and control work, and provided comprehensive and thoughtful epidemic prevention arrangements, as well as work and life support for more than 300 employees who stayed at their positions. The Group's administrative department organised an emergency logistics team to purchase emergency food and daily necessities and quickly distributed them to employees stationed in the factories, ensuring that their work and living needs were satisfied during the closure period.

Independent Auditor's Report

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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 109 to 178, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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 2022, the net carrying value of trade receivables amounted to RMB163,145,000, after netting off a loss allowance for impairment of RMB3,100,000, representing 4.1% 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 18 to the consolidated 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 analyses of the ageing of the receivables, testing on a sample basis, examining 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.
Accounting for acquisition	
On 14 February 2022, the Group acquired a 35% equity interest of Weijing Medical for a cash Consideration of RMB362,870,000. Management engaged external appraisers to evaluate the fair values of identifiable assets and liabilities and contingent consideration with respect to the acquisition of Weijing Medical. This matter is significant to our audit because consolidation of Weijing Medical in which the Group holds less than a majority of voting rights involves significant management's judgement, and the fair value determination in the accounting for business combination relied on significant management estimation in respect of fair value assessments. The Group's disclosures about the acquisition are included in notes 2.4, 3 and 29 to the consolidated financial statements, which specifically explain the accounting policies and management's accounting judgements and estimates for the business combination and give details about the acquisition.	We obtained and read the equity investment agreement and Wejing Medical's articles of association and examined the payment of considerations. We also discussed with the management to understand their judgement of consolidation of Weijing Medical. We assessed the objectivity, independence and competence of the external appraisers engaged by the Group to perform the valuation. We involved our internal valuation specialist to assist us in evaluating the valuation methodologies adopted and the assumptions used in the valuation of identifiable assets and liabilities and contingent consideration with respect to the acquisition of Weijing Medical, ie, intangible asset not ready for use, in particular, the discount rate. We also focused on the forecasts regarding to future revenues and operating results by comparing the forecasts with business development plans and market data of similar products commercialised in the market. We also focused on the adequacy of the disclosures in the consolidated financial statements.

Independent Auditor's Report

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and intangible asset not ready for use	
The Group had goodwill of RMB167,209,000 and intangible asset not ready for use ("**IPR&D**") of RMB283,280,000, as disclosed in notes 15 and 16, respectively, to the consolidated financial statements as at 31 December 2022. Goodwill and IPR&D are subject to impairment assessment annually, or when there are indicators that it might be impaired. The Group's Goodwill and IPR&D acquired through a business combination are allocated to the underlying cash generating unit (the "**CGU**") to which the goodwill and IPR&D belong for impairment testing. The recoverable amount of the CGU to which the goodwill and IPR&D belong is supported by value-in-use calculation which is based on future discounted cash flows. Management performed impairment assessment and concluded that the goodwill and IPR&D were not impaired as at 31 December 2022. The impairment assessment made by management involved significant estimates and judgements, including sales growth rates, gross profit margin, and terminal growth rates used to estimate future cash flows and discount rates applied to these forecasted future cash flows of the underlying CGU. This impairment assessment was significant to our audit because the process was complex and involved significant judgements and estimates. The Group's disclosures about the impairment test of goodwill and IPR&D are included in notes 2.4, 3, 15 and 16 to the consolidated financial statements.	We evaluated management's assessment of impairment indications and management's determination of the CGUs to which the goodwill and IPR&D belong to. We obtained management's forecasted cash flows and tested the mathematical accuracy of the underlying value-in-use calculations. We assessed the key assumptions used in the value-in-use calculations, comprising sales growth rates, gross profit margin, terminal growth rate and discount rates. When assessing these key assumptions, we discussed with management to understand and evaluate management's basis for determining the assumptions and compared them to the Group's business development plans and market data of similar products commercialised in the market. We also involved our valuation specialist to assist us in evaluating the valuation model and the discount rate applied by management by comparing the discount rates used to entities with similar risk profiles and market information.

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.

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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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.

- 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
27 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	5	**786,367**	690,263
Cost of sales		**(151,120)**	(127,337)
Gross profit		**635,247**	562,926
Other income and gains	5	**146,672**	120,785
Selling and distribution expenses		**(53,372)**	(46,515)
Administrative expenses		**(71,269)**	(62,060)
Research and development costs		**(66,019)**	(36,001)
Reversal of impairment/(impairment) on financial assets, net		**1,054**	(614)
Other expenses		**(27,294)**	(3,828)
Finance costs	7	**(1,875)**	(196)
PROFIT BEFORE TAX	6	**563,144**	534,497
Income tax expense	10	**(101,970)**	(77,708)
PROFIT FOR THE YEAR		**461,174**	456,789
Attributable to:			
Owners of the parent		**478,735**	456,789
Non-controlling interests		**(17,561)**	–
		461,174	456,789
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**514**	(750)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**514**	(750)
Other comprehensive income/(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		**82,182**	(44,153)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		**82,182**	(44,153)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**82,696**	(44,903)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**543,870**	411,886
Attributable to:			
Owners of the parent		**561,431**	411,886
Non-controlling interests		**(17,561)**	–
		543,870	411,886
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	12	**RMB39.63 cents**	RMB37.31 cents
Diluted	12	**RMB39.63 cents**	RMB37.08 cents

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	169,020	87,585
Prepayment for property, plant and equipment		1,087	443
Right-of-use assets	14(a)	99,571	19,796
Financial assets at fair value through profit or loss	20	136,437	111,233
Goodwill	15	167,209	–
Intangible assets	16	284,712	119
Deferred tax assets	25	3,115	2,778
Total non-current assets		861,151	221,954
CURRENT ASSETS			
Inventories	17	105,399	68,376
Trade receivables	18	163,145	81,119
Prepayments, other receivables and other assets	19	25,700	4,422
Financial assets at fair value through profit or loss	20	11,156	60,814
Cash and cash equivalents	21	2,818,360	2,953,659
Total current assets		3,123,760	3,168,390
CURRENT LIABILITIES			
Trade payables	22	20,752	18,261
Other payables and accruals	23	82,942	74,095
Lease liabilities	14(b)	6,696	1,695
Deferred income	24	636	636
Tax payable		42,643	21,885
Total current liabilities		153,669	116,572
NET CURRENT ASSETS		2,970,091	3,051,818
TOTAL ASSETS LESS CURRENT LIABILITIES		3,831,242	3,273,772

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,831,242	3,273,772
NON-CURRENT LIABILITIES			
Lease liabilities	14(b)	42,323	2,351
Deferred income	24	636	1,272
Deferred tax liabilities	25	69,475	9,748
Total non-current liabilities		112,434	13,371
Net assets		3,718,808	3,260,401
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	86	88
Reserves	28	3,372,912	3,260,313
		3,372,998	3,260,401
Non-controlling interests	33	345,810	–
Total equity		3,718,808	3,260,401

Mr. Zhong Ming
Director

Ms. Frances Fang CHOVANEC
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	Share capital RMB'000 (note 26)	Share premium account* RMB'000	Share held for share award arrangement* RMB'000	Treasury shares* RMB'000	Capital reserve* RMB'000 (note 28)	Share option and award reserve* RMB'000 (note 28)	Statutory surplus reserve* RMB'000 (note 28)	Exchange fluctuation reserve* RMB'000 (note 28)	Retained profits* RMB'000	Total equity 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	411,866
Shares repurchased (note 26(a))	–	–	–	(51,074)	–	–	–	–	–	(51,074)
Shares cancelled (note 26(a))	–	(46,786)	–	46,786	–	–	–	–	–	–
Dividend declared	–	–	–	–	–	–	–	–	(45,307)	(45,307)
Share-based payments (note 27)	–	–	–	–	–	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

	Attributable to owners of the parent											
	Share capital RMB'000 (note 26)	Share premium account* RMB'000	Share held for share award arrangement* RMB'000	Treasury shares* RMB'000	Capital reserve* RMB'000 (note 28)	Share option and award reserve* RMB'000 (note 28)	Statutory surplus reserve* RMB'000 (note 28)	Exchange fluctuation reserve* RMB'000 (note 28)	Retained profits* RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total Equity RMB'000
At 1 January 2022	88	2,762,034	(2)	(4,288)	33,301	26,286	77,454	(241,819)	607,347	3,260,401	–	3,260,401
Profit for the year	–	–	–	–	–	–	–	–	478,735	478,735	(17,561)	461,174
Other comprehensive income for the year:												
Exchange differences related to foreign operations	–	–	–	–	–	–	–	82,696	–	82,696	–	82,696
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	–	82,696	478,735	561,431	(17,561)	543,870
Acquisition of a subsidiary (note 29)	–	–	–	–	–	–	–	–	–	–	363,371	363,371
Purchase of shares for share award arrangement (note 26(b))	–	(110,153)	(1)	–	–	–	–	–	–	(110,154)	–	(110,154)
Shares repurchased (note 26(c))	–	–	–	(171,610)	–	–	–	–	–	(171,610)	–	(171,610)
Shares cancelled (note 26(c))	(2)	(170,401)	–	170,403	–	–	–	–	–	–	–	–
Dividend declared (note 11)	–	–	–	–	–	–	–	–	(178,036)	(178,036)	–	(178,036)
Share-based payments (note 27)	–	–	–	–	–	10,966	–	–	–	10,966	–	10,966
Transfer to statutory surplus reserve	–	–	–	–	–	–	50,860	–	(50,860)	–	–	–
At 31 December 2022	86	2,481,480	(3)	(5,495)	33,301	37,252	128,314	(159,123)	857,186	3,372,998	345,810	3,718,808

* These reserve accounts comprise the consolidated reserves of RMB3,372,912,000 (2021: RMB3,260,313,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		563,144	534,497
Adjustments for:			
Finance costs	7	1,875	196
Bank interest income	5	(70,003)	(33,288)
Investment loss/(income) from financial assets at fair value through profit or loss	6	23,469	(18,297)
Fair value gains on financial assets at fair value through profit or loss	5	(22,705)	(31,604)
(Gains)/losses on disposal of items of property, plant and equipment	6	(191)	122
Depreciation of property, plant and equipment	13	14,514	9,515
Depreciation of right-of-use assets	14(a)	6,896	2,267
Amortisation of intangible assets	16	221	78
(Reversal of impairment)/impairment of trade receivables, net	18	(1,054)	614
Recognition of deferred income	24	(636)	(636)
Share-based payment expense	27	10,966	8,285
		526,496	471,749
Increase in inventories		(36,846)	(16,934)
(Increase)/decrease in trade receivables		(80,972)	5,674
(Increase)/decrease in prepayments, other receivables and other assets		(16,815)	5,221
Increase in trade payables		1,274	6,854
(Decrease)/increase in other payables and accruals		(11,500)	22,400
Cash generated from operations		381,637	494,964
Interest received		25,518	762
Income tax paid		(87,842)	(59,977)
Net cash flows from operating activities		319,313	435,749
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(75,697)	(30,865)
Proceeds from disposal of items of property, plant and equipment		357	–
Purchases of items of intangible assets		(1,534)	(164)
Purchases of financial assets at fair value through profit or loss		(1,429,068)	(5,097,980)
Proceeds from sales of financial assets at fair value through profit or loss		1,455,257	5,593,446
Purchases of an equity investment at fair value through profit or loss		(2,500)	(80,000)
Decrease in pledged deposits		–	1,061
Prepayment of leasehold lands		(37,890)	–
Interest received		21,583	28,702
Increase in time deposits with original maturity of over three months		(280,668)	(574,293)
Acquisition of a subsidiary	29	(19,823)	–
Net cash flows used in investing activities		(369,983)	(160,093)

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of shares for share award arrangement	26(b)	(110,154)	–
Shares repurchased	26(c)	(171,610)	(51,074)
Repayment of other loans		(5,000)	–
Principal portion of lease payments		(4,206)	(1,493)
Interest paid		(1,875)	(196)
Dividend paid	11	(179,947)	(44,847)
Net cash flows used in financing activities		(472,792)	(97,610)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(523,462)	178,046
Cash and cash equivalents at beginning of year		2,177,833	2,034,337
Effect of foreign exchange rate changes, net		84,592	(34,550)
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,738,963	2,177,833
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	21	2,818,360	2,953,659
Time deposits with original maturity of over three months when acquired		(1,079,397)	(775,826)
Cash and cash equivalents as stated in the consolidated statement of cash flows		1,738,963	2,177,833

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 71 Fort Street, PO Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands.

The Company acts as an investment holding company of the Group and also engaged in provision of investment consultation services during the year. 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 Medical Instrument Co., Ltd.* ("**Hangzhou Kangji**")	People's Republic of China ("**PRC**")/ Mainland China 24 August 2004	RMB 500,000,000	–	100	Manufacturing distribution and research and development
Hangzhou Weijing Medical Robot Co., Ltd.* ("**Weijing Medical**")	PRC/Mainland China 28 December 2021	RMB 1,486,989	–	35	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 Medical (Hong Kong) Limited ("**Kangji Hong Kong**")	Hong Kong 21 December 2015	United States dollars ("**US$**") 151,423,135	100	–	Wholesale retail and distribution

* These entities are limited liability enterprises established under PRC law. The English names of these entities registered in the PRC represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

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.

CHANGE IN FUNCTIONAL CURRENCY

In prior years, the Company adopted US$ as its functional currency. As the Company changed its major business operation from investment holding to provision of investment consultation services during the year, which are conducted mainly in RMB, the directors of the Company considered that the primary economic environment and generation and use of cash flows of the Company became mainly influenced by RMB. Such circumstances changed gradually over time during the year of 2022. Consequently, effective from 1 July 2022, the Company has changed its functional currency from US$ to RMB.

The change in functional currency of the Company was applied prospectively from the date of change in accordance with HKAS 21 *The Effects of Changes in Foreign Exchange Rates*. On the date of change of functional currency, all assets, liabilities, issued capital and other components of equity were translated into RMB at the exchange rate on that date.

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 2022. 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).

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

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

(b) rights arising from other contractual arrangements; and

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

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

2.1 BASIS OF PREPARATION *(continued)*

BASIS OF CONSOLIDATION *(continued)*

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

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

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

2.2 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 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKFRS 3 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 (the "**Conceptual Framework**") 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 has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) 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 as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below: (continued)

(c) 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 Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *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 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. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

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 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 17	*Insurance Contracts*[1, 5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*[6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* (the "**2020 Amendments**")[2, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants* (the "**2022 Amendments**")[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

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

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

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, 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 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

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

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

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 HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. 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. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. Since the Group did not have outstanding loan arrangement at the end of the reporting period, the amendments did not have any impact on the Group's financial statements.

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

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 revisiting the accounting policy disclosures to ensure consistency with the amendments.

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 in HKAS 12 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 (provided that sufficient taxable profit is available) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL *(continued)*

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IMPAIRMENT OF NON-FINANCIAL ASSETS *(continued)*

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.

The intangible assets related to in-process development of endoscopic surgical instruments control system that are not ready for use and the Group is continuing research and development work, it is subject to an annual impairment test based on the recoverable amount of the cash generating unit to which the intangible asset is related to.

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
Leasehold Improvements	2-5 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IPR&D

The Group obtained IPR&D through acquisition for the purpose of continuing the research and development work and commercialisation of the products, which are classified as intangible assets not ready for use.

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 7 to 17 years.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 3 to 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

LEASES *(continued)*

Group as a lessee *(continued)*

(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 100 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.

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IMPAIRMENT OF FINANCIAL ASSETS *(continued)*

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 that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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:

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INCOME TAX *(continued)*

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

GOVERNMENT GRANTS

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

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

REVENUE RECOGNITION

Revenue from contracts with customers

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

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

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

Sale of products

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

Other income

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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).

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 27 to the consolidated 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 consolidated 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

These financial statements are presented in RMB, which is the Company's functional currency after the change mentioned in note 2.1 to the consolidated financial statements. Each entity in the Group determines its own functional currency and items included in the consolidated 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 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 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

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Consolidation of Weijing Medical

At 31 December 2022, the Group owned a 35% equity interest in Weijing Medical. According to the equity investment agreement and Wejing Medical's articles of association, the Group has power over Weijing Medical upon acquisition when it has existing rights that give it the current ability to direct the relevant activities, ie the activities that significantly affect Weijing Medical's returns, through its existing rights over Weijing Medical' board meetings as well as shareholders' meetings. Therefore, the directors of the Company believe the Group has control over Weijing Medical upon acquisition and consolidated its financial statements from the date the Group obtained control.

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 18 to the consolidated financial statements.

Valuation of the identifiable assets and liabilities through a business combination and the recognition of corresponding goodwill

The Group completed a business combination of Weijing Medical during the year. The purchase prices are allocated between the fair values of the identifiable assets acquired and the liabilities assumed which result in the recognition of goodwill. Management, assisted by the external appraisers, evaluated the fair values of identifiable assets acquired and liabilities assumed and completed the purchase price allocation. The fair value determination in the accounting for business combinations relied on significant management estimation in respect of fair value assessments.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

ESTIMATION UNCERTAINTY *(continued)*

Impairment testing of intangible assets not ready for use

Intangible assets not ready for use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The Group obtained IPR&D through acquisition for the purpose of continuing the research and development work and commercialisation of the products, which are classified as intangible assets not ready for use.

An impairment loss is recognised for the amount by which the intangible asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an intangible asset's fair value less costs of disposal and value in use. The carrying amount of IPR&D is disclosed in note 16 to the consolidated financial statements. Further details about the impairment assessment are included in note 15 to the consolidated financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires estimations of the recoverable amount of the cash-generating unit to which the goodwill is allocated, which is the higher of the cash-generating unit's value in use and its fair value less costs of disposal using cash flow projections based on a financial budget. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2022 was RMB167,209,000 (2021: Nil). Further details are given in note 15 to the consolidated 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

	2022 RMB'000	2021 RMB'000
Mainland China	715,097	641,753
Other	71,270	48,510
Total	786,367	690,263

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

4. OPERATING SEGMENT INFORMATION *(continued)*

GEOGRAPHIC INFORMATION *(continued)*

(b) Non-current assets

	2022 RMB'000	2021 RMB'000
Mainland China	720,939	107,558
Other	660	385
Total	721,599	107,943

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:

	2022 RMB'000	2021 RMB'000
Customer A	93,084	125,400
Customer B	N/A*	76,534

* Less than 10% of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	786,367	690,263

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

REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Disaggregated revenue information

	2022 RMB'000	2021 RMB'000
Type of goods		
Sale of medical instruments	**786,367**	690,263
Geographical markets		
Mainland China	**715,097**	641,753
Other	**71,270**	48,510
	786,367	690,263
Timing of revenue recognition		
Goods transferred at a point in time	**786,367**	690,263

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:

	2022 RMB'000	2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of medical instruments	**2,758**	767

(b) Performance obligation

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

Sale of medical instruments

The performance obligation, which is part of a contract that has an original expected duration of one year or less, 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 GAINS *(continued)*

An analysis of other income and gains is as follows:

	2022 RMB'000	2021 RMB'000
Other income		
Government grants*	52,945	34,345
Bank interest income	70,003	33,288
Investment income from financial assets at fair value through profit or loss	–	18,297
Foreign exchange gains, net	–	3,115
Others	828	136
	123,776	89,181
Gains		
Fair value gains on financial assets at fair value through profit or loss	22,705	31,604
Gains on disposal of items of property, plant and equipment	191	–
	22,896	31,604
	146,672	120,785

* 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	2022 RMB'000	2021 RMB'000
Cost of inventories sold		149,468	127,337
Depreciation of property, plant and equipment*	13	14,514	9,515
Depreciation of right-of-use assets	14(a)	6,896	2,267
Amortisation of intangible assets**	16	221	78
(Reversal of impairment)/impairment of trade receivables, net	18	(1,054)	614
Write-down of inventories to net realisable value****		1,652	–
Lease payments not included in the measurement of lease liabilities	14(c)	421	471
Auditor's remuneration		2,750	2,600
Research and development costs		66,019	36,001
Government grants		(52,945)	(34,345)
Bank interest income		(70,003)	(33,288)
Investment loss/(income) from financial assets at fair value through profit or loss		23,469	(18,297)
Foreign exchange differences, net		3,197	(3,115)
(Gains)/losses on disposal of items of property, plant and equipment		(191)	122
Fair value gains on financial assets at fair value through profit or loss		(22,705)	(31,604)
Employee benefit expense* (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		90,983	66,930
Pension scheme contributions***		8,714	4,767
Staff welfare expenses		11,527	8,634
Share-based payment expense		8,845	5,219
		120,069	85,550

* The depreciation of property, plant and equipment and employee benefit expense are included in "Cost of sales", "Selling and distribution expenses", "Administrative expenses" and "Research and development costs" on the face of the consolidated statement of profit or loss and other comprehensive income and in "Inventories" on the face of the consolidated statement of financial position.

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

*** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

**** 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:

	2022 RMB'000	2021 RMB'000
Interest on other loans	263	–
Interest on lease liabilities (note 14(b))	1,612	196
	1,875	196

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:

	2022 RMB'000	2021 RMB'000
Fees	306	306
Other emoluments:		
Salaries, allowances and benefits in kind	5,048	4,201
Pension scheme contributions	259	183
Share-based payment expense	2,121	3,066
	7,428	7,450
	7,734	7,756

Mr. ZHONG Ming served as the chairman of the board and the chief executive officer of the Company. Mr. YIN Zixin was appointed as an executive director of the Company on 28 April 2022. Mr. CHEN Gang ceased to be a non-executive director of the Company on 28 April 2022.

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	2022 RMB'000	2021 RMB'000
Mr. JIANG Feng	102	102
Mr. GUO Jian	102	102
Mr. CHEN Weibo	102	102
	306	306

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

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

There were no other emoluments payable to the independent non-executive directors during the year (2021: 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
2022					
Executive directors:					
Mr. ZHONG Ming	–	1,081	46	–	1,127
Ms. SHENTU Yinguang	–	880	46	–	926
Ms. Frances Fang CHOVANEC	–	2,363	134	1,314	3,811
Mr. YIN Zixin	–	724	33	807	1,564
	–	5,048	259	2,121	7,428
Non-executive directors:					
Ms. CAI Li	–	–	–	–	–
Mr. CHEN Gang	–	–	–	–	–
	–	5,048	259	2,121	7,428
2021					
Executive directors:					
Mr. ZHONG Ming	–	990	37	–	1,027
Ms. SHENTU Yinguang	–	782	32	–	814
Ms. Frances Fang 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

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

On 6 May 2020, one director was granted underlying shares under the Pre-IPO Share Option Plan and one director was granted restricted share units under the restricted share unit plan, in respect of their services rendered to the Group, further details of which are set out in note 27 to the consolidated financial statements. The fair values of such shares determined as at the date of grant or modification, which were recognised to profit or loss over the vesting period, were included in the above directors' and chief executive's remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2021: two), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2021: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	3,413	3,004
Pension scheme contributions	96	81
Share-based payment expense	4,957	2,744
	8,466	5,829

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	
	2022	2021
HK$1,000,0001 to HK$1,500,000	–	2
HK$2,000,0001 to HK$2,500,000	2	–
HK$4,500,0001 to HK$5,000,000	–	1
HK$5,000,0001 to HK$5,500,000	1	–
	3	3

During the year, RSUs were granted to three non-director and non-chief executive highest paid employees (2021: three) in respect of their services to the Group, further details of which are included in note 27 to the consolidated 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 consolidated 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

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% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. The first HK$2,000,000 (2021: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%). No provision for Hong Kong profits tax has been made for the year ended 31 December 2022 as the Group did not generate any assessable profits arising in Hong Kong during the year (2021: Nil).

10. INCOME TAX *(continued)*

Pursuant to the rules and regulations of Singapore, Singapore profits tax has been provided at the rate of 17% (2021: 17%) on the estimated assessable profits arising in Singapore during the year. No provision for Singapore profits tax has been made for the year ended 31 December 2022 as the Group did not generate any assessable profits arising in Singapore during the year (2021: Nil).

The provision for current income tax in Mainland China 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% (2021: 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% (2021: 5%) during the year.

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

	2022 RMB'000	2021 RMB'000
Current – Mainland China		
Charge for the year	**98,852**	68,808
Deferred tax (note 25)	**3,118**	8,900
Total tax charge for the year	**101,970**	77,708

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:

	2022 RMB'000	2021 RMB'000
Profit before tax	**563,144**	534,497
Tax at the statutory tax rate of 25% in Mainland China	**140,787**	133,625
Preferential tax rates enacted by local authority	**(54,806)**	(47,400)
Additional deductible allowance for research and development expenses	**(6,486)**	(4,050)
Additional deductible allowance for depreciation of property, plant and equipment	**(3,459)**	–
Tax losses not recognised	**4,445**	112
Non-deductible expenses for tax purposes	**1,199**	1,313
Effect of withholding tax at 5% and 10% on the distributable profits of the Group's PRC subsidiaries (note 25)	**21,332**	9,690
Effect of tax rate differences in other jurisdictions	**(1,042)**	(15,600)
Effect of tax rate changes on deferred taxes	**–**	18
Tax charge at the Group's effective tax rate	**101,970**	77,708

11. DIVIDENDS

On 25 May 2022, the final dividend of HK17.23 cents per share, amounting to a total of approximately HK$214,544,000 (equivalent to approximately RMB178,036,000) was approved by the Company's shareholders at the annual general meeting and was fully paid on 8 July 2022.

	2022 RMB'000	2021 RMB'000
Proposed final – RMB18.45 cents (2021: HK17.23 cents) per ordinary share	224,498	178,036

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 RMB478,735,000 (2021: RMB456,789,000), and the weighted average number of ordinary shares of 1,207,994,251 (2021: 1,224,312,412) in issue during the year, as adjusted to reflect the shares purchased for share award arrangement and shares repurchased in 2022.

The calculation of diluted earnings per share for the year ended 31 December 2022 does not assume the exercise of all dilutive potential ordinary shares arising from share options and RSUs granted by the Company because the exercise price of these share options and RSUs was higher than the average market price for shares for the year.

The calculation of the diluted earnings per share amount is based on the profit for the year ended 31 December 2021 attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration 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:

	2022 RMB'000	2021 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	478,735	456,789

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,207,994,251	1,224,312,412
Effect of dilution – weighted average number of ordinary shares arising from share options and RSUs	–	7,708,633
	1,207,994,251	1,232,021,045

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold Improvements 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 2022							
At 1 January 2022:							
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
At 1 January 2022, net of accumulated depreciation	43,532	–	25,303	6,052	4,928	7,770	87,585
Additions	63	6,426	24,180	6,113	5,024	53,277	95,083
Acquisition of a subsidiary	–	635	84	294	–	–	1,013
Transfers	–	–	7,352	1,194	–	(8,546)	–
Disposal	–	–	(47)	–	(119)	–	(166)
Exchange realignment	–	–	–	19	–	–	19
Depreciation provided during the year (note 6)	(4,055)	(738)	(4,560)	(3,048)	(2,113)	–	(14,514)
At 31 December 2022, net of accumulated depreciation	39,540	6,323	52,312	10,624	7,720	52,501	169,020
At 31 December 2022:							
Cost	58,848	7,453	74,168	20,751	15,500	52,501	229,221
Accumulated depreciation	(19,308)	(1,130)	(21,856)	(10,127)	(7,780)	–	(60,201)
Net carrying amount	39,540	6,323	52,312	10,624	7,720	52,501	169,020
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

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 4 and 100 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 lands RMB'000	Office premises RMB'000	Total RMB'000
As at 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 and 1 January 2022	16,240	3,556	19,796
Additions	37,890	47,070	84,960
Acquisition of a subsidiary	–	1,707	1,707
Depreciation charge (note 6)	(782)	(6,114)	(6,896)
Exchange realignment	–	4	4
As at 31 December 2022	**53,348**	**46,223**	**99,571**

(b) Lease liabilities

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

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	**4,046**	5,050
New leases	**47,070**	499
Additions as a result of acquisition of a subsidiary	**2,100**	–
Accretion of interest recognised during the year (note 7)	**1,612**	196
Exchange realignment	**9**	(10)
Payments	**(5,818)**	(1,689)
Carrying amount at 31 December	**49,019**	4,046
Analysed into:		
Current portion	**6,696**	1,695
Non-current portion	**42,323**	2,351

14. LEASES *(continued)*

THE GROUP AS A LESSEE *(continued)*

(b) Lease liabilities *(continued)*

Non-current portion of lease liabilities is further analysed as follows:

	2022 RMB'000	2021 RMB'000
Repayable within:		
1 to 2 years	6,217	1,804
2 to 5 years	36,106	547
	42,323	2,351

The maturity analysis of lease liabilities is disclosed in note 36 to the consolidated financial statements.

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

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	1,612	196
Depreciation charge of right-of-use assets	6,896	2,267
Expense relating to short-term leases (included in administrative expenses and selling and distribution expenses) (note 6)	421	471
Total amount recognised in profit or loss	8,929	2,934

(d) The total cash outflow for leases is disclosed in note 30(c) to the consolidated financial statements.

15. GOODWILL

	RMB'000
Cost as at 1 January 2022 and 31 December 2021	–
Acquisition of a subsidiary (note 29)	167,209
Net carrying amount as at 31 December 2022	167,209

15. GOODWILL *(continued)*

IMPAIRMENT TESTING OF GOODWILL AND IPR&D

Goodwill and IPR&D acquired through the business combination is allocated to Weijing Medical cash-generating unit ("Weijing Medical unit") for impairment testing, which is primarily engaged in the research and development and production of the endoscopic surgical instruments control system. Further details are included in note 29 to the consolidated financial statements.

The recoverable amount of the cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on a financial budget/forecast covering a 10-year period approved by senior management. Management considers that using a 10-year forecast period for a financial budget/forecast in the goodwill impairment test is appropriate because the useful life of Weijing Medical's relevant intellectual property is longer than ten years, and it generally takes longer for a medical device company to reach a perpetual growth mode, compared to companies in other industries, especially when its product is still under clinical trial and the commercialisation of such product has not been commenced while the market of such products has substantial growth potential. Hence, a financial budget/forecast covering a 10-year period was used as management believes that a forecasted period longer than five years is feasible and reflects a more accurate entity value.

Key assumptions used in the calculation are as follows:

	2022
Revenue (% compound growth rate)	64.8%
Gross margin rate	21.4%-71.9%
Terminal growth rate	2.3%
Pre-tax discount rate	17.8%

Assumptions were used in the value in use calculation of the cash-generating unit as at 31 December 2022. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and IPR&D:

Revenue – The basis used to determine the budgeted revenue is based on management's expectation of when to launch Weijing Medical's product and also expectation of the future market. Weijing Medical's product candidate is at clinical trial stage and expected to commence commercialisation in 2025. The compound growth rate of revenue was estimated based on information available at the time of assessment, disregarding information that became available after the assessment. Such information includes current industry overview and estimated market development of related products.

Gross margin – The basis used to determine the value assigned to the budgeted gross margin is the average gross margin expected to achieve in the year when to launch Weijing Medical's Product, increased for expected efficiency improvements and expected market development.

Terminal growth rate – The forecasted terminal growth rate is based on management expectations and does not exceed the long-term average growth rate for the industry relevant to the cash-generating unit.

Pre-tax discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development of related products and the pre-tax discount rate are consistent with external information sources.

With regards to the assessment of the value in use of the Weijing Medical unit, the directors of the Company believe that reasonable possible changes in above key assumptions would not lead to the carrying value, including goodwill and IPR&D, of the Weijing Medical unit to exceed the recoverable amount as at 31 December 2022.

16. INTANGIBLE ASSETS

	Software RMB'000	Patent RMB'000	IPR&D RMB'000	Total RMB'000
31 December 2022				
Cost at 1 January 2022, net of accumulated amortisation	119	–	–	119
Additions	–	1,534	–	1,534
Acquisition of a subsidiary	–	–	283,280	283,280
Amortisation provided during the year (note 6)	(55)	(166)	–	(221)
At 31 December 2022	64	1,368	283,280	284,712
At 31 December 2022:				
Cost	867	1,534	283,280	285,681
Accumulated amortisation	(803)	(166)	–	(969)
Net carrying amount	64	1,368	283,280	284,712
31 December 2021				
Cost at 1 January 2021, net of accumulated amortisation	33	–	–	33
Additions	164	–	–	164
Amortisation provided during the year (note 6)	(78)	–	–	(78)
At 31 December 2021	119	–	–	119
At 31 December 2021:				
Cost	867	–	–	867
Accumulated amortisation	(748)	–	–	(748)
Net carrying amount	119	–	–	119

The IPR&D which is not ready for use has not been amortised yet, because the Group is still continuing the research and development work. As at 31 December 2022, IPR&D was tested for impairment (note 15).

Notes to Financial Statements

17. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	63,320	40,442
Work in progress	10,081	6,736
Finished goods	31,998	21,198
	105,399	68,376

18. TRADE RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	166,245	85,273
Impairment	(3,100)	(4,154)
	163,145	81,119

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:

	2022 RMB'000	2021 RMB'000
Within 3 months	135,002	66,649
3 to 6 months	20,410	9,480
6 to 12 months	6,132	3,371
1 to 2 years	1,552	1,445
Over 2 years	49	174
	163,145	81,119

18. TRADE RECEIVABLES *(continued)*

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

	2022 RMB'000	2021 RMB'000
At beginning of year	4,154	3,540
Impairment losses, net (note 6)	(1,054)	614
At end of year	3,100	4,154

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing 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 based on the invoice date:

As at 31 December 2022

	Gross carrying amount RMB'000	Expected credit loss rate %	Expected credit loss RMB'000
Less than 1 year	163,056	0.93	1,512
1 to 2 years	2,386	34.95	834
2 to 3 years	408	87.99	359
Over 3 years	395	100.00	395
	166,245		3,100

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

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 RMB'000	2021 RMB'000
Prepayments	**10,910**	2,047
Other receivables	**11,369**	1,556
Prepaid expenses	**3,421**	819
	25,700	4,422

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 2022 and 2021, the loss allowance was assessed to be minimal.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 RMB'000	2021 RMB'000
Current		
Unlisted investments, at fair value	**11,156**	60,814

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

	2022 RMB'000	2021 RMB'000
Non-current		
Unlisted equity investments, at fair value		
Shenzhen Edge Medical Co., Ltd. (formerly known as Shenzhen Jingfeng Medical Technology Co., Ltd.)	**133,937**	111,233
Wuxi Qingsong Medical and Health Industry Investment Partnership (Limited Partnership)	**2,500**	–
	136,437	111,233

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

21. CASH AND CASH EQUIVALENTS

	2022 RMB'000	2021 RMB'000
Cash and bank balances	**887,621**	1,496,645
Time deposits	**1,930,739**	1,457,014
Cash and cash equivalents	**2,818,360**	2,953,659
Denominated in RMB	**2,198,489**	1,585,513
Denominated in US$	**606,656**	1,355,375
Denominated in HK$	**13,117**	12,617
Denominated in EUR	**61**	–
Denominated in SGD	**37**	154
Cash and cash equivalents	**2,818,360**	2,953,659

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and 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 are deposited with creditworthy banks with no recent history of default.

22. 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:

	2022 RMB'000	2021 RMB'000
Within 3 months	**19,151**	18,148
3 to 6 months	**611**	95
6 to 12 months	**708**	8
Over 12 months	**282**	10
	20,752	18,261

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

23. OTHER PAYABLES AND ACCRUALS

	Notes	2022 RMB'000	2021 RMB'000
Contract liabilities	(a)	846	2,902
Payroll payables		23,593	20,186
Other payables	(b)	40,361	30,175
Taxes other than income tax		13,400	14,629
Accrued expenses		4,742	6,203
		82,942	74,095

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000	1 January 2021 RMB'000
Short-term advances received from customers			
Sale of goods	846	2,902	828

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

24. DEFERRED INCOME

	2022 RMB'000	2021 RMB'000
Government grants	1,272	1,908

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

	2022 RMB'000	2021 RMB'000
At the beginning of the year	1,908	2,544
Recognised as income during the year	(636)	(636)
At the end of the year	1,272	1,908
Current	636	636
Non-current	636	1,272
	1,272	1,908

The grant is related to the subsidy received from the government for the purpose of rewarding the Group for its capital expenditure incurred on certain projects.

25. DEFERRED TAX

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

DEFERRED TAX LIABILITIES

2022

	Depreciation allowance in excess of related depreciation RMB'000	Withholding taxes RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Total RMB'000
At 1 January 2022	–	9,748	–	9,748
Acquisition of a subsidiary	–	–	66,020	66,020
Deferred tax charged to profit or loss during the year (note 10)	3,455	–	–	3,455
Settlement during the year	–	(9,748)	–	(9,748)
At 31 December 2022	3,455	–	66,020	69,475

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 (credited)/charged 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

25. DEFERRED TAX *(continued)*

DEFERRED TAX ASSETS

2022

	Share-based payment expense RMB'000	Lease arrangements 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 2022	571	82	471	260	1,107	287	2,778
Deferred tax credited/(charged) to profit or loss during the year (note 10)	826	(33)	(188)	240	(412)	(96)	337
At 31 December 2022	1,397	49	283	500	695	191	3,115

2021

	Share-based payment expense RMB'000	Lease arrangements 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

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

	2022 RMB'000	2021 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	3,115	2,778
Net deferred tax liabilities recognised in the consolidated statement of financial position	69,475	9,748

The Group has tax losses arising in Mainland China of RMB38,164,000 (2021: RMB2,052,000) that will expire in one to five years for offsetting against taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

25. DEFERRED TAX *(continued)*

DEFERRED TAX ASSETS *(continued)*

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. No deferred taxes (2021: RMB9,690,000) have been recognised for withholding taxes that would be payable on the unremitted earnings for the year ended 31 December 2022.

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 RMB438,416,000 (2021: RMB389,925,000). 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.

26. SHARE CAPITAL

	2022	2021
Authorised:		
5,000,000,000 (2021: 5,000,000,000) ordinary shares of US$0.00001 each		
US$	**50,000**	50,000
Issued and fully paid:		
1,219,313,000 (2021: 1,245,876,500) ordinary shares of US$0.00001 each		
US$	**12,193**	12,459
RMB	**85,688**	87,555

Notes to Financial Statements

26. SHARE CAPITAL *(continued)*

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 1 January 2021		1,252,207,500	88	2,808,820	(2)	–
Shares repurchased	(a)	–	–	–	–	(51,074)
Shares cancelled	(a)	(6,331,000)	–	(46,786)	–	46,786
At 31 December 2021 and 1 January 2022		1,245,876,500	88	2,762,034	(2)	(4,288)
Shares purchased for share award arrangement	(b)	–	–	(110,153)	(1)	–
Shares repurchased	(c)	–	–	–	–	(171,610)
Shares cancelled	(c)	(26,563,500)	(2)	(170,401)	–	170,403
At 31 December 2022		1,219,313,000	86	2,481,480	(3)	(5,495)

(a) 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.

(b) Fortune Spring KangJi 1 Limited ("**ESOP BVI**"), which is an incentive platform in British Virgin Islands ("**BVI**") and controlled by the Company, purchased 20,000,000 of the Company's shares on the Stock Exchange for a total cash consideration of HK$125,462,000 (equivalent to approximately RMB110,154,000) for the purpose of incentivising the employees of the Group in the future.

(c) The Company purchased 26,604,000 of its shares on the Stock Exchange for a total cash consideration of HK$188,791,000 (equivalent to approximately RMB171,610,000), of which 25,863,500 shares were cancelled during the year ended 31 December 2022 (equivalent to approximately RMB166,115,000). The remaining of 740,500 shares were cancelled on 10 February 2023.

27. 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.

The maximum number of underlying shares of the RSU Plan is the number of ordinary shares held by the ESOP BVI. 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, which have been reserved by ESOP BVI. On 25 May 2022, the shareholders of the Company approved the increase of limit on the number of shares to be granted under the RSU Plan from 26,810,000 shares to 46,810,000 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.

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/or subject to the approval of the Administrator. 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. Exercisable options within the same grant may be exercised in whole or in part. However, it 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 options 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, 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.

27. SHARE-BASED PAYMENTS *(continued)*

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, 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.

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

	Options		RSUs	
	Number	**Weighted average exercise price RMB per share**	**Number**	**Weighted average exercise price RMB per share**
At 31 December 2021 and 31 December 2022	4,120,000	6.79	26,810,000	6.99

The Group recognised a corresponding share-based payment expense of RMB1,313,000 (2021: RMB3,066,000) and RMB3,590,000 (2021: RMB3,806,000) during the year for the options granted on 6 May 2020 and the RSUs granted on 26 March 2021, respectively.

On 24 January 2021, the Administrator determined to extend the share purchase date of the RSUs granted on 6 May 2020 from 29 January 2021 to 29 January 2022. The incremental fair value resulting from the extension at the modification date was RMB1,413,000, which were recognised immediately to profit or loss during the year ended 31 December 2021.

On 12 January 2022, the Administrator determined to extend the share purchase date of the RSUs granted on 6 May 2020 from 29 January 2022 to 29 January 2023 and the share purchase date of all the RSUs granted on 26 March 2021 from “within three months after each vesting date” to “within nine months after each vesting date”. The incremental fair values resulting from the extension at the modification date were RMB4,146,000 and RMB869,000, respectively, which were recognised immediately to profit or loss during the year.

On 26 December 2022, the Administrator determined to extend the share purchase date of 1,124,000 shares of the RSUs granted on 26 March 2021 from “within nine months after each vesting date” to “within twenty-one months after each vesting date”. The incremental fair value resulting from the extension at the modification date was RMB1,048,000, which was recognised immediately to profit or loss during the year.

The fair values of the RSUs were estimated as at the date of grant or modification using a binomial option-pricing model, based on fair value of the underlying ordinary shares. The following table lists the key inputs to the models used:

	2022	2021
Expected volatility (%)	**25.60-39.48**	31.54-44.30
Risk-free interest rate (%)	**0.08-4.77**	0.04-0.79
Early exercise multiple	**2.2-2.8**	2.2-2.8

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The fair value measurement has incorporated the effect of expected dividend by adjusting the fair value of underlying ordinary shares.

28. 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.

29. BUSINESS COMBINATION

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

Weijing Medical is primarily engaged in the research and development and production of the endoscopic surgical instruments control system.

The acquisition was completed on 14 February 2022 when the Group obtained control of the operating and financial activities of Weijing Medical. Weijing Medical has become an indirect non-wholly-owned subsidiary of the Group.

Notes to Financial Statements

29. BUSINESS COMBINATION *(continued)*

The fair values of the identifiable assets and liabilities of Weijing Medical as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Cash and cash equivalents		3,047
Prepayments and other receivables		344,714
Inventories		177
Property, plant and equipment	13	1,013
Right-of-use assets	14	1,707
Intangible asset *	16	283,280
Interest-bearing borrowings		(5,000)
Trade payables		(1,217)
Other payables and accruals		(569)
Lease liabilities	14	(2,100)
Deferred tax liabilities	25	(66,020)
Total identifiable net assets at fair value		559,032
Non-controlling interests		(363,371)
Goodwill on acquisition		167,209
		362,870
Satisfied by:		
Cash consideration paid to the then shareholders as at 31 December 2022		22,870
Cash consideration paid to Weijing Medical as capital injection as at 31 December 2022		102,000
Contingent consideration payable to Weijing Medical as capital injection as at 31 December 2022		238,000
		362,870

* Included in the intangible asset is IPR&D.

29. BUSINESS COMBINATION *(continued)*

The fair values of the other receivables as at the date of acquisition amounted to RMB340,505,000, which mainly included capital injection receivables from Kangji Hong Kong with carrying amounts of RMB340,000,000. The gross contractual amount of other receivables was RMB340,505,000, of which the total amount is expected to be collectible.

The Group incurred transaction costs of RMB377,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The goodwill of RMB167,209,000 recognised above is due to the new markets entered into by the Group to achieve product and business diversification. The above factor is neither separable nor contractual and therefore it does not meet the criteria for recognition as intangible assets under HKAS 38 *Intangible Assets*. None of the goodwill recognised is expected to be deductible for income tax purposes.

As part of the equity investment agreement, contingent consideration related to the capital injection to Weijing Medical is payable, which is dependent on the occurrence of milestone events, mainly including the completion of 50 cases of clinical trial of Weijing Medical's product. The initial amount recognised was RMB238,000,000 which was determined using the discounted cash flow model and is within Level 3 fair value measurement. No fair value change to the amount as at 31 December 2022 and it is eliminated in the consolidated financial statements. The contingent consideration is expected to be paid within one year as at 31 December 2022. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration paid to the then shareholders	(22,870)
Cash and bank balances acquired	3,047
Net outflow of cash and cash equivalents included in cash flows from investing activities	(19,823)
Transaction costs of the acquisition included in cash flows from operating activities	(377)
	(20,200)

Since the acquisition, Weijing Medical contributed nil to the Group's revenue and a loss of RMB27,018,000 to the consolidated profit for the year ended 31 December 2022.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB786,367,000 and RMB457,756,000, respectively.

30. 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 RMB47,070,000 (2021: RMB499,000) and RMB47,070,000 (2021: RMB499,000), respectively, in respect of lease arrangements for office premises.

(B) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES:

2022

	Lease liabilities RMB'000
At 1 January 2022	4,046
Changes from financing cash flows	(5,818)
New leases	47,070
Additions as a result of acquisition of a subsidiary	2,100
Interest expense	1,612
Exchange realignment	9
At 31 December 2022	49,019

2021

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

(C) TOTAL CASH OUTFLOW FOR LEASES

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

	2022 RMB'000	2021 RMB'000
Within operating activities	421	471
Within financing activities	5,818	1,689
	6,239	2,160

31. COMMITMENTS

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

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
Buildings	68,489	768
Plant and machinery	–	130
	68,489	898

32. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	9,235	8,237
Pension scheme contributions	389	321
Share-based payment expense	7,300	6,162
Total compensation paid to key management personnel	16,924	14,720

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

33. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

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

	2022 RMB'000
Weijing Medical	
Percentage of equity interest held by non-controlling interests:	65%
Loss for the year allocated to non-controlling interests:	17,561
Accumulated balances of non-controlling interests at the reporting date:	345,810

Notes to Financial Statements

33. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS *(continued)*

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	31 December 2022 RMB'000
Current assets	307,572
Non-current assets	340,138
Current liabilities	(9,236)
Non-current liabilities	(106,459)

	From the date of acquisition to 31 December 2022 RMB'000
Other income	7,988
Total expenses	(33,404)
Loss for the period	(27,018)
Net cash flows used in operating activities	(34,737)
Net cash flows used in investing activities	(14,705)
Net cash flows from financing activities	93,184
Net increase in cash and cash equivalents	43,742

34. 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:

2022

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	–	2,818,360	2,818,360
Trade receivables	–	163,145	163,145
Financial assets included in prepayments, other receivables and other assets	–	11,369	11,369
Financial assets at fair value through profit or loss	147,593	–	147,593
	147,593	2,992,874	3,140,467

FINANCIAL LIABILITIES

	Financial liabilities at amortised cost RMB'000
Trade payables	20,752
Lease liabilities	49,019
Financial liabilities included in other payables and accruals	45,103
	114,874

34. 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)*

2021

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	–	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
Cash and cash equivalents	–	2,953,659	2,953,659
	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

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables 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 following methods and assumptions were used to estimate the fair values:

The Group invests in unlisted 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.

The fair values of non-current unlisted equity investments have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the senior management to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as price to book value ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by a book value measure.

35. 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 2022:

	Significant unobservable input	Rate	Sensitivity of fair value to the input
Unlisted equity investment	Discount for lack of marketability ("**DLOM**")	14% (2021: 11% to 29%)	5% (2021: 5%) decrease/increase in DLOM would result in increase/decrease in fair value by RMB1,044,000 (2021: 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 2022

	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	–	13,656	133,937	147,593

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

The movements in fair value measurements within Level 3 during the year are as follows:

	2022 RMB'000	2021 RMB'000
Equity investments at fair value through profit or loss		
At 1 January	111,233	–
Total gains recognised in profit or loss	22,704	31,233
Purchases	–	80,000
At 31 December	133,937	111,233

The Group did not have any financial liabilities measured at fair value as at 31 December 2022 and 2021.

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 (2021: Nil).

36. 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 2021 and 2022, 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 US$ against RMB.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, 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 2022			
If the RMB weakens against the US$	**5**	**30,142**	**477**
If the RMB strengthens against the US$	**(5)**	**(30,142)**	**(477)**
If the RMB weakens against the HK$	**5**	**655**	**116**
If the RMB strengthens against the HK$	**(5)**	**(655)**	**(116)**
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)

* Excluding retained profits

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.

36. 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 2022

	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*	–	–	–	166,245	166,245
Financial assets included in prepayments, other receivables and other assets					
– Normal**	11,369	–	–	–	11,369
Cash and cash equivalents					
– Not yet past due	2,818,360	–	–	–	2,818,360
	2,829,729	–	–	166,245	2,995,974

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

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

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

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18 to the consolidated 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 18 to the consolidated financial statements.

36. 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 2022				
	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	1,601	19,151	–	–	20,752
Lease liabilities	–	4,288	5,630	47,941	57,859
Financial liabilities included in other payables and accruals	45,103	–	–	–	45,103
	46,704	23,439	5,630	47,941	123,714

	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

Notes to Financial Statements

36. 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 2022 and 31 December 2021.

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 2022 RMB'000	As at 31 December 2021 RMB'000
Trade payables	20,752	18,261
Other payables and accruals	82,942	74,095
Lease liabilities	49,019	4,046
Debt	152,713	96,402
Total assets	3,984,911	3,390,344
Gearing ratio	3.8%	2.8%

37. 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:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**7,831,378**	7,560,602
Total non-current assets	**7,831,378**	7,560,602
CURRENT ASSETS		
Due from a subsidiary	**108,981**	2
Cash and cash equivalents	**1,674,679**	1,768,514
Total current assets	**1,783,660**	1,768,516
CURRENT LIABILITIES		
Due to subsidiaries	**1,136**	1,198
Other payables and accruals	**222**	252
Total current liabilities	**1,358**	1,450
NET CURRENT ASSETS	**1,782,302**	1,767,066
TOTAL ASSETS LESS CURRENT LIABILITIES	**9,613,680**	9,327,668
Net assets	**9,613,680**	9,327,668
EQUITY		
Share capital	**86**	88
Reserves (note)	**9,613,594**	9,327,580
Total equity	**9,613,680**	9,327,668

37. 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 1 January 2021	–	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
At 1 January 2022	(4,288)	2,762,034	6,787,000	26,286	(240,491)	(2,961)	9,327,580
Profit for the year	–	–	–	–	–	546,394	546,394
Other comprehensive income for the year:							
Exchange differences	–	–	–	–	82,182	–	82,182
Total comprehensive income for the year	–	–	–	–	82,182	546,394	628,576
Shares repurchased	(171,610)	–	–	–	–	–	(171,610)
Shares cancelled	170,403	(170,401)	–	–	–	–	2
Dividend declared	–	–	–	–	–	(181,920)	(181,920)
Share-based payments	–	–	–	10,966	–	–	10,966
At 31 December 2022	(5,495)	2,591,633	6,787,000	37,252	(158,309)	361,513	9,613,594

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2023.

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"	Corporate Governance Code applicable during the Reporting Period
"China," "PRC" or "mainland China"	People's Republic of China, excluding, for the purposes of this annual report and for geographical reference only and except where the context requires otherwise, Hong Kong, Macau and Taiwan
"Company", "Our Company"	Kangji Medical Holdings Limited (康基医疗控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on February 12, 2020, and, except where the context otherwise requires, all of its subsidiaries
"Controlling Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules and unless the context requires otherwise, refers to Mr. Zhong, Ms. Shentu, Fortune Spring ZM B Limited and Fortune Spring YG B Limited
"COVID"	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
"HKD" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IPO"	initial public offering
"Kangji Hong Kong"	Kangji Medical (Hong Kong) Limited, a wholly-owned subsidiary of the Company established under the laws of Hong Kong
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on June 29, 2020

Definition

"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"	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
"Renminbi" or "RMB"	the lawful currency of the PRC
"Reporting Period"	the year from January 1, 2022 to December 31, 2022
"RSU(s)"	restricted share units
"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