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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9997)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2023

The board (the "**Board**") of directors (the "**Directors**") of Kangji Medical Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") is pleased to announce the audited consolidated annual results of the Group for the year ended December 31, 2023 (the "**Reporting Period**"), together with the comparative figures for the year ended December 31, 2022, as follows.

FINANCIAL HIGHLIGHTS

	Year ended December 31,		
	2023	2022	Changes
	RMB'000	*RMB'000*	*%*
Revenue	**926,023**	786,367	17.8
Gross profit	**741,199**	635,247	16.7
Profit attributable to owners of the parent	**504,021**	478,735	5.3
Non-HKFRS adjusted net profit attributable to owners of the parent	**538,183**	498,711	7.9
Earnings per share			
– Basic *(RMB)*	**43.08 cents**	39.63 cents	8.7
– Diluted *(RMB)*	**42.99 cents**	39.63 cents	8.5
Non-HKFRS adjusted earnings per share			
– Basic *(RMB)*	**46.00 cents**	41.28 cents	11.4
– Diluted *(RMB)*	**45.90 cents**	41.28 cents	11.2

For the year ended December 31, 2023, the Company realized revenue of RMB926.0 million, representing an increase of 17.8% as compared to 2022. The increase in sales was mainly attributable to a moderate growth in sales for the domestic market along with the gradual recovery of elective surgery volume after the COVID-19 restrictions were relaxed. The Group's export sales also increased rapidly, which thanks to more distributors developed in new areas.

The Group's net profit attributable to owners of the parent for the Reporting Period increased by 5.3% from RMB478.7 million in 2022 to RMB504.0 million in 2023. The increase was mainly attributable to the Group's sales growth, and partly offset by the increase of expenses primarily due to research and development ("**R&D**") expenses contributed by the Group and its subsidiary Hangzhou Weijing Medical Robot Co., Ltd.* ("**Weijing Medical**") and the increase in income tax expenses for withholding tax on dividends.

The Board has resolved to recommend the payment of a final dividend of RMB41 cents per ordinary share of the Company (the "**Share**") for the year ended December 31, 2023 (the "**2023 Final Dividend**"), and a special dividend of RMB99 cents per Share (the "**2023 Special Dividend**") in celebration of the 20th anniversary of the Group's establishment and in recognition of the long-term support from the shareholders of the Company (the "**Shareholders**"). The proposed 2023 Final Dividend is intended to be paid out of the Group's distributable profits for the year ended December 31, 2023, and the proposed 2023 Special Dividend is intended to be paid partly out of the Group's accumulated distributable profits and partly out of the Company's share premium account.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	Notes	**2023** **RMB'000**	2022 RMB'000
REVENUE	5	**926,023**	786,367
Cost of sales		**(184,824)**	(151,120)
Gross profit		**741,199**	635,247
Other income and gains	5	**155,365**	146,672
Selling and distribution expenses		**(69,842)**	(53,372)
Administrative expenses		**(100,269)**	(71,269)
Research and development costs		**(127,554)**	(66,019)
(Impairment)/reversal of impairment on financial assets, net		**(1,064)**	1,054
Other expenses		**(6,807)**	(27,294)
Finance costs	7	**(2,257)**	(1,875)
PROFIT BEFORE TAX	6	**588,771**	563,144
Income tax expense	8	**(136,476)**	(101,970)
PROFIT FOR THE YEAR		**452,295**	461,174
Attributable to:			
Owners of the parent		**504,021**	478,735
Non-controlling interests		**(51,726)**	(17,561)
		452,295	461,174
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(2,951)**	514
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		**(2,951)**	514
Other comprehensive income 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

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

Year ended 31 December 2023

	Note	**2023** *RMB'000*	2022 *RMB'000*
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**–**	82,182
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(2,951)**	82,696
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**449,344**	543,870
Attributable to:			
Owners of the parent		**501,070**	561,431
Non-controlling interests		**(51,726)**	(17,561)
		449,344	543,870
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*10*	**RMB43.08 cents**	RMB39.63 cents
Diluted	*10*	**RMB42.99 cents**	RMB39.63 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	**2023**	2022
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**220,874**	169,020
Prepayment for property, plant and equipment		**412**	1,087
Right-of-use assets		**64,904**	99,571
Financial assets at fair value through profit or loss	*12*	**141,718**	136,437
Goodwill		**167,209**	167,209
Other intangible assets		**284,694**	284,712
Deferred tax assets		**3,318**	3,115
Total non-current assets		**883,129**	861,151
CURRENT ASSETS			
Inventories		**105,205**	105,399
Trade receivables	*11*	**225,534**	163,145
Prepayments, other receivables and other assets		**9,711**	25,700
Financial assets at fair value through profit or loss	*12*	**11,449**	11,156
Cash and cash equivalents	*13*	**2,676,588**	2,818,360
		3,028,487	3,123,760
Assets of a disposal group classified as held for sale		**352,202**	–
Total current assets		**3,380,689**	3,123,760
CURRENT LIABILITIES			
Trade payables	*14*	**34,146**	20,752
Other payables and accruals		**82,084**	82,942
Lease liabilities		**6,107**	6,696
Deferred income		**636**	636
Tax payable		**63,211**	42,643
		186,184	153,669
Liabilities directly associated with the assets classified as held for sale		**4,640**	–
Total current liabilities		**190,824**	153,669
NET CURRENT ASSETS		**3,189,865**	2,970,091
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,072,994**	3,831,242

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2023

	2023	2022
	RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,072,994**	3,831,242
NON-CURRENT LIABILITIES		
Lease liabilities	**37,883**	42,323
Deferred income	**–**	636
Deferred tax liabilities	**91,265**	69,475
Total non-current liabilities	**129,148**	112,434
Net assets	**3,943,846**	3,718,808
EQUITY		
Equity attributable to owners of the parent		
Share capital	**86**	86
Reserves	**3,649,676**	3,372,912
	3,649,762	3,372,998
Non-controlling interests	**294,084**	345,810
Total equity	**3,943,846**	3,718,808

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	2023	2022
	RMB'000	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**588,771**	563,144
Adjustments for:		
Finance costs	**2,257**	1,875
Bank interest income	**(91,832)**	(70,003)
Investment (income)/losses from financial assets at fair value through profit or loss	**(58)**	23,469
Fair value gains on financial assets at fair value through profit or loss	**(5,560)**	(22,705)
Gains on disposal of items of property, plant and equipment	**(48)**	(191)
Depreciation of property, plant and equipment	**21,918**	14,514
Depreciation of right-of-use assets	**10,777**	6,896
Amortisation of intangible assets	**259**	221
Impairment of trade receivables, net	**1,064**	(1,054)
Recognition of deferred income	**(636)**	(636)
Lease modification	**(304)**	–
Share-based payment expense	**8,623**	10,966
	535,231	526,496
Decrease/(increase) in inventories	**194**	(36,846)
Increase in trade receivables	**(74,224)**	(80,972)
Decrease/(increase) in prepayments, other receivables and other assets	**7,098**	(16,815)
Increase in trade payables	**13,394**	1,274
Increase/(decrease) in other payables and accruals	**7,767**	(11,500)
Cash generated from operations	**489,460**	381,637
Interest received	**22,647**	25,518
Income tax paid	**(92,492)**	(87,842)
Net cash flows from operating activities	**419,615**	319,313

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2023

	2023	2022
	RMB'000	*RMB'000*
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(86,821)**	(75,697)
Proceeds from disposal of items of property, plant and equipment	**650**	357
Purchases of items of intangible assets	**(241)**	(1,534)
Purchases of financial assets at fair value through profit or loss	**(29,194)**	(1,429,068)
Proceeds from sales of financial assets at fair value through profit or loss	**29,238**	1,455,257
Purchases of an equity investment at fair value through profit or loss	**–**	(2,500)
Prepayment of leasehold lands	**(854)**	(37,890)
Interest received	**31,386**	21,583
Increase in time deposits with original maturity of over three months	**(335,860)**	(280,668)
Acquisition of a subsidiary	**–**	(19,823)
Net cash flows used in investing activities	**(391,696)**	(369,983)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Purchase of shares for share award arrangement	**–**	(110,154)
Shares repurchased	**(16,580)**	(171,610)
Repayment of other loans	**–**	(5,000)
Principal portion of lease payments	**(10,603)**	(5,818)
Interest paid	**–**	(263)
Dividend paid	**(216,349)**	(179,947)
Net cash flows used in financing activities	**(243,532)**	(472,792)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(215,613)**	(523,462)
Cash and cash equivalents at beginning of year	**1,738,963**	2,177,833
Effect of foreign exchange rate changes, net	**(2,953)**	84,592
CASH AND CASH EQUIVALENTS AT END OF YEAR	**1,520,397**	1,738,963

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2023

	2023 RMB'000	2022 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the consolidated statement of financial position	**2,676,588**	2,818,360
Time deposits with original maturity of over three months when acquired	**(1,453,055)**	(1,079,397)
Cash and cash equivalents attributable to a disposal group classified as held for sale	**296,864**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows	**1,520,397**	1,738,963

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 12 February 2020. The registered office address of the Company is 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.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") 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. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2023. 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 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.

2. BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and 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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 17	*Insurance Contracts*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

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

(a) Amendments to HKAS 1 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 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) 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. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

(c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* 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 did not have any significant impact on the Group's financial statements.

(d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

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 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

	2023	2022
	RMB'000	*RMB'000*
Chinese Mainland	**840,066**	715,097
Other	**85,957**	71,270
Total revenue	**926,023**	786,367

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

4. OPERATING SEGMENT INFORMATION (Continued)

Geographic information (Continued)

(b) Non-current assets

	2023	2022
	RMB'000	*RMB'000*
Chinese Mainland	**737,831**	720,939
Other	**262**	660
Total non-current assets	**738,093**	721,599

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

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers	**926,023**	786,367

Revenue from contracts with customers

(a) Disaggregated revenue information

	2023	2022
	RMB'000	*RMB'000*
Type of goods		
Sale of medical instruments	**926,023**	786,367
Geographical markets		
Chinese Mainland	**840,066**	715,097
Other	**85,957**	71,270
Total	**926,023**	786,367
Timing of revenue recognition		
Goods transferred at a point in time	**926,023**	786,367

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(a) Disaggregated revenue information (Continued)

The following table shows the amounts in the current reporting period of revenue recognised that was included in the contract liabilities at the beginning of the reporting period:

	2023	2022
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of medical instruments	**740**	2,758

(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 months for certain customers.

An analysis of other income and gains is as follows:

	2023	2022
	RMB'000	*RMB'000*
Other income		
Government grants*	**57,444**	52,945
Bank interest income	**91,832**	70,003
Investment income from financial assets at fair value through profit or loss	**58**	–
Others	**423**	828
Total other income	**149,757**	123,776
Gains		
Fair value gains on financial assets at fair value through profit or loss	**5,560**	22,705
Gains on disposal of items of property, plant and equipment	**48**	191
Total gains	**5,608**	22,896
Total other income and gains	**155,365**	146,672

* 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):

	2023 *RMB'000*	2022 *RMB'000*
Cost of inventories sold	**182,223**	149,468
Depreciation of property, plant and equipment*	**21,918**	14,514
Depreciation of right-of-use assets	**10,777**	6,896
Amortisation of intangible assets**	**259**	221
Impairment of trade receivables, net	**1,064**	(1,054)
Write-down of inventories to net realisable value****	**2,601**	1,652
Lease payments not included in the measurement of lease liabilities	**737**	421
Auditor's remuneration	**2,750**	2,750
Research and development costs	**127,554**	66,019
Government grants	**(57,444)**	(52,945)
Bank interest income	**(91,832)**	(70,003)
Investment (income)/losses from financial assets at fair value through profit or loss	**(58)**	23,469
Foreign exchange losses	**3,095**	3,197
Gains on disposal of items of property, plant and equipment	**(48)**	(191)
Fair value gains on financial assets at fair value through profit or loss	**(5,560)**	(22,705)
Employee benefit expense* (excluding directors' and chief executive's remuneration):		
Wages and salaries	**121,604**	90,983
Pension scheme contributions***	**10,315**	8,714
Staff welfare expenses	**14,613**	11,527
Share-based payment expense	**7,220**	8,845
Total	**153,752**	120,069

* 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:

	2023	2022
	RMB'000	*RMB'000*
Interest on other loans	**–**	263
Interest on lease liabilities	**2,257**	1,612
Total	**2,257**	1,875

8. 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% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. The first HK$2,000,000 (2022: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

Pursuant to the rules and regulations of Singapore, Singapore profits tax has been provided at the rate of 17% (2022: 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 2023 as the Group did not generate any assessable profits arising in Singapore during the year (2022: Nil).

The provision for current income tax in Chinese Mainland 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 Chinese Mainland 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% (2022: 15%) during the year. Jiangxi Kanghuan Medical Instrument Co., Ltd, Hangzhou Kangji Suixi Medical Instrument Co., Ltd, Hangzhou Kangqu Medical Instruments Co., Ltd and Changzhou Weijing Medical Robot Co., Ltd, which operate in Chinese Mainland, were identified as a Small and Micro Enterprise and were entitled to a preferential tax rate of 5.0% (2022: 2.5%) during the year.

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

	2023	2022
	RMB'000	*RMB'000*
Current tax:		
Charge for the year	**114,913**	98,852
Deferred tax	**21,563**	3,118
Total tax charge for the year	**136,476**	101,970

9. DIVIDENDS

On 27 May 2023, the final dividend of RMB18.45 cents per ordinary share, amounting to a total of approximately RMB224,498,000 was approved by the Company's shareholders at the annual general meeting and was fully paid on 10 July 2023.

On 25 May 2022, the final dividend of HK17.23 cents per ordinary share, amounting to a total of approximately HK$214,544,000 (equivalent to approximately RMB181,920,000) was approved by the Company's shareholders at the annual general meeting and was fully paid on 8 July 2022.

The proposed final dividend of RMB41 cents per ordinary share (2022: RMB18.45 cents per ordinary share) and a special dividend of RMB99 cents per ordinary share for the year ended 31 December 2023 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB504,021,000 (2022: RMB478,735,000), and the weighted average number of ordinary shares of 1,170,013,655 (2022: 1,207,994,251) in issue during the year, as adjusted to reflect shares repurchased in 2023.

The calculation of the diluted earnings per share amount is based on the profit for the year ended 31 December 2023 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 RSUs granted by the Company.

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.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

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

	2023	2022
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation:	**504,021**	478,735

	Number of shares	
	2023	2022
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,170,013,655**	1,207,994,251
Effect of dilution – weighted average number of ordinary shares arising from RSUs	**2,387,909**	–
Total	**1,172,401,564**	1,207,994,251

11. TRADE RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**229,614**	166,245
Impairment	**(4,080)**	(3,100)
Net carrying amount	**225,534**	163,145

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to two 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:

	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**184,728**	135,002
3 to 6 months	**26,414**	20,410
6 to 12 months	**12,207**	6,132
1 to 2 years	**2,144**	1,552
Over 2 years	**41**	49
Total	**225,534**	163,145

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023	2022
	RMB'000	*RMB'000*
Current		
Unlisted investments, at fair value	**11,449**	11,156

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.

	2023	2021
	RMB'000	*RMB'000*
Non-current		
Unlisted equity investments, at fair value		
Shenzhen Edge Medical Co., Ltd.	**139,369**	133,937
Wuxi Qingsong Medical and Health Industry Investment Partnership (Limited Partnership)	**2,349**	2,500
	141,718	136,437

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

13. CASH AND CASH EQUIVALENTS

	2023	2022
	RMB'000	*RMB'000*
Cash and bank balances	**893,171**	887,621
Time deposits	**1,783,417**	1,930,739
Cash and cash equivalents	**2,676,588**	2,818,360
Denominated in RMB	**1,533,309**	2,198,489
Denominated in US$	**1,135,716**	606,656
Denominated in HK$	**6,677**	13,117
Denominated in other currencies	**886**	98
Cash and cash equivalents	**2,676,588**	2,818,360

The RMB is not freely convertible into other currencies. However, under Chinese Mainland'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.

14. 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:

	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**27,130**	19,151
3 to 6 months	**1,517**	611
6 to 12 months	**3,708**	708
Over 12 months	**1,791**	282
Total	**34,146**	20,752

Trade payables are non-interest-bearing and are normally settled on 30 to 45 day terms.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

The Group is a leading medical device manufacturer in China offering a diversified product portfolio of medical equipment, instruments and accessories devoted to minimally invasive surgery. Through Weijing Medical, which the Group holds 35% equity interest, we also have a platform with surgical robotic system and consumable products which will be commercialized by leveraging the Group's extensive distribution network as well as our strong manufacturing capability and clinical trial and regulatory approval experience.

As China went to a post-pandemic full reopening in December 2022, economic and business activities across the board in China have been recovering steadily in 2023, with gradual rebound in patient traffic and surgery volume. The Group's domestic sales growth for the Reporting Period was driven mainly by growth in sales of disposable products (among the top three core product categories), as well as the significant increase in sales of some new products, such as ultrasonic scalpels and 4K endoscopic camera systems. On volume-based procurement ("**VBP**"), during the Reporting Period, the Group had won new bids for its core products. The most notable one was in Anhui province for polymer ligation clips, for which the Group won first place with the highest weighted score based on factors such as price cut, hospital coverage, and share in hospitals' procurement volume. As a result, the Group was also allocated the highest hospital procurement volume and we do not expect any change to the distributor model. The implementation of this bid has been in effect since September 2023. We also won bids in Yunnan and Shandong provinces respectively for ultrasonic scalpels with bidding results similar to the Guangdong-led alliance VBP. In Yunnan province, the Group also won bid for absorbable clips, which is expected to accelerate this product's penetration in the end market. The distributor model will remain the same for ultrasonic scalpels and absorbable clips. The VBPs for ultrasonic scalpels in Shandong and Yunnan provinces have been implemented since April and September 2023, respectively. The implementation of the VBP for absorbable clips in Yunnan province began in December 2023.

The VBP implementation for disposable trocars in Guangdong province commenced during the first half of 2023. We have switched from a distributor model to a "logistics partner + academic promotion partner" model, which has proven to be an effective model for disposable trocars in VBP area. While announcements for new VBPs have been ongoing, we do anticipate increasing visibility and rationality regarding the overall of VBP policies. These policies have weighed various factors that favor domestic industry leaders with a relatively more established track record, greater market share, as well as reliable and stable supply. We foresee our focus on VBP would bring the potential for market share gains and import substitution benefits in the long run.

Outside of China, we continued the growth momentum for exports. The number of customers as well as the number of countries/regions with customers continued to increase in 2023 while the concentration of customers determined based on sales amount has decreased. For the year ended December 31, 2023, the Group achieved export sales of RMB86.0 million, representing a 20.6% growth from the previous year.

The growth was primarily attributable to the increasing penetration in existing European and South American markets such as France, Spain and Peru. We continued to engage with authorized distributors to increase the sales of Kangji-branded products in these markets. We have also actively participated in and have been preparing for more industry conferences and international academic promotion events. During the Reporting Period, the Group added 22 overseas product registrations, mainly in Central and South America and Southeast Asia through overseas OEM customers or distributors.

For the year ended December 31, 2023, the Group achieved a total revenue of RMB926.0 million, representing a 17.8% increase from the previous year. The growth in revenue was mainly attributable to the growth of core disposable products, ultrasonic scalpels and 4K endoscopic camera systems. The Group's net profit attributable to owners of the parent for the year ended December 31, 2023 increased by 5.3% from RMB478.7 million in 2022 to RMB504.0 million in 2023. The increase was mainly attributable to the Group's sales growth, and partly offset by the increase of expenses primarily due to R&D expenses contributed by the Group and Weijing Medical and the increase in income tax expenses for withholding tax on dividends. The Group's adjusted net profit attributable to owners of the parent for the Reporting Period, which excludes fair value gains on financial assets at fair value through profit or loss, share-based payment expense, foreign exchange difference, investment income/loss from short-term financial products and PRC withholding tax associated with special dividend, has increased by 7.9% from RMB498.7 million in 2022 to RMB538.2 million in 2023.

Research and Development

In the Reporting Period, the Group added 14 new product registrations in China excluding renewal of product registrations. As of December 31, 2023, the Group had an aggregate of 92 domestic NMPA product registrations including 12 for Class III medical devices, 46 for Class II medical devices and 34 for Class I medical devices. In the Reporting Period, the Group also obtained 111 new patents in China which include 56 new patents from Weijing Medical.

We continued the strategy to further diversify the Group's product mix, and within each product category, we strived to provide a comprehensive offering addressing differentiated clinical needs. As part of this effort, we have obtained approval for new surgical access devices, including a disposable balloon trocar and a disposable rotatable multi-channel single-port trocar, which have also received recognition as the Zhejiang Innovative Medical Devices. Additionally, the Group has obtained new approval for disposable trocars with cleaning rings and disposable trocars with filters that upgrade and complement its existing portfolio. In the area of closure devices, the Group has received regulatory approval for absorbable clip during the Reporting Period. This addition, along with the existing titanium clips, polymer ligation clips and the absorbable knotless suture currently in development, enhances the comprehensiveness of the Group's spectrum of minimally invasive closure products. Furthermore, the Group has obtained new registration approvals for advanced medical imaging products. These include the 3D endovision camera system, 3D electronic laparoscope and 4K fluorescence laparoscope. These additions align with our strategic vision and commitment to providing a comprehensive surgical solution to surgeons in the field of minimally invasive surgery.

In 2023, we made efforts to strengthen project progress management by establishing a dedicated team within the R&D department. This organizational enhancement was implemented with the aim of monitoring projects more effectively, addressing critical aspects such as documentation, time and cost management, internal reporting and problem-solving capabilities. The primary objective was to ensure optimal project outcomes and streamline the development process. Furthermore, this strategic move was also intended to enhance the accountability of R&D staff and provide them with additional incentives for their exceptional contributions. In line with the commitment to continuous growth and advancement, we continued to expand the R&D team, focusing on key areas of development. This included absorbable implantable consumable product, an area of high importance in the medical field due to its potential for improved patient outcomes. We also dedicated resources to develop our energy platform, recognizing the significance of energy-based technologies in advancing medical treatments and procedures.

The Group invested in Weijing Medical in February 2022, establishing it as a platform focused on the development of surgical robotic systems and related instruments and accessories for laparoscopic surgery. During the Reporting Period, Weijing Medical made progress in its R&D efforts. One notable accomplishment was the initiation of clinical trials for its 4-arm surgical robot in the fourth quarter of 2023. We anticipate obtaining registration approval for the 4-arm surgical robot around the end of 2024. Additionally, Weijing Medical is currently finalizing the product design of its single-port surgical robotic system and plans to commence the product type inspection and animal trials in the second half of 2024.

Sales and Distribution

Following the establishment of the sales offices in Shanghai and Guangzhou in 2022, the Group further strengthened the local distribution network by hiring additional district sales managers in the Reporting Period. These managers strengthened the management and support provided to the local distributors. We also maintained continuous communication with distributors, optimizing academic support mechanisms and fostering stronger interactions. Through a tailored approach that considered the unique characteristics of each region, we aligned product managers to better meet the academic needs of distributors.

With the full reopening of China after the pandemic, some of the Group's academic promotion activities transitioned back to in-person events. In 2023, we successfully carried out well-planned thematic academic promotion conferences and training sessions. These events encompassed a range of focuses, including product-specific sessions, specialized surgical training and conferences centered around specific clinical areas. For instance, we established single-port procedure training centers in collaboration with regional reputable hospitals. These centers provided single-port surgery trainings to physicians from hospitals in various regions in China. Additionally, we participated in academic conferences and conducted surgery video competition campaigns to promote medical knowledge and advocate for standardized clinical practices.

Forward Outlook

Looking ahead, with the growth of China's aging population, it is expected that the medical and health industry market in China will maintain a sustainable growth momentum in the future. The Company is committed to develop strategic plans in the long run. Taking advantage of the promising growth trend in this industry, we will strive to seize the opportunities of import substitution and VBP, capture the expansion in the vast overseas markets and explore the path of takeoff for the development of China's medical device industry. The medical industry is closely connected to people's livelihood. We expect that the industry will return to normal levels in the second half of 2024. This will be beneficial to the promotion of new products and in-person academic exchanges. The Group is boosting the market share of existing core products, such as trocars, polymer ligation clips, disposable and reusable electrocoagulation forceps. Meanwhile, the Group is also expanding sales of new products, such as ultrasonic scalpels, 4K endoscopic camera systems and disposable staplers. We are confident to see a relatively higher growth rate for new products in 2024.

FINANCIAL REVIEW

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

Revenue

	For the year ended December 31,		
	2023	2022	Changes
	RMB'000	*RMB'000*	*%*
Disposable products			
Disposable trocars	**394,441**	364,946	8.1
Polymer ligation clips	**227,322**	192,511	18.1
Disposable electrocoagulation forceps	**122,552**	94,198	30.1
Ultrasonic scalpels	**38,000**	18,153	109.3
Other disposable products(1)	**22,632**	19,324	17.1
Sub-total	**804,947**	689,132	16.8
Reusable products			
4K endoscopic camera systems	**32,366**	20,557	57.4
Other reusable products(2)	**88,710**	76,678	15.7
Sub-total	**121,076**	97,235	24.5
Total	**926,023**	786,367	17.8

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.

The Group's revenue amounted to RMB926.0 million for the year ended December 31, 2023, representing an increase of 17.8% as compared to RMB786.4 million for the year ended December 31, 2022. The increase in revenue was primarily attributable to (i) the increase in sales of disposable electrocoagulation forceps, ultrasonic scalpels and other disposable products; and (ii) the continuing growth in export sales due to demand in overseas market continued to grow as well as the ongoing export to expand overseas channels, increased product registrations and overseas marketing activities.

Disposable Products

The Group's disposable products include disposable trocars, polymer ligation clips, disposable electrocoagulation forceps, ultrasonic scalpels, and other disposable products. Disposable products recorded revenue of RMB804.9 million for the year ended December 31, 2023, representing an increase of 16.8% as compared to RMB689.1 million for the year ended December 31, 2022. 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 the release of restrictions and lockdowns from COVID outbreaks in China since early 2023, demand for disposable products had been increased by the gradual recovery in elective surgery in 2023. During the Reporting Period, sales of disposable products accounted for 86.9% of the Group's total revenue as compared to 87.6% in 2022.

Disposable trocars recorded revenue of RMB394.4 million for the Reporting Period, representing an increase of 8.1% as compared with RMB364.9 million in 2022. Disposable trocars accounted for approximately 42.6% of the Group's total revenue during the Reporting Period as compared to approximately 46.4% in 2022. Both export sales of disposable trocars and overall sales of single-site trocars exhibited better growth in the year of 2023. During the Reporting Period, VBP for disposable trocars was effective in Guangdong province and we enhanced the cooperation with logistics and external promotion partners under the non-distributor model to achieve sales growth in VBP regions.

Polymer ligation clips recorded revenue of RMB227.3 million for the Reporting Period, representing an increase of 18.1% as compared with RMB192.5 million in 2022. Polymer ligation clips accounted for approximately 24.5% of the Group's total revenue during the Reporting Period. Sales of polymer ligation clips exhibited strong year-on-year growth which were benefited from the increase in market share together with the stimulus by VBP. Sales of polymer ligation clips in Shandong, Henan, Hebei and Shanxi provinces, currently under the four-province alliance VBP, recorded a strong growth in the Reporting Period.

Disposable electrocoagulation forceps recorded revenue of RMB122.6 million in 2023, which accounted for approximately 13.2% of the Group's total revenue in 2023 as compared to 12.0% in 2022. Disposable electrocoagulation forceps continued to experience growth in demand and recorded high sales growth of 30.1% for the Reporting Period. This can be mainly attributed to a lower market penetration and the Group's focused effort to drive sales. We consider that disposable electrocoagulation forceps are still exposed to better sales growth potential.

Sales of the Group's newer disposable products such as ultrasonic scalpels were boosted by the effort in increasing market penetration and seizing the demand from import substitution. During the Reporting Period, sales of ultrasonic scalpels amounted to RMB38.0 million, representing an increase of 109.3% as compared to RMB18.2 million in 2022.

Reusable Products

Reusable products recorded revenue of RMB121.1 million for the year ended December 31, 2023, representing an increase of 24.5% as compared with RMB97.2 million for the year ended December 31, 2022. Such increase was mainly due to the increase in sales of 4K endoscopic camera systems and reusable forceps. Sales of 4K endoscopic camera systems amounted to RMB32.4 million in 2023, representing an increase of 57.4% as compared to RMB20.6 million in 2022.

Sales Channel

Revenue from domestic market increased by 17.5% as compared to that of 2022. The Group's business models in domestic market include distributor model and non-distributor model (logistics partners + academic promotion), which is mainly used in the VBP provinces of trocars.

For overseas markets, the Group's customers mainly include overseas original design manufacture ("**ODM**") customers and overseas distributors. Revenue from overseas markets was approximately RMB86.0 million for the year ended December 31, 2023, representing an increase of 20.6% from the previous year. Growth of export sales was strong during the Reporting Period due to the ongoing effort to expand overseas channels from 47 to 58 countries/regions in 2023 and increase product category registrations in overseas markets. Revenue from overseas markets accounted for 9.3% of the Group's total revenue for the year of 2023 as compared to 9.1% in the previous year.

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

	For the year ended December 31,		
	2023	2022	Changes
	RMB'000	*RMB'000*	*%*
Domestic			
– Distributors	**752,480**	651,074	15.6
– Hospitals and other customers[1]	**87,586**	64,023	36.8
Sub-total	**840,066**	715,097	17.5
Overseas			
– ODM customers	**68,739**	60,978	12.7
– Distributors	**17,218**	10,292	67.3
Sub-total	**85,957**	71,270	20.6
Total	**926,023**	786,367	17.8

Note:

(1) Other customers include sales of disposable trocars under non-distributor (logistics partner + academic promotion partner) model in the VBP provinces.

Cost of Sales

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

For the year ended December 31, 2023, the Group's cost of sales was RMB184.8 million, representing an increase of 22.3% as compared with RMB151.1 million for the year ended December 31, 2022. The increase in cost of sales was primarily due to the change of product mix and in line with the increase in revenue.

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

	For the year ended December 31,			
	2023		2022	
	Amount	**% of total**	Amount	% of total
	RMB'000 (except percentages)			
Raw materials	**94,396**	**51.1**	77,901	51.5
Direct labor costs	**45,208**	**24.5**	39,414	26.1
Manufacturing costs[1]	**45,220**	**24.4**	33,805	22.4
Total	**184,824**	**100.0**	151,120	100.0

Note:

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

Gross Profit and Gross Margin

The Group's gross profit increased by 16.7% to RMB741.2 million for the year ended December 31, 2023 from RMB635.2 million for the year ended December 31, 2022, due to an increase in sales.

The Group's gross profit margin was 80.0% for the year ended December 31, 2023, which remained stable as compared to that of 80.8% for the year ended December 31, 2022. Specifically, the contribution from newer products such as ultrasonic scalpels and 4K endoscopic camera systems increased during the Reporting Period, whereby these products have a relatively lower gross profit margin than that of disposable products due to their product type characteristics.

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

	For the year ended December 31,			
	2023		2022	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
	RMB'000 (except percentages)			
Disposable products	**671,710**	**83.4%**	580,187	84.2%
Reusable products	**69,489**	**57.4%**	55,060	56.6%
Total	**741,199**	**80.0%**	635,247	80.8%

Other Income and Gains

Other income and gains for the year ended December 31, 2023 was RMB155.4 million, while for the year ended December 31, 2022, it was RMB146.7 million. The increase was primarily due to an increase in the amount of RMB21.8 million in interest income arising from bank deposits and partly offset by a decrease in fair value gains on financial assets at fair value through profit or loss.

Selling and Distribution Expenses

Selling and distribution expenses were RMB69.9 million for the year ended December 31, 2023, representing an increase of 30.9% as compared with RMB53.4 million for the year ended December 31, 2022. The increase was primarily due to (i) the increase in staff costs for sales personnel along with the expansion of sales and marketing team; and (ii) the increase in marketing-related expenses as compared to last year, as advertising and academic promotion activities resumed to normal due to the COVID-19 travel restrictions were lifted during the Reporting Period.

Administrative Expenses

Administrative expenses amounted to RMB100.3 million for the year ended December 31, 2023, representing an increase of 40.7% as compared with RMB71.3 million for the year ended December 31, 2022. The increase was mainly due to (i) the increase in staff personnel costs, (ii) travelling and business development activities had resumed to normal level following the relaxation of COVID-19 restrictions; and (iii) enhancement of the Group's environmental landscape at its headquarters ahead of the forthcoming 20th anniversary of the Group's establishment.

Research and Development Expenses

Research and development expenses for the year ended December 31, 2023 was RMB127.6 million, representing an increase of 93.3% as compared with RMB66.0 million for the year ended December 31, 2022, which was mainly due to (i) the increased R&D expense in the amount of RMB46.8 million by Weijing Medical on a year-on-year basis from RMB24.7 million in 2022 to RMB71.5 million for the Reporting Period, and (ii) the increased R&D projects and activities with respect to other innovative products and the upgrading of existing products.

Other Expenses

Other expenses primarily consist of donation, foreign exchange loss and investment loss from financial assets at fair value through profit or loss. During the Reporting Period, the Group's other expenses was RMB6.8 million, which was primarily attributable to foreign exchange loss and donations made during the period.

Income Tax Expenses

Income tax expenses were RMB136.5 million for the year ended December 31, 2023, representing an increase of 33.8% as compared with RMB102.0 million for the year ended December 31, 2022. The increase in income tax expenses was primarily due to (i) the increase in taxable profit of the Group's operating entities in China during the Reporting Period; and (ii) the increase in withholding taxes associated with the distributed profits of the subsidiaries in China, where such profits will be repatriated for the proposed 2023 Final Dividend and 2023 Special Dividend as disclosed in section headed "Final Dividend and Special Dividend" below.

Non-HKFRS Adjusted Net Profit for the Year

To supplement the Group's audited consolidated statement of profit or loss and other comprehensive income which is presented in accordance with HKFRS, we also use adjusted net profit as a non-HKFRS measure, which is not required by, or presented in accordance with, HKFRS. We believe that the presentation of non-HKFRS measure when shown in conjunction with the corresponding HKFRS measures provides useful information to investors and management in facilitating a comparison of the Group's ongoing operating performance from period to period by eliminating potential impacts of certain non-operational or one-off expenses, including fair value gains on financial assets at fair value through profit or loss, foreign exchange difference, share-based payment expenses, investment income/loss from short-term financial products and PRC withholding tax associated with special dividend. Such non-HKFRS measure allows investors to consider metrics used by management in evaluating the Group's performance.

The following table shows the Group's adjusted net profit for the Reporting Period and its reconciliation to profit for the years indicated:

	For the year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Profit for the year attributable to owners of the parent	**504,021**	478,735
Add/(Less):		
Fair value gains on financial assets at fair value through profit or loss	**(5,560)**	(22,705)
Foreign exchange difference	**3,095**	8,246
Share-based payment expenses	**8,623**	10,966
Investment (income)/losses from short-term financial products	**(58)**	23,469
PRC withholding tax associated with special dividend	**28,062**	–
Non-HKFRS adjusted net profit for the year attributable to owners of the parent	**538,183**	498,711

Notes:

(1) Fair value gains on financial assets at fair value through profit or loss is non-operational in nature which mainly arises from the change in fair value of the Group's investment in Shenzhen Edge Medical Co., Ltd.*（深圳市精鋒醫療科技股份有限公司）for the periods, the amount of which may not directly correlate with the underlying performance of the Group's business operations.

(2) Foreign exchange difference is non-operational in nature which mainly arises from the currency fluctuation of US dollars ("**USD**" or "**US$**") against RMB for the periods, the amount of which may not directly correlate with the underlying performance of the Group's business operations. The Group's net exchange loss of RMB3,095,000 (2022: exchange loss of RMB3,197,000) in the Reporting Period comprises the exchange loss of RMB3,095,000 (2022: exchange loss of RMB8,246,000) attributable to owners of the parent and the exchange loss of nil (2022: exchange gain of RMB5,049,000) attributable to non-controlling interests.

(3) Share-based payment expenses are non-operational expenses arising from granting restricted share units ("**RSUs**") and pre-IPO share options to selected management members, the amount of which may not directly correlate with the underlying performance of the Group's business operations, and is also affected by non-operating performance related factors that are not closely or directly related to the Group's business activities.

(4) Investment income/loss 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 the Group's business operations.

(5) PRC withholding tax associated with special dividend is an one-off expense in relation to the 2023 Special Dividend to be paid in celebration of the 20th anniversary of the Group's establishment and in recognition of the Shareholders' long-term support.

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, the Group's results of operations or financial condition as reported under HKFRS. In addition, the non-HKFRS financial measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures presented by other companies.

Liquidity and Capital Resources

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

As of December 31, 2023, the Group had cash and cash equivalents of RMB2,973.5 million (including RMB296.9 million recorded in assets classified as held for sale in the consolidated statement of financial position), as compared with RMB2,818.4 million as of December 31, 2022. During the Reporting Period, the increase in cash and cash equivalents of RMB155.1 million was primarily due to the net cash generated from operations, the effect of which was partly offset by the net cash used in financing activities mainly attributable to dividends paid to Shareholders and Share repurchases.

As at December 31, 2023, most of the Group's cash and cash equivalents were denominated in RMB, USD and HK Dollars ("**HKD**" or "**HK$**").

Net Current Assets

The Group had net current assets of RMB3,189.9 million as of December 31, 2023, representing an increase of RMB219.8 million as compared with RMB2,970.1 million as of December 31, 2022. The increase in net current assets was primarily due to the increase in cash generated from operations.

Foreign Exchange Exposure

During the Reporting Period, the Group's operations were primarily based in China. Assets, liabilities and transactions in the PRC are mainly denominated in RMB, while overseas assets and transactions are mainly denominated in USD. The Group is 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 the functional currency of respective subsidiaries. For the year ended December 31, 2023, the Group recorded an exchange loss of RMB3.1 million, as compared to an exchange loss of RMB3.2 million for the year ended December 31, 2022, primarily attributable to the currency fluctuation of USD against RMB during the Reporting Period.

The Group has been actively monitoring and overseeing its foreign exchange risks and mitigating its potential risk exposure with the use of short-term financial products should the need arise.

Capital Expenditure

For the year ended December 31, 2023, the Group's total capital expenditure amounted to approximately RMB82.5 million, which was primarily used in purchasing machinery and equipment and construction of buildings. The Group's capital expenditure for the year ended December 31, 2022 was approximately RMB134.5 million.

The following table sets forth the Group's net capital expenditures for the periods indicated:

	For the year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Plant and machinery	**8,250**	31,532
Construction in progress	**50,505**	44,731
Furniture and fixtures	**3,348**	7,307
Motor vehicles	**1,312**	5,024
Buildings	**15,825**	63
Leasehold improvements	**2,141**	6,426
Intangible assets	**241**	1,534
Land use rights	**854**	37,890
Total	**82,476**	134,507

Charge of Assets/Pledge of Assets

As of December 31, 2023, the Group did not have any charge of assets or pledge of assets.

Borrowings

As of December 31, 2023, the Group 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, 2023, the gearing ratio of the Group was 3.8% (as of December 31, 2022: 3.8%).

Contingent Liabilities

As of December 31, 2023, the Group did not have any outstanding contingent liabilities.

Material Acquisitions and Disposals and Significant Investments

The Group did not hold any significant investments, or have any other material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period. Please refer to the section headed "Events after the Reporting Period" below for further details of the disposal and deconsolidation of the Group's subsidiaries.

Future Plans for Material Investments and Capital Assets

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

Employee and Remuneration Policy

As of December 31, 2023, the Group had 1,003 employees (December 31, 2022: 885 employees). Total staff remuneration expenses including remuneration of the Directors and share-based payment expenses for the year ended December 31, 2023 amounted to RMB163.1 million (for the year ended December 31, 2022: RMB127.8 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 the Directors, senior management and employees and to incentivize them to further promote the Group's development, the Company adopted the pre-IPO share option plan and the RSU plan on May 6, 2020. During the Reporting Period, no RSU under the RSU plan were granted to senior management and employees. As of December 31, 2023, a total of 26,810,000 RSUs had been granted under the RSU plan.

USE OF PROCEEDS FROM THE GLOBAL OFFERING AND CHANGE IN USE OF PROCEEDS

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.

Use of Proceeds from the Global Offering during the Reporting Period

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", save for the proposed change in use of proceeds as disclosed below.

As at December 31, 2023, the Company has a unutilized net proceeds of approximately RMB1,802.4 million (the "**Unutilized Net Proceeds**"). Having considered the reasons set out in the section headed "Reasons for the Change in Use of Proceeds" below, the Board has resolved to change the use of the Unutilized Net Proceeds. The table below sets out the planned applications of the net proceeds, the actual accrued usage up to, and the Unutilized Net Proceeds as at, December 31, 2023 and the revised planned applications of the Unutilized Net Proceeds, in amounts and as percentages of the total net proceeds:

Use of proceeds	Planned applications (1)	Revised application of total net proceeds (1) (2)	Utilization during the year ended December 31, 2023	Actual usage up to December 31, 2023	Unutilized Net Proceeds as at December 31, 2023	Revised planned applications of the Unutilized Net Proceeds		Expected timeframe for Unutilized Net Proceeds (from the date of listing)(3)
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*	*(RMB million)*	*(RMB million)*	*(%)*	
For expanding production capacity and strengthen manufacturing capabilities, including:								
to expand production capacity of current products and further automate existing production lines	249.9	264.3	15.8	34.1	230.2	216.3	12.0	within three to five years
to build up production capabilities for pipeline products	260.1	275.1	47.4	126.4	148.7	144.2	8.0	within six years
For funding R&D activities, including:								
to establish R&D centers	433.5	458.5	26.1	80.0	378.5	90.1	5.0	within four years
for development and expansion of product pipeline	204.0	215.8	48.5	131.1	84.7	180.3	10.0	within five to six years
For investing in sales and marketing activities, including:								
to be used in domestic sales and marketing activities(2)	382.5	404.5	32.0	58.1	346.4	180.3	10.0	within four to five years
to increase overseas sales	127.5	134.9	2.2	3.4	131.5	90.1	5.0	within three to five years
For funding potential strategic investment and acquisitions	637.5	674.3	50.0	257.5	416.8	360.5	20.0	within five years
For working capital and general corporate purposes	255.0	269.7	78.8	204.1	65.6	540.6	30.0	within four to six years
Total	**2,550.0**	**2,697.1**	**300.8**	**894.7**	**1,802.4**	**1,802.4**	**100.0**	

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. Please refer to the section headed "Future Plans and Use of Proceeds" in the Prospectus for further details of the original planned applications.

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

(3) The expected timeframe to use the unutilized net proceeds is prepared based on the best estimate made by the Group, which is subject to change according to the current and future development of the market condition. The Company does not expect the revised planned applications of the Unutilized Net Proceeds would lead to any change of the expected timeframe for full utilization.

Reasons for the Change in Use of Proceeds

The reasons for the revised planned applications of the Unutilized Net Proceeds are as follows:

(a) in light of China's economic environment in recent years and the practice post COVID-19, the Group spent considerably less in sales and marketing activities such as on-site exhibition, travelling and entertainment during the past few years. In addition, the Group has gradually switched towards online platforms for its academic promotion activities which became popular during the pandemic and are more efficient and cost-effective than the traditional promotion and communication channels. Therefore, the original allocation of the Unutilized Net Proceeds for investing in sales and marketing activities has been adjusted downwards to reflect the Group's latest sales and marketing approach;

(b) since the industry has showed mixed sentiments towards investment in general, the Board has adopted a more prudent approach in identifying suitable acquisition targets and conducting feasibility studies and/or due diligence on potential acquisition targets. The Board considers that this approach would allow the Group to preserve its funding for future investment opportunities with higher strategic values when the market fully recovers in the medium to long run. Therefore, the original allocation of the Unutilized Net Proceeds for funding potential strategic investment and acquisitions has been adjusted downwards, to free up some short-term financial resources;

(c) the Group has been expanding its R&D facility at the headquarters in Tonglu, Hangzhou, and accordingly, there are no immediate needs to set up further R&D centers in other cities in China in the foreseeable future. Having said that, the Board considers it crucial to continue investing in the development and expansion of product pipeline. Therefore, the original allocation of the Unutilized Net Proceeds for the establishment of R&D centers has been adjusted downwards, while the original allocation of the Unutilized Net Proceeds for development and expansion of product pipeline has been adjusted upwards but in a lesser extent, to reflect the Group's current strategic focus for its R&D activities;

(d) The Group has recently finished the construction of new factory buildings at the headquarters which could satisfy the need for expansion of production capacity in the next few years. Therefore, the original allocation of the Unutilized Net Proceeds for expanding production capacity and strengthen manufacturing capabilities has been adjusted marginally downwards; and

(e) the reallocation from sales and marketing activities, potential strategic investments and acquisitions, R&D activities and expansion of production capacity (as referred to in sub-paragraphs (a), (b), (c) and (d) above) to working capital and general corporate purposes would allow the Group to deploy more financial resources to, among other things, staff costs for retaining and attracting new talents, costs to promote ESG development, distributing dividends to reward the Shareholders and other administrative expenses; and

(f) the revised planned applications of the Unutilized Net Proceeds are in line with the Group's business strategy, and will not result in any material adverse impact on the business and financial performance of the Group. The Board considers that the revised planned applications of the Unutilized Net Proceeds would be fair and reasonable, and therefore are in the best interest of the Company and the Shareholders as a whole.

OTHER INFORMATION

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

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

The Company has adopted the code provisions of the CG Code as set out in Appendix C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own code of corporate governance.

The Board is of the view that the Company has complied with all applicable code provisions of the CG Code during the Reporting Period, except for a deviation from the code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company are not separate and are both performed by Mr. ZHONG Ming. The Company 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 Group. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Guidelines for Securities Transactions by Directors (the "**Written Guidelines**") on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix C3 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

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

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

The Company repurchased a total of 2,261,000 Shares (2022: 26,604,000) on the Stock Exchange at an aggregate consideration of approximately HK$18.8 million (excluding brokerage fees and taxes) during the year ended December 31, 2023 (2022: approximately HK$188.2 million) at price ranging from HK$6.34 to HK$9.25. 1,780,500 Shares were cancelled during the year ended December 31, 2023. The Company repurchased a total of 1,490,500 Shares during the period from January 1, 2024 to the date of this announcement and 1,971,000 Shares were cancelled in January 2024. As at the date of this announcement, the Company has 1,214,821,000 Shares outstanding.

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, 2023.

Annual General Meeting (the "AGM")

The AGM of the Company will be held on May 27, 2024. The notice of the AGM will be sent to the Shareholders at least 21 days before the AGM.

Final Dividend and Special Dividend

The Board has resolved to recommend the payment of the 2023 Final Dividend of RMB41 cents per Share amounting to approximately RMB498,077,000, and the 2023 Special Dividend of RMB99 cents per Share amounting to approximately RMB1,202,673,000 in celebration of the 20th anniversary of the Group's establishment and recognition of the Shareholders' long-term support. The proposed 2023 Final Dividend is intended to be paid out of the Group's distributable profits for the year ended December 31, 2023, and the proposed 2023 Special Dividend is intended to be paid partly out of the Company's accumulated distributable profits amounting to approximately RMB534,521,000 and partly out of the Company's share premium account amounting to approximately RMB668,152,000 pursuant to the articles of association of the Company and in accordance with the Companies Act of the Cayman Islands. After taking into account a number of factors including the cash flow, financial condition and funding needs of the Group, the Board considers that it is appropriate and proposes that the 2023 Special Dividend be partly paid out of the Company's share premium account.

The proposed 2023 Final Dividend and 2023 Special Dividend will be payable on or about July 18, 2024 to the Shareholders whose names appear on the register of members of the Company on June 6, 2024, subject to the approval of the Shareholders at the AGM.

The 2023 Final Dividend and 2023 Special 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 27, 2024). 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 2023 Final Dividend and 2023 Special 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 6, 2024. Further details with respect to dividend currency election will be announced in due course.

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, 2024 to May 27, 2024, 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 Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on May 21, 2024. Shareholders whose names appear on the register of members of the Company on May 27, 2024 will be entitled to attend and vote at the AGM.

(b) For determining the entitlement to the proposed 2023 Final Dividend and 2023 Special Dividend subject to the approval by the Shareholders at the AGM, the register of members of the Company will be closed from May 31, 2024 to June 6, 2024, both days inclusive. In order to qualify for the proposed 2023 Final Dividend and 2023 Special Dividend, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on May 30, 2024.

Review of Annual Results

The audit committee of the Company (the "**Audit Committee**") consists of two independent non-executive Directors, Mr. CHEN Weibo and Mr. JIANG Feng, and one non-executive Director, Ms. CAI Li. The chairman of the Audit Committee is Mr. CHEN Weibo. The Audit Committee has reviewed the annual results of the Group for the year ended December 31, 2023 and has recommended for the Board's approval thereof.

The Audit Committee has reviewed together with the management the accounting principles and policies adopted by the Group and the consolidated financial statements for the year ended December 31, 2023. The Audit Committee considered that the annual results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

This annual results announcement is based on the audited consolidated financial statements of the Group for the year ended December 31, 2023.

Events after the Reporting Period

On December 28, 2023, Hangzhou Kangji Medical Instrument Co., Ltd. ("**Hangzhou Kangji**"), an indirect wholly-owned subsidiary of the Company, entered into the equity transfer agreement to dispose of its entire equity interest in Hangzhou Kangji Qipu Medical Instrument Co., Ltd ("**Qipu**"), a wholly-owned subsidiary of Hangzhou Kangji, to an independent third party for an aggregate consideration of approximately RMB366 million. Qipu is principally engaged in distribution, research and development of medical instruments. As at December 31, 2023, the assets and liabilities of Qipu were classified as held for sale in the Company's consolidated statement of financial position. The disposal of Qipu is expected to complete in April 2024. Please refer to the announcement of the Company dated December 28, 2023 for further information.

On March 20, 2024, the shareholders of Weijing Medical have approved certain amendments to the articles of association and the change in board composition of Weijing Medical. Pursuant to the amended articles of association of Weijing Medical, the number of directors that Kangji Medical (Hong Kong) Limited ("**Kangji Hong Kong**") is entitled to nominate has decreased from four to three out of seven directors on the board of directors of Weijing Medical ("**Weijing Medical Board**"). As a result, Kangji Hong Kong will cease to be able to appoint a majority of members on the Weijing Medical Board and lose control over Weijing Medical. Upon the aforementioned change in board composition becoming effective, Weijing Medical will cease to be a subsidiary of the Company and the financial results of Weijing Medical will no longer be consolidated into the consolidated financial statements of the Company, and the Company's retained interests in Weijing Medical will be accounted for as an investment in an associate in the consolidated financial statements of the Company. This deconsolidation of Weijing Medical does not involve any change of equity interest held by the shareholders of Weijing Medical and Kangji Hong Kong remains to hold 35% equity interests in Weijing Medical. Please refer to the announcement of the Company dated March 20, 2024 for further information.

Save for those specified above and therein, no significant event has occurred since the end of the Reporting Period and up to the date of this announcement.

Publication of Annual Results and Annual Report

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.kangjimedical.com). The annual report for the year ended December 31, 2023 containing all the information in accordance with the requirements under the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

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

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

Hangzhou, PRC, March 20, 2024

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

* *For identification purpose only*