KANGJI 康基

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9997)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2024

The board (the "**Board**") of directors (the "**Directors**") of Kangji Medical Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") is pleased to announce the unaudited consolidated interim results of the Group for the six months ended June 30, 2024 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2023, as follows:

FINANCIAL HIGHLIGHTS

	Six months ended June 30,		
	2024	2023	Changes
	RMB'000	*RMB'000*	*%*
	(Unaudited)	(Unaudited)	
Revenue	**458,413**	403,589	13.6
Gross profit	**363,123**	321,755	12.9
Profit for the period	**275,686**	229,297	20.2
Profit attributable to owners of the parent	**285,847**	255,461	11.9
Non-HKFRS adjusted net profit attributable to owners of the parent	**274,873**	237,185	15.9
Earnings per share			
–Basic (RMB)	**24.39 cents**	21.83 cents	11.7
–Diluted (RMB)	**24.39 cents**	21.73 cents	12.2
Non-HKFRS adjusted earnings per share			
–Basic (RMB)	**23.46 cents**	20.27 cents	15.7
–Diluted (RMB)	**23.46 cents**	20.18 cents	16.3

For the Reporting Period, the Company realized revenue of RMB458.4 million, representing an increase of 13.6% as compared to the corresponding period in 2023. The Group's increase in sales was mainly attributable to the increase in sales of disposable products.

The Group's net profit attributable to owners of the parent for the Reporting Period increased by 11.9% from RMB255.5 million in 2023 to RMB285.8 million in 2024. The increase was mainly due to the increase in revenue and other income and gains. The Group's non-HKFRS adjusted net profit attributable to owners of the parent for the Reporting Period increased by 15.9% from RMB237.2 million in 2023 to RMB274.9 million in 2024.

The Board did not recommend the payment of any interim dividend for the six months ended June 30, 2024.

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

For the six months ended 30 June 2024

	Notes	**2024 (Unaudited)** ***RMB'000***	2023 (Unaudited) *RMB'000*
REVENUE	*4*	**458,413**	403,589
Cost of sales		**(95,290)**	(81,834)
Gross profit		**363,123**	321,755
Other income and gains	*4*	**115,403**	93,775
Selling and distribution expenses		**(39,062)**	(32,553)
Administrative expenses		**(50,854)**	(45,416)
Research and development costs		**(43,354)**	(60,076)
Reversal of impairment losses/(impairment losses) on financial assets, net		**842**	(1,647)
Other expenses		**(11,883)**	(3,379)
Share of losses of an associate		**(5,868)**	–
Finance costs		**(614)**	(1,177)
PROFIT BEFORE TAX	*5*	**327,733**	271,282
Income tax expense	*6*	**(52,047)**	(41,985)
PROFIT FOR THE PERIOD		**275,686**	229,297
Attributable to:			
Owners of the parent		**285,847**	255,461
Non-controlling interests		**(10,161)**	(26,164)
		275,686	229,297

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

For the six months ended 30 June 2024

	Note	**2024** **(Unaudited)** ***RMB'000***	2023 (Unaudited) *RMB'000*
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**1,854**	(3,057)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**1,854**	(3,057)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		**1,854**	(3,057)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**277,540**	226,240
Attributable to:			
Owners of the parent		**287,701**	252,404
Non-controlling interests		**(10,161)**	(26,164)
		277,540	226,240
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*8*	**RMB24.39 cents**	RMB21.83 cents
Diluted	*8*	**RMB24.39 cents**	RMB21.73 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2024

	Notes	**30 June 2024 (Unaudited) *RMB'000***	31 December 2023 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**229,495**	220,874
Prepayments for property, plant and equipment		**2,005**	412
Right-of-use assets		**31,918**	64,904
Financial assets at fair value through profit or loss		**141,718**	141,718
Goodwill		**–**	167,209
Intangible assets		**–**	284,694
Investment in an associate		**351,476**	–
Deferred tax assets		**3,856**	3,318
Time deposit	*12*	**50,000**	–
Total non-current assets		**810,468**	883,129
CURRENT ASSETS			
Inventories		**103,848**	105,205
Trade receivables	*10*	**217,446**	225,534
Prepayments, other receivables and other assets	*11*	**117,521**	9,711
Financial assets at fair value through profit or loss		**61,116**	11,449
Cash and cash equivalents	*12*	**2,717,713**	2,676,588
		3,217,644	3,028,487
Assets of a disposal group classified as held for sale		**336,184**	352,202
Total current assets		**3,553,828**	3,380,689
CURRENT LIABILITIES			
Trade payables	*13*	**30,149**	34,146
Other payables and accruals	*14*	**245,223**	82,084
Lease liabilities		**3,957**	6,107
Dividend payable		**1,663,886**	–
Deferred income		**318**	636
Tax payable		**35,958**	63,211
		1,979,491	186,184
Liabilities directly associated with the assets classified as held for sale		**2,987**	4,640
Total current liabilities		**1,982,478**	190,824
NET CURRENT ASSETS		**1,571,350**	3,189,865
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,381,818**	4,072,994

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

30 June 2024

	30 June 2024 (Unaudited) ***RMB'000***	31 December 2023 (Audited) *RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**2,381,818**	4,072,994
NON-CURRENT LIABILITIES		
Lease liabilities	**3,263**	37,883
Deferred tax liabilities	**15,827**	91,265
Total non-current liabilities	**19,090**	129,148
Net assets	**2,362,728**	3,943,846
EQUITY		
Equity attributable to owners of the parent		
Share capital	**85**	86
Reserves	**2,362,643**	3,649,676
	2,362,728	3,649,762
Non-controlling interests	**–**	294,084
Total equity	**2,362,728**	3,943,846

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2024

	Note	**2024 (Unaudited)** ***RMB'000***	2023 (Unaudited) *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**327,733**	271,282
Adjustments for:			
Finance costs		**614**	1,177
Share of losses of an associate		**5,868**	–
Bank interest income	*4*	**(62,630)**	(42,636)
Foreign exchange differences, net		**10,984**	(23,227)
Investment income from financial assets at fair value through profit or loss		**(842)**	(53)
Fair value gains on financial assets at fair value through profit or loss	*4*	**(46)**	(2,269)
Loss/(gain) on disposal of items of property, plant and equipment		**83**	(57)
Depreciation of property, plant and equipment		**9,943**	10,659
Depreciation of right-of-use assets		**4,174**	5,378
Amortisation of intangible assets		**62**	125
(Reversal of impairment losses)/impairment losses of trade receivables, net		**(842)**	1,647
Recognition of deferred income		**(318)**	(318)
Lease modification		**6**	(304)
Gain on deconsolidation of a subsidiary		**(27,253)**	–
Share-based payment expense		**6,183**	7,273
		273,719	228,677
Increase in inventories		**(15,176)**	(7,349)
Decrease/(increase) in trade receivables		**19,701**	(7,651)
(Increase)/decrease in prepayments, other receivables and other assets		**(2,028)**	3,502
Increase in trade payables		**1,003**	8,590
Decrease in other payables and accruals		**(3,846)**	(20,897)
Increase in deferred income		**–**	1,185
Cash generated from operations		**273,373**	206,057
Interest received		**36,447**	9,268
Income tax paid		**(88,098)**	(45,775)
Net cash flows from operating activities		**221,722**	169,550

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the six months ended 30 June 2024

	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(35,300)**	(23,619)
Purchases of items of intangible assets	**–**	(39)
Purchases of right-of-use assets	**–**	(854)
Proceeds from disposal of items of property, plant and equipment	**211**	481
Purchases of financial assets at fair value through profit or loss	**(623,000)**	(9,179)
Proceeds from sales of financial assets at fair value through profit or loss	**573,100**	9,179
Investment income from financial assets at fair value through profit or loss	**1,121**	48
Interest received	**82,960**	–
Decrease/(increase) in time deposits with original maturity of over three months	**1,253,101**	(1,225,916)
Disposal of a subsidiary	**50,000**	–
Additional investment in an associate	**(80,000)**	–
Deconsolidation of a subsidiary	**(8,829)**	–
Net cash flows from/(used in) investing activities	**1,213,364**	(1,249,899)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Shares repurchased	**(30,805)**	(13,707)
Principal portion of lease payments	**(4,887)**	(5,895)
Net cash flows used in financing activities	**(35,692)**	(19,602)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**1,399,394**	(1,099,951)
Cash and cash equivalents at beginning of period	**1,520,397**	1,738,963
Effect of foreign exchange rate changes, net	**(4,063)**	24,732
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**2,915,728**	663,744

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the six months ended 30 June 2024

	2024 **(Unaudited)** ***RMB'000***	2023 (Unaudited) *RMB'000*
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	**2,767,713**	3,002,425
Cash and cash equivalents attributable to a disposal group classified as held for sale	**291,193**	–
Time deposits with original maturity of over three months when acquired	**(143,178)**	(2,338,681)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	**2,915,728**	663,744

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2024 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2023.

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2023, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*

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

(a) 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. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of HKFRS 16, the amendments did not have any impact on the financial position or performance of the Group.

(b) The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments 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. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

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

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue from contracts with customers	**458,413**	403,589

Revenue from contracts with customers

(a) Disaggregated revenue information

	For the six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Type of goods		
Sale of medical instruments	**458,413**	403,589
Geographical markets		
Chinese Mainland	**418,213**	364,464
Other countries/regions	**40,200**	39,125
Total	**458,413**	403,589
Timing of revenue recognition		
Goods transferred at a point in time	**458,413**	403,589

(b) Performance obligation

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

Sale of medical instruments

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

4. REVENUE, OTHER INCOME AND GAINS (Continued)

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Bank interest income	**62,630**	42,636
Gain on deconsolidation of a subsidiary *(note 15)*	**27,253**	–
Government grants	**24,120**	25,200
Foreign exchange gains, net	**–**	23,227
Fair value gains on financial assets at fair value through profit or loss	**46**	2,269
Investment income from financial assets at fair value through profit or loss	**842**	53
Others	**512**	390
Total	**115,403**	93,775

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories sold	**90,510**	80,372
(Reversal of impairment losses)/impairment losses of trade receivables, net	**(842)**	1,647
Government grants	**(24,120)**	(25,200)
Loss/(gain) on disposal of items of property, plant and equipment	**83**	(57)
Foreign exchange differences, net	**10,984**	(23,227)
Gain on deconsolidation of a subsidiary *(note 15)*	**(27,253)**	–
Share-based payment expense	**6,183**	7,273

6. INCOME TAX

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

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

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 relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2023: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. The first HK$2,000,000 (2023: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2023: 8.25%) and the remaining assessable profits are taxed at 16.5% (2023: 16.5%).

Pursuant to the rules and regulations of Singapore, Singapore profits tax has been provided at the rate of 17% (2023: 17%) on the estimated assessable profits arising in Singapore during the period.

The provision for Chinese Mainland current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in 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 Medical Instrument Ltd., since it was recognised as a High and New Technology Enterprise and was entitled to a preferential tax rate of 15% (2023: 15%) during the period. Certain subsidiaries operating in Chinese Mainland were identified as a Small and Micro Enterprise and were entitled to a preferential tax rate of 5% (2023: 5%) during the period.

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

	For the six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current – Chinese Mainland:		
Charge for the period	**61,832**	36,301
Current – Hong Kong	**146**	–
Deferred	**(9,931)**	5,684
Total	**52,047**	41,985

7. DIVIDENDS

On 27 May 2024, the final dividend of RMB41 cents per ordinary share and a special dividend of RMB99 cents per ordinary share, amounting to a total of approximately RMB1,700,749,000 was approved by the Company's shareholders at the annual general meeting and was fully paid on 18 July 2024.

The board does not recommend the payment of any interim dividend for the six months ended 30 June 2024.

8. 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 period attributable to ordinary equity holders of the parent of RMB285,847,000 (2023: RMB255,461,000), and the weighted average number of ordinary shares of 1,171,810,382 (six months ended 30 June 2023: 1,170,059,826) in issue during the period, as adjusted to reflect the shares held for share award arrangement and shares repurchased during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2024 did not assume the exercise of all dilutive potential ordinary shares arising from RSUs granted by the Company because the exercise price of these RSUs was higher than the average market price for shares for the period.

The calculation of the diluted earnings per share amount is based on the profit for the six months ended 30 June 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 period, 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:

	For the six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**285,847**	255,461

	For the six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,171,810,382**	1,170,059,826
Effect of dilution-weighted average number of ordinary shares arising from share options and restricted share units	**–**	5,312,991
Total	**1,171,810,382**	1,175,372,817

9. PROPERTY, PLANT AND EQUIPMENT

	30 June 2024 (Unaudited) ***RMB'000***	31 December 2023 (Audited) *RMB'000*
Carrying amount at beginning of period/year	**220,874**	169,020
Additions	**33,433**	81,381
Deconsolidation of a subsidiary	**(14,576)**	–
Depreciation provided during the period/year	**(9,943)**	(21,918)
Disposals	**(294)**	(602)
Assets included in the disposal group held for sale	**–**	(7,010)
Exchange realignment	**1**	3
Carrying amount at end of period/year	**229,495**	220,874

10. TRADE RECEIVABLES

	30 June 2024 (Unaudited) ***RMB'000***	31 December 2023 (Audited) *RMB'000*
Trade receivables	**220,768**	229,614
Impairment	**(3,322)**	(4,080)
	217,446	225,534

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

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

	30 June 2024 (Unaudited) ***RMB'000***	31 December 2023 (Audited) *RMB'000*
Within 3 months	**187,772**	184,728
3 to 6 months	**12,757**	26,414
6 to 12 months	**15,524**	12,207
1 to 2 years	**1,378**	2,144
Over 2 years	**15**	41
Total	**217,446**	225,534

11. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2024 (Unaudited) ***RMB'000***	31 December 2023 (Audited) *RMB'000*
Prepayments	**962**	2,070
Other receivables	**1,902**	3,727
Prepaid expenses	**5,950**	3,914
Due from RSU grantees *(note)*	**108,707**	–
Total	**117,521**	9,711

Note:

In May 2024, a director, certain key management personnel and an employee exercised a total of 16,860,000 shares at the subscription price of RMB6.45 per share, resulting in a total cash consideration of RMB108,707,000. The cash consideration is required to be fully settled no later than the fifth anniversary of the exercised date and bears an interest before its settlement. The interest rate was 1.8% per annum for the current period and will be adjusted annually.

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2024 (Unaudited) ***RMB'000***	31 December 2023 (Audited) *RMB'000*
Cash and bank balances	**487,649**	893,171
Time deposits	**2,280,064**	1,783,417
	2,767,713	2,676,588
Less: Non-current time deposits	**(50,000)**	–
Cash and cash equivalents	**2,717,713**	2,676,588
Denominated in RMB	**452,854**	1,533,309
Denominated in US$	**2,110,610**	1,135,716
Denominated in HK$	**151,768**	6,677
Denominated in other currencies	**2,481**	886
Cash and cash equivalents	**2,717,713**	2,676,588

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

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

13. TRADE PAYABLES

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

	30 June 2024 (Unaudited) ***RMB'000***	31 December 2023 (Audited) *RMB'000*
Within 3 months	**24,671**	27,130
3 to 6 months	**612**	1,517
6 to 12 months	**919**	3,708
Over 12 months	**3,947**	1,791
Total	**30,149**	34,146

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

14. OTHER PAYABLES AND ACCRUALS

	30 June 2024 (Unaudited) ***RMB'000***	31 December 2023 (Audited) *RMB'000*
Contract liabilities	**5,240**	2,142
Payroll payables	**11,878**	23,683
Other payables	**35,150**	25,428
Taxes other than income tax	**20,949**	20,792
Contingent consideration payable to an associate *(note)*	**118,000**	–
Advance consideration for disposal of a subsidiary	**50,000**	–
Accrued expenses	**4,006**	10,039
Total	**245,223**	82,084

Note:

As part of the equity investment agreement between the Group and Weijing Medical, contingent consideration related to the capital injection to Weijing Medical is payable, which is dependent on the occurrence of milestone events, mainly including the achievement of medical device registration of Weijing Medical's products and completing a new round of financing. The contingent consideration is expected to be paid within one year as at 30 June 2024.

15. DECONSOLIDATION OF A SUBSIDIARY

On 20 March 2024, the shareholders of Weijing Medical approved certain amendments to the articles of association and the change in board composition of Weijing Medical. Upon the change in board composition becoming effective, the Group lost control of Weijing Medical and thus Weijing Medical ceased to be a subsidiary of the Group. As a result, the Group's retained interests in Weijing Medical was accounted for as an investment in an associate in the consolidated financial statements of the Group since then.

A summary of the effects of the deconsolidation of a subsidiary during the period ended 30 June 2024 was as follows:

	RMB'000 (Unaudited)
Net assets disposed of:	
Property, plant and equipment	14,576
Right-of-use assets	34,542
Intangible assets	284,632
Cash and cash equivalents	8,829
Prepayments, other receivables and other assets	191,082
Inventories	16,533
Trade payables	(5,000)
Other payables and accruals	(4,321)
Lease liabilities	(38,048)
Deferred tax liabilities	(66,020)
Goodwill	167,209
Non-controlling interests	(283,923)
	320,091
Gain on deconsolidation of a subsidiary	27,253
	347,344*
Net cash outflow arising on deconsolidation:	
Bank balance and cash disposed of	(8,829)

* *The amount is the fair value of the Group's retained interest in Weijing Medical, as estimated with the assistance of an independent professional valuer.*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

The Group is a leading medical device manufacturer in China, offering a diverse range of products including medical equipment, instruments, and accessories focused on minimally invasive surgery. During the Reporting Period, the Group increased its equity interest in Hangzhou Weijing Medical Robot Co., Ltd. ("**Weijing Medical**") from 35% to 37%. Through its holding of equity interest in Weijing Medical, the Group holds a platform for laparoscopic surgical robots. The Group can leverage its extensive sales and distribution resources, as well as its capabilities in manufacturing, conducting clinical trials, and regulatory affairs in China, to support the development and deployment of the surgical robots on this platform.

As China's economic activity recovered from the pandemic in the first half of 2023, patient traffic and surgery volumes increased significantly, which established an elevated baseline for the Group's performance in the first half of 2024. The anti-corruption campaigns over the healthcare industry launched in the second half of 2023 have gradually normalized, they will still bring short-term impacts on the medical device industry. Despite these, the Group achieved a growth in its domestic revenue for the Reporting Period, which was primarily driven by increased sales of major disposable product categories, such as disposable trocars, ligation clips, disposable electrocoagulation forceps and other disposable products, as well as strong year-over-year growth in sales of some new products, such as ultrasonic scalpels and staplers.

On volume-based procurement ("**VBP**"), during the Reporting Period, the Beijing-Tianjin-Hebei 3+N alliance had commenced the implementation of VBPs for staplers and ultrasonic scalpels gradually from February 2024 onwards. Besides, the Group won bid for the VBP of ultrasonic scalpels under the Sichuan-Chongqing alliance. We do not expect any change to the distributor model of such products and are currently awaiting notification on the implementation timeline. Notably, a new VBP of hemostatic tissue ligation clips was officially announced in July, which is a Fujian-led nationwide alliance procurement. This procurement encompasses a wide range of hemostatic tissue ligation clip products, and is a nationwide alliance procurement initiative led at the provincial level with a broad geographical coverage. We have a comprehensive portfolio of hemostatic tissue ligation clip products, including polymer ligation clips, titanium clips, absorbable clips, multi-fire ligation clips, and multi-fire titanium clips. Among these, the multi-fire ligation clips, a novel product approved during the Reporting Period, met the product criteria for inclusion in this nationwide alliance procurement. We foresee that the national-level VBP will facilitate accelerated penetration of our products into the end-market, while also supporting import substitution and enabling us to gain bigger market share.

Outside of China, we continued to record growth for exports. Both our customer base and geographical reach continued to expand in the first half of 2024. We believe overseas markets present substantial growth opportunities, particularly in regions previously underserved or unexplored. Throughout the Reporting Period, we focused on enhancing our overseas distributor management by adjusting some of our distributors and refining our customer portfolio. Additionally, shipping schedule issues in South America during the first half of 2024 contributed to a set of factors influencing our export business growth during this Reporting Period. For the six months ended June 30, 2024, the Group achieved an export sales of RMB40.2 million, representing a 2.7% growth from the corresponding period of the previous year.

The growth was primarily attributable to increased sales in the European market. We continued to invest heavily in overseas product registration and approval processes. This included registering our existing products in more countries and regions, as well as accelerating the CE certification applications for some of our promising new products. For example, we obtained 510(k) clearance for a disposable trocar in the United States, and secured new registrations for our visualization trocars and single-port trocars in Panama during the Reporting Period. We have also actively participated in and prepared for more industry conferences and international academic promotion events. During the Reporting Period, the Group added 11 new overseas product registrations, mainly in Central and South America as well as Southeast Asia, partly through partnerships with overseas original equipment manufacturer (OEM) customers or distributors.

For the six months ended June 30, 2024, the Group achieved a total revenue of RMB458.4 million, representing a 13.6% increase from the corresponding period of the previous year. The growth in revenue was mainly attributable to the increase in sales of disposable trocars, ligation clips, disposable electrocoagulation forceps, ultrasonic scalpels, staplers and other disposable products. The Group's net profit attributable to owners of the parent for the six months ended June 30, 2024 has increased by 11.9% from RMB255.5 million for the corresponding period in 2023 to RMB285.8 million in the Reporting Period. The increase was mainly attributable to the increases in revenue and other income and gains. 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 from short-term financial products and gain on deconsolidation of Weijing Medical, has increased by 15.9% from RMB237.2 million for the corresponding period in 2023 to RMB274.9 million in the Reporting Period.

Research and Development

During the Reporting Period, the Group added 12 new product registrations in China, excluding the renewal of existing product registrations. As of June 30, 2024, the Group had a total of 104 domestic National Medical Products Administration (NMPA) product registrations, including 14 for Class III medical devices, 55 for Class II medical devices, and 35 for Class I medical devices. In the Reporting Period, the Group also obtained 20 new patents in China, whereas Weijing Medical obtained 50 new patents on a standalone basis.

The Group continued to increase its research and development ("**R&D**") investment, with a firm focus on the field of minimally invasive surgery. Committed to providing surgeons with comprehensive minimally invasive surgical solutions, we are focusing our R&D efforts on projects that offer promising market potential, lower risk profiles, and enable us to enhance our existing minimally invasive surgical product portfolio. This strategy includes both the refinement and iteration of our existing products, as well as driving innovation through the synergy of clinical practice and engineering, guided by a clinically-oriented approach.

During the Reporting Period, the Group's product portfolio continued to expand and evolve, with breakthroughs particularly in our closure devices. We obtained an approval for an absorbable knotless suture, a Class III medical device. This advanced suture allows for suturing without the need for knot-tying, thereby improving the efficiency of surgical suturing and simplifying complex procedures. The product has outstanding biocompatibility and can be gradually absorbed by the body after implantation. Absorbable knotless sutures were introduced relatively recent in the Chinese market, and their market penetration remains at a nascent stage, with imported brands currently dominating the market. We expect there will be significant growth opportunities for domestic products in the future. Another closure device that was approved in the first half of the year is the multi-fire ligation clips, another Class III medical device. This product allows for continuous vessel and tissue ligation, avoiding the need for repeated entry and exit of the abdominal cavity during laparoscopic surgery, thereby improving surgical efficiency. Additionally, during the Reporting Period, the Group added two important products to the comprehensive solution for hysteroscopic procedure, including a rigid hysteroscope and a disposable electronic hysteroscope, providing surgeons with more tools for gynecological examinations.

In June 2024, a new R&D building at the Group's Hangzhou headquarters became operational. This building along with other enhanced facilities, strengthens the foundation for the Group's ongoing innovation and product development. The improved working environment in this building is expected to bolster R&D capabilities and aid in attracting top-tier research talent. At the same time, the expanded R&D space allows for more flexible configuration of specialized laboratories, such as the addition of equipment for IEC and high-frequency signal testing. Furthermore, the Group has also built a new animal testing center, which can accelerate product development efficiency and improve R&D quality.

In terms of Weijing Medical, the 4-arm surgical robotic system has completed multi-specialty human clinical trials as of March 2024 and the registration application has been submitted. It is expected to obtain regulatory approvals around the end of 2024. The single-port surgical robotic system has completed product design finalization and is currently undergoing testing and validation. It is expected to complete type inspection and animal testing in the second half of the year, with the goal of starting human clinical trials by the end of 2024. In 2024, the Group and Weijing Medical jointly participated in multiple academic conferences and industry exhibitions, such as the 2024 Academic Annual Meeting of the Chinese Society of Pancreatology in late June in Hangzhou, and the 2024 Annual Conference of the Chinese Medical Doctor Association Surgery Branch in mid-July in Shanghai. Weijing Medical also plans to actively participate in more academic and industry conferences in the second half of the year. Furthermore, Weijing Medical has begun to collaborate with leading regional hospitals to provide standardized training on the use of its robotic systems, facilitating the exchange of laparoscopic surgical techniques and promoting the delivery of high-quality medical resources to the regional healthcare facilities.

Sales and Distribution

We have been continuously promoting the application of new and advanced surgical techniques, organizing a series of single-port surgery video competitions throughout the first half of the year, encouraging doctors to actively explore single-port minimally invasive techniques and driving progress in this field. Meanwhile, we have also launched the promotion of surgical robots, with Kangji and Weijing Medical jointly participating in multiple industry exhibitions and forums. We have organized academic seminars on the hot topic of single-port surgery for multiple specialties, inviting experts to engage in in-depth discussions and share their experiences. In addition, there have been other academic activities for specialties such as hepatobiliary surgery and urology, including live surgeries, salons, and lecture tours. Looking ahead to the second half of the year, we will launch a training program related to single-use hysteroscope, providing systematic technical training to help more doctors master this advanced technique.

In the first half of 2024, we also carried out a series of optimizations in our marketing management and distributor relationships. Through measures such as strengthening communication, improving team collaboration, and enhancing product training, we improved distributor satisfaction and sales capabilities, laying a solid foundation for achieving our annual goals. We engaged in in-depth and continuous interaction with key distributors, strengthening mutual understanding and communication. We also optimized the division of our market team by region and product line, improving market responsiveness and service levels. We continuously enhanced our training programs for new products and major products, ensuring distributors thoroughly understand product features and usage techniques, and enabling them to provide better support to end customers.

Forward Looking

Looking ahead, the domestic market still harbours huge potential, and the Group is confident that it will maintain its leading foothold in minimally invasive surgical instruments and consumables market. The Group is determined to seize the development opportunities brought to the industry by VBP, the increasing penetration rate of minimally invasive surgery and China's aging population. We are committed to expanding and refining our product portfolio to comprehensively address surgeons' evolving needs, offering increasingly complete minimally invasive surgical solutions. Additionally, we have already established a strong brand presence in the domestic market, with the quality of our core products on par with imported offerings. Going forward, we will bolster our overseas marketing network to capture the broader long-term market growth opportunities. By implementing these strategic measures, we will solidify and enhance our market position in the minimally invasive surgery field, staying attuned to the ever-rising clinical demands and driving the Company's long-term sustainable growth.

FINANCIAL REVIEW

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

Revenue

	Six months ended June 30,		
	2024	2023	Changes
	RMB'000	*RMB'000*	*%*
	(Unaudited)	(Unaudited)	
Disposable products			
Disposable trocars	**191,702**	169,856	12.9
Ligation clips	**103,835**	99,404	4.5
Disposable electrocoagulation forceps	**67,041**	51,505	30.2
Ultrasonic scalpels	**23,737**	12,479	90.2
Staplers	**3,708**	305	1,115.7
Other disposable products[(1)]	**19,118**	8,471	125.7
Sub-total	**409,141**	342,020	19.6
Reusable products			
4K endoscopic camera systems	**13,001**	17,888	(27.3)
Other reusable products[(2)]	**36,271**	43,681	(17.0)
Sub-total	**49,272**	61,569	(20.0)
Total	**458,413**	403,589	13.6

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 RMB458.4 million for the six months ended June 30, 2024, representing an increase of 13.6% as compared to RMB403.6 million for the corresponding period in 2023. The increase in revenue was primarily attributable to the increase in sales of disposable products including disposable trocars, ligation clips, disposable electrocoagulation forceps, ultrasonic scalpels, staplers and other disposable products.

Disposable Products

The Group's disposable products include disposable trocars, ligation clips, disposable electrocoagulation forceps, ultrasonic scalpels, staplers and other disposable products. Disposable products recorded revenue of RMB409.1 million for the Reporting Period, representing an increase of 19.6% as compared to RMB342.0 million for the corresponding period in 2023. Such increase was attributable to the better growth of the Group's main disposable products including disposable trocars, ligation clips, electrocoagulation forceps, ultrasonic scalpels and staplers. During the Reporting Period, sales of disposable products accounted for 89.3% of the Group's total revenue as compared to 84.7% for the corresponding period in 2023.

Disposable trocars recorded revenue of RMB191.7 million for the Reporting Period, representing an increase of 12.9% as compared with RMB169.9 million for the corresponding period in 2023. Disposable trocars accounted for approximately 41.8% of the Group's total revenue during the Reporting Period as compared to approximately 42.1% for the corresponding period in 2023. In particular, sales of single-site trocars continued to exhibit high growth in the first half of 2024. During the Reporting Period, sales of disposable trocars attributable to VBP regions including Shandong, Fujian, Hunan, Hebei and Guangdong provinces recorded better growth in the first half of 2024.

Ligation clips recorded revenue of RMB103.8 million for the Reporting Period, representing an increase of 4.5% as compared with RMB99.4 million for the corresponding period in 2023. Ligation clips accounted for approximately 22.7% of the Group's total revenue during the Reporting Period. Sales of ligation clips exhibited slight growth as influenced by the forthcoming Fujian-led nationwide VBP where the bidding process will be concluded in the third quarter of 2024. We are confident that the outcome of such nationwide VBP of ligation clips will be favourable to the Group, and thus boosting the certainty of its future sales growth of the Group.

Disposable electrocoagulation forceps recorded revenue of RMB67.0 million for the Reporting Period, which accounted for approximately 14.6% of the Group's total revenue for the Reporting Period as compared to 12.8% for the corresponding period in 2023. Disposable electrocoagulation forceps continued to experience high growth in demand and recorded high sales growth of 30.2% for the Reporting Period. As the use of disposable electrocoagulation forceps in minimally invasive surgery is still at a lower level, 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 and staplers were boosted by the effort in strengthening market development and seizing the demand from import substitution and VBPs. During the Reporting Period, sales of ultrasonic scalpels amounted to RMB23.7 million, representing an increase of 90.2% as compared to RMB12.5 million for the corresponding period in 2023.

Reusable Products

Reusable products recorded revenue of RMB49.3 million for the Reporting Period, representing a decrease of 20.0% as compared with RMB61.6 million for the corresponding period in 2023. Such decrease was mainly due to the cyclical purchasing needs of 4K endoscopic camera systems and reusable forceps.

Sales Channel

Revenue from domestic market for the Reporting Period increased by 14.7% as compared to that of 2023. 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 disposable 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 RMB40.2 million for the six months ended June 30, 2024, representing an increase of 2.7% from the corresponding period in 2023. Growth of export sales was moderate during the Reporting Period due to the Group was expanding its customer bases in Asia and Europe as well as consolidating its market presence in the South America. Revenue from overseas markets accounted for 8.8% of the Group's total revenue for the Reporting Period as compared to 9.7% for the corresponding period in 2023.

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

	Six months ended June 30,		
	2024	2023	Changes
	RMB'000	*RMB'000*	*%*
	(Unaudited)	(Unaudited)	
Domestic			
– Distributors	**376,093**	333,143	12.9
– Hospitals and other customers[1]	**42,120**	31,321	34.5
Sub-total	**418,213**	364,464	14.7
Overseas			
– ODM customers	**28,800**	31,154	(7.6)
– Distributors	**11,400**	7,971	43.0
Sub-total	**40,200**	39,125	2.7
Total	**458,413**	403,589	13.6

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 costs and manufacturing costs.

For the six months ended June 30, 2024, the Group's cost of sales was RMB95.3 million, representing an increase of 16.4% as compared with RMB81.8 million for the six months ended June 30, 2023. The increase in cost of sales was generally in line with the Group's revenue.

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

	Six months ended June 30,			
	2024		2023	
	Amount	**% of total**	Amount	% of total
	RMB'000 (except percentages) (Unaudited)			
Raw materials	**48,796**	**51.2**	42,817	52.3
Direct labor costs	**23,603**	**24.8**	19,486	23.8
Manufacturing costs[1]	**22,891**	**24.0**	19,531	23.9
Total	**95,290**	**100.0**	81,834	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 12.9% to RMB363.1 million for the six months ended June 30, 2024 from RMB321.8 million for the six months ended June 30, 2023, due to an increase in sales.

The Group's gross profit margin was 79.2% for the six months ended June 30, 2024, which remained stable as compared to that of 79.7% for the six months ended June 30, 2023. Specifically, the contribution from newer products such as ultrasonic scalpels and staplers increased during the Reporting Period, whereby these products have a lower gross profit margin than that of the other existing 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:

	Six months ended June 30,			
	2024		2023	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
	RMB'000 (except percentages) (Unaudited)			
Disposable products	**333,205**	**81.4%**	286,875	83.9%
Reusable products	**29,918**	**74.4%**	34,880	56.7%
Total	**363,123**	**79.2%**	321,755	79.7%

Other Income and Gains

Other income and gains for the six months ended June 30, 2024 was RMB115.4 million, while for the six months ended June 30, 2023, it was RMB93.8 million. The increase was primarily due to (i) the increase in interest income of RMB20.0 million as compared to those in the corresponding period in 2023; and (ii) the recognition of a gain arising from the deconsolidation of Weijing Medical of RMB27.3 million which was non-recurring in nature as further explained in the section headed "Investment in Weijing Medical" below.

Selling and Distribution Expenses

Selling and distribution expenses were RMB39.1 million for the six months ended June 30, 2024, representing an increase of 19.9% as compared with RMB32.6 million for the six months ended June 30, 2023. 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 such as exhibitions and academic promotional activities.

Administrative Expenses

Administrative expenses amounted to RMB50.9 million for the six months ended June 30, 2024, representing an increase of 12.0% as compared with RMB45.4 million for the corresponding period in 2023. The increase was mainly due to the increase in staff personnel costs and environmental landscaping expenses at the Group's headquarters in recognition of the 20th anniversary of its establishment.

Research and Development Expenses

Research and development expenses for the six months ended June 30, 2024 was RMB43.4 million, representing a decrease of 27.8% as compared with RMB60.1 million for the six months ended June 30, 2023. Such decrease was primarily due to the decrease in research and development expenses contributed by Weijing Medical and consolidated by the Group for lesser months as compared to the corresponding period in 2023 following its deconsolidation from the Group in March 2024, the effect of which was partially offset by the increase in research and development expenses at the Group's headquarters along with the increase in R&D department headcount and its project portfolio.

Other Expenses

Other expenses primarily consist of donation and foreign exchange loss. For the Reporting Period, the Group's other expenses of RMB11.9 million, which was primarily attributable to foreign exchange loss arising from the currency fluctuation of United States Dollar ("**USD**") against RMB.

Investment in Weijing Medical

Reference is made to the Company's announcements dated January 18, 2022 and March 20, 2024 in relation to the equity investment and deconsolidation of Weijing Medical. On March 20, 2024, the shareholders of Weijing Medical had 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 ceased to be able to appoint a majority of members on the Weijing Medical Board and lost control over Weijing Medical. Upon the aforementioned change in board composition becoming effective, Weijing Medical had ceased to be a subsidiary of the Company and the financial results of Weijing Medical was no longer consolidated into the consolidated financial statements of the Company. As at the completion date of Weijing Medical's deconsolidation, the Group recorded a gain of RMB27.3 million, which was calculated based on the difference between the fair value of the Group's retained interest in Weijing Medical, as estimated with the assistance of an independent professional valuer, and the Group's share of the carrying value of the assets and liabilities of Weijing Medical. Weijing Medical was accounted for as an investment in an associate in the consolidated financial statements of the Company since then.

In June 2024, the Group acquired an additional 2% equity interest in Weijing Medical ("**Follow-on Acquisition**") for a cash consideration of RMB10 million from the then existing shareholder of Weijing Medical. Upon the completion of the Follow-on Acquisition and as at June 30, 2024, the Group held as to 37% equity interest in Weijing Medical. Furthermore, the Group paid RMB70 million to Weijing Medical during the Reporting Period to settle part of the contingent consideration payable upon fulfillment of the conditions satisfied by Weijing Medical as stipulated in the relevant investment agreements.

As at June 30, 2024, the Group's carrying value in Weijing Medical was approximately RMB351.5 million, representing approximately 8.1% of the Group's total assets. Therefore, the investment in Weijing Medical is considered the Group's significant investment. No market fair value was available for this private investment as at June 30, 2024.

The principal activities of Weijing Medical is the research and development of, and production of surgical robotic products and instruments for laparoscopic surgery in China. The Group treated its holding of equity interests in Weijing Medical as a long-term investment since January 2022 which is in line with the principal businesses and strategic growth of the Group.

During the Reporting Period, Weijing Medical remained in the product development phase. Consequently, it generated no revenue and incurred a net loss for the period. The Group recognised a share of Weijing Medical's loss amounting to RMB5.9 million proportionate to its share of equity interest in Weijing Medical, for the period from the completion date of Weijing Medical's deconsolidation to June 30, 2024. No dividends were distributed by Weijing Medical during the Reporting Period.

Income Tax Expenses

Income tax expenses were RMB52.0 million for the six months ended June 30, 2024, representing an increase of 24.0% as compared to RMB42.0 million for the six months ended June 30, 2023. The increase in income tax expenses was primarily due to the increase in taxable income of the Group's operating entities and accrued withholding tax chargeable upon repatriation of dividends.

Non-HKFRS Adjusted Net Profit for the Reporting Period

To supplement the Group's 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 and investment income from short-term financial products and gain on deconsolidation of Weijing Medical. 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 periods indicated:

	Six months ended June 30,	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the parent	**285,847**	255,461
Add/(Less):		
Fair value gains on financial assets at fair value through profit or loss(1)	**(46)**	(2,269)
Foreign exchange difference(2)	**10,984**	(23,227)
Share-based payment expenses(3)	**6,183**	7,273
Investment income from short-term financial products(4)	**(842)**	(53)
Gain on deconsolidation of Weijing Medical(5)	**(27,253)**	–
Non-HKFRS adjusted net profit for the period attributable to owners of the parent	**274,873**	237,185

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 USD against RMB for the periods, the amount of which may not directly correlate with the underlying performance of the Group's business operations.

(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 nonoperating performance related factors that are not closely or directly related to the Group's business activities.

(4) Investment income 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) Gain on deconsolidation of Weijing Medical was non-recurring in nature, the amount of which may not directly correlate with the underlying performance of the Group's business operations.

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 its operations and proceeds from the Company's initial public offering on the Stock Exchange on June 29, 2020.

As of June 30, 2024, the Group had cash and cash equivalents of RMB3,058.9 million (including RMB291.2 million recorded in assets classified as held for sale in the consolidated statement of financial position), as compared with RMB2,973.5 million as of December 31, 2023. During the Reporting Period, the increase in cash and cash equivalents of RMB85.4 million was primarily due to the net cash generated from operations, the effect of which was partly offset by (i) net cash used in investing activities mainly for further investment in Weijing Medical and for purchase of short-term financial products; and (ii) net cash used in financing activities mainly for repurchase of the shares of the Company ("**Shares**").

As at June 30, 2024, 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 RMB1,571.4 million as of June 30, 2024, representing a decrease of RMB1,618.5 million as compared with RMB3,189.9 million as of December 31, 2023. The decrease in net current assets was primarily due to the declaration and distribution of final dividend for the year ended December 31, 2023 and special dividend in aggregate amount of RMB1,663.9 million to be payable to the shareholders of the Company (the "**Shareholders**") in July 2024.

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 six months ended June 30, 2024, the Group recorded an exchange loss of RMB11.0 million, as compared to an exchange gain of RMB23.2 million for the six months ended June 30, 2023, primarily attributable to the currency fluctuations of USD against RMB.

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 six months ended June 30, 2024, the Group's total capital expenditure amounted to approximately RMB33.4 million, which was primarily used in purchasing machinery and equipment and construction of buildings. The Group's capital expenditure for the six months ended June 30, 2023 was approximately RMB34.6 million.

Charge of Assets/Pledge of Assets

As of June 30, 2024, the Group did not have any charge of assets or pledge of assets.

Borrowings

As of June 30, 2024, 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 June 30, 2024, the gearing ratio of the Group was 6.5% (as of December 31, 2023: 3.8%).

Contingent Liabilities

As of June 30, 2024, the Group did not have any outstanding contingent liabilities.

Material Acquisitions and Disposals and Significant Investments

Please see the section headed "Investment in Weijing Medical" above for further details in respect of the Group's significant investment of Weijing Medical during the Reporting Period.

Save for the abovementioned, the Group did not hold any significant investment, or have any other material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Reference is made to the Company's announcement dated December 28, 2023 in relation to the disposal of Hangzhou Kangji Qipu Medical Instrument Co., Ltd. by Hangzhou Kangji Medical Instrument Co., Ltd., an indirect wholly-owned subsidiary of the Company. By way of update, as additional time is required to arrange for the completion, the disposal is expected to complete in the second half of 2024. During the six months ended June 30, 2024 and up to the date of this announcement, the purchaser has paid the Company a non-refundable sum of RMB50 million as part of the consideration pursuant to the terms of the equity transfer agreement for this disposal.

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

Employee and Remuneration Policy

As of June 30, 2024, the Group had 964 employees (June 30, 2023: 982 employees). Total staff remuneration expenses including remuneration of the Directors and share-based payment expenses for the six months ended June 30, 2024 amounted to RMB73.6 million (for the six months ended June 30, 2023: RMB67.9 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 and a total of 16,860,000 RSUs were exercised by the grantees. As of June 30, 2024, a total of 5,525,000 RSUs previously granted remain outstanding under the RSU plan.

USE OF PROCEEDS FROM THE GLOBAL OFFERING AND EXTENSION OF THE EXPECTED TIMEFRAME FOR 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 (the "**IPO Proceeds**"). As at December 31, 2023, the Company had an unutilized net proceeds of approximately RMB1,802.4 million (the "**2023 Unutilized Net Proceeds**"). On March 20, 2024, the Company announced the change in the use of the 2023 Unutilized Net Proceeds in its annual results announcement for the year ended December 31, 2023 dated March 20, 2024 (the "**Announcement**").

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 section headed "Future Plans and Use of Proceeds" in the Prospectus and as amended in the section headed "Use of Proceeds from the Global Offering and Change in Use of Proceeds" in the Announcement, save for the following proposed extension of the expected timeframe for using the unutilized net proceeds.

The Group's new R&D building at its Hangzhou headquarters became operational in June 2024, and there is no immediate need to set up further R&D centers in other cities in China in the foreseeable future. However, the Board considers that it is crucial to maintain some flexibility at this stage by allowing allocation of resources to expand the R&D facilities in this new R&D building. Having considered the above reasons, the Board has determined to extend another two years in the expected timeframe for the full utilization of the unutilized net proceeds in respect of the establishment of R&D centers, and accordingly, the full utilization of such amount allocated has been extended to within four to six years from the date of listing.

The table below sets out the planned and revised planned applications of the IPO Proceeds, the revised planned applications of the 2023 Unutilized Net Proceeds and the actual accrued usage up to, and the unutilized net proceeds as at, June 30, 2024:

Use of proceeds	**Planned applications of the IPO Proceeds** [(1)]	**Revised planned application of the IPO Proceeds** [(1)(2)]	**Revised planned applications of the 2023 Unutilized Net Proceeds** [(3)]		**Utilization during the six months ended June 30, 2024**	**Actual usage up to June 30, 2024**	**Unutilized net proceeds as at June 30, 2024**	**Expected timeframe for using the unutilized net proceeds (from the date of listing)** [(4)]
	(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	216.3	12.0	25.1	25.1	191.2	within three to five years
to build up production capabilities for pipeline products	260.1	275.1	144.2	8.0	19.8	19.8	124.4	within six years
For funding R&D activities, including:								
to establish R&D centers	433.5	458.5	90.1	5.0	12.8	12.8	77.3	within four to six years
for development and expansion of product pipeline	204.0	215.8	180.3	10.0	24.3	24.3	156.0	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	180.3	10.0	18.5	18.5	161.8	within four to five years
to increase overseas sales	127.5	134.9	90.1	5.0	2.9	2.9	87.2	within three to five years
For funding potential strategic investment and acquisitions	637.5	674.3	360.5	20.0	80.0	80.0	280.5	within five years
For working capital and general corporate purposes	255.0	269.7	540.6	30.0	44.1	44.1	496.5	within four to six years
Total	**2,550.0**	**2,697.1**	**1,802.4**	**100.0**	**227.5**	**227.5**	**1,574.9**	

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 had 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.

(3) On March 20, 2024, the Board had resolved to change the use of the 2023 Unutilized Net Proceeds, which is 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. Further details of reasons for such change in use of proceeds were set out in the Announcement.

(4) 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.

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 six months ended June 30, 2024. 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 5,509,500 Shares on the Stock Exchange at an aggregate consideration of approximately HK$33.8 million (excluding brokerage fees and taxes) during the six months ended June 30, 2024 (during the six months ended June 30, 2023: approximately HK$15.7 million) at price ranging from HK$5.56 to HK$7.08. 1,490,500 Shares were cancelled during the six months ended June 30, 2024. The Company repurchased a total of 600,000 Shares during the period from July 1, 2024 to the date of this announcement and 4,619,000 Shares were cancelled in July 2024. As at the date of this announcement, the Company has 1,210,202,000 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 six months ended June 30, 2024.

Review of Interim Results

The audit committee of the Company (the "**Audit Committee**") consists of two independent non-executive Directors, Mr. CHEN Weibo and Mr. JIANG Feng, and one non-executive Director, Ms. CAI Li. The chairman of the Audit Committee is Mr. CHEN Weibo. The Audit Committee has reviewed the interim results of the Group for the six months ended June 30, 2024 and has recommended for the Board's approval thereof.

The Audit Committee has reviewed together with the management the accounting principles and policies adopted by the Group and the interim condensed consolidated financial information for the six months ended June 30, 2024. The Audit Committee was satisfied that such consolidated financial information were prepared in accordance with the applicable accounting standards and fairly present the Group's financial position and results for the Reporting Period.

This interim results announcement is made based on the unaudited condensed consolidated financial information of the Group for the six months ended June 30, 2024.

Events after the Reporting Period

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

Interim Dividend

The Board did not recommend the payment of any interim dividend for the six months ended June 30, 2024.

Publication of Interim Results and Interim Report

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.kangjimedical.com). The interim report of the Company for the six months ended June 30, 2024 containing all the information in accordance with the requirements under the Listing Rules will be published on the respective websites of the Stock Exchange and the Company on or about September 25, 2024.

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

Hangzhou, PRC, August 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*