康基®
KANGJI

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 9997

Interim Report 2022

Contents

Corporate Information

BOARD OF DIRECTORS

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

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

Independent Non-executive Directors
Mr. JIANG Feng
Mr. GUO Jian
Mr. CHEN Weibo

AUDIT COMMITTEE

Mr. CHEN Weibo *(Chairman)*
Mr. JIANG Feng
Ms. CAI Li

REMUNERATION COMMITTEE

Mr. CHEN Weibo *(Chairman)*
Ms. SHENTU Yinguang
Mr. GUO Jian

NOMINATION COMMITTEE

Mr. ZHONG Ming *(Chairman)*
Mr. JIANG Feng
Mr. GUO Jian

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

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

COMPANY SECRETARY

Mr. WAN Siu Keung

AUTHORIZED REPRESENTATIVES

Mr. ZHONG Ming
Mr. YIN Zixin

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

REGISTERED OFFICE

Maples Corporate Services Limited
P.O. Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

CORPORATE HEADQUARTERS

No. 1668 Chunjiang East Road
Tonglu Economic Development Zone
Hangzhou
Zhejiang Province
PRC

HONG KONG LEGAL ADVISER

Cleary Gottlieb Steen & Hamilton (Hong Kong)
37/F, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat 1007B, 10/F, Harbour Crystal Centre
100 Granville Road, Kowloon
Hong Kong

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

INVESTOR RELATIONS

T: +86 571 69900020
E: ir@hzkangji.com

WEBSITE

www.kangjimedical.com

STOCK CODE

9997

Financial Highlights

The financial highlights of the Group for the Reporting Period together with the comparative figures for the corresponding period in the last three financial periods are set out as follows:

	Six months ended June 30,			
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	**332,321**	318,124	212,587	216,059
Gross profit	**265,712**	261,227	177,634	180,019
Profit for the period	**153,497**	199,358	89,596	130,653
Profit attributable to owners of the parent	**157,713**	199,358	80,742	83,618
Non-HKFRS adjusted net profit attributable to owners of the parent*	**215,320**	201,195	124,544	82,766
Earnings per share				
–Basic (RMB)	**12.95 cents**	16.27 cents	11.92 cents	8.14 cents
–Diluted (RMB)	**12.95 cents**	16.14 cents	11.82 cents	8.14 cents

* For details, please see section headed "Management Discussion and Analysis – Non-HKFRS Adjusted Net Profit for the Reporting Period"

For the Reporting Period, the Company realized revenue of RMB332.3 million, representing an increase of 4.5% as compared to the corresponding period in 2021. Our increase in sales was mainly attributable to a strong growth in export sales especially in disposable products such as disposable trocars and polymer ligation clips. Our domestic sales also increased slightly, which was driven mainly by the increase in sales of single-site trocars, disposable electrocoagulation forceps, 4K-ultra resolution endovision camera systems and other disposable products.

The Group's net profit attributable to owners of the parent for the Reporting Period decreased by 20.9% from RMB199.4 million in 2021 to RMB157.7 million in 2022. The decrease was mainly due to the increase of administrative expense, R&D expenses, and other expenses such as foreign exchange loss. The Group's adjusted total net profit attributable to owners of the parent for the Reporting Period which excludes share-based payment expense, foreign exchange difference and investment gain/loss from short-term financial products, increased by 7.0% from RMB201.2 million to RMB215.3 million.

The Board did not recommend the payment of any interim dividend for the six months ended June 30, 2022.

Management Discussion and Analysis

OUR MISSION

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

BUSINESS OVERVIEW AND OUTLOOK

We are China's largest domestic vertically integrated platform that offers a diversified product portfolio of medical equipment, instruments and accessories devoted to minimally invasive surgery. In the first half of 2022, China had the country's biggest COVID-19 outbreak since the initial outbreak two years ago. Despite the negative impact on China's overall economy and many businesses across the board due to COVID-related restrictions, the Company remained in a solid position both financially and operationally to execute our core development strategy and continue to invest for the future.

The main impact of COVID related restrictions and lockdown in China on us during the Reporting Period was on the elective surgery volume, which has dropped significantly in April this year as hospital capacity and patient flow were much reduced across the country. As a result, demand for the majority of our products was affected. As the hospitals prioritized their resources for COVID patients and COVID control testing, new medical equipment's product approvals were halted or delayed. In-person activities with external parties were minimized, therefore we were not able to carry out in-person academic promotion or marketing activities during the second quarter of this year. As the COVID outbreak was gradually under control in May 2022, we started to see recovery in surgery volume and demand for our products, with strong rebound momentum in June 2022. We finished the first half of this year with a slight positive growth in overall sales as compared to the corresponding period in 2021. On the R&D as well as manufacturing and supply side, there has been little impact due to COVID restrictions. This is mainly because we had prepared ample raw materials to support product manufacturing for a couple of months.

Since last year, we have made it a priority to expand and grow our export sales. Despite the domestic COVID outbreaks and disruption of local economic activities, we have delivered strong export sales growth, especially for the first quarter of 2022. During the second quarter, shipment for export sales has been postponed due to COVID impact on port logistics. Our export sales of RMB30.5 million for the six months ended June 30, 2022 represented 45.9% growth from the corresponding period of the previous year, or approximately 47.2% growth on a constant currency basis, excluding foreign exchange impact. We increased our overseas product registrations, mainly in South America for the six months ended June 30, 2022. Our export sales expanded to more than 80 customers in 42 countries and regions for the six months ended June 30, 2022 from approximately 60 customers in 34 countries and regions in the corresponding period of the previous year. We further expanded our international sales and marketing team with the goal of broadening our overseas distribution channels, enhancing our external marketing activities through a combination of online multi-platform marketing and offline exhibitions, and enhancing specialization of team members with more refined division of responsibilities and evaluation of performance.

On the regulatory policy front, regional VBP continued to be the new normal. During the first half of this year, Hunan province started implementation of regional VBP for disposable trocars, effective in nine cities. Our VBP bid price for this product and sales model are the same as Shandong and Fujian provinces. We continue to keep the distributor model for the rest of Hunan province. The implementation of four-province alliance VBP for polymer ligation clips commenced at the end of May this year in Shandong province, followed by Henan, Hebei, and Shanxi provinces in July and early August this year. We expect to benefit from such VBP implementation due to: (1) broader and faster hospital penetration; (2) uptake in usage volume stimulated by the price cut; and (3) consolidated player list post VBP will increase import substitution and allow us to potentially gain market share.

Management Discussion and Analysis

For the six months ended June 30, 2022, we achieved total revenue of RMB332.3 million, representing a 4.5% increase from the corresponding period of the previous year. The Group's net profit attributable to owners of the parent for the six months ended June 30, 2022 decreased by 20.9% from RMB199.4 million for the first six months of 2021 to RMB157.7 million in the Reporting Period. The decrease was mainly due to the increase of administrative expense, R&D expenses, and other expenses such as foreign exchange loss. The Group's non-HKFRS adjusted net profit attributable to owners of the parent for the six months ended June 30, 2022, which excludes share-based payment expense, foreign exchange difference and investment gain/loss from short-term financial products, increased by 7.0% from RMB201.2 million for the six months ended June 30, 2021 to RMB215.3 million for the six months ended June 30, 2022.

Strategic Investment

On January 18, 2022, the Company made an announcement in relation to its acquisition of an aggregate of 35% equity interest in Hangzhou Weijing Medical Robot Co., Ltd.* (杭州唯精醫療機器人有限公司, "**Weijing Medical**"). Weijing Medical is primarily engaged in the R&D of, and production of surgical robotic products and instruments for laparoscopic surgery in China. It is not only a fast-growing sector, but also an area we are committed to invest in and develop in the long run. With our controlling interest in Weijing Medical, it will become our future surgical robotic product platform, with significant potential synergies with the Company's R&D, production, academic promotion, and sales and distribution network.

The investment was completed in February 2022 at which point Kangji Hong Kong, a subsidiary of the Company, became the single largest shareholder with control of Weijing Medical. As a result, Weijing Medical became an indirect non-wholly owned subsidiary of the Company and the financial results of Weijing Medical have been consolidated into the Company's consolidated financial statements as of June 30, 2022. Since the acquisition, Weijing Medical contributed a loss of approximately RMB6.5 million to the consolidated profit or RMB2.3 million to the net profit attributable to the owners of the parent for the six months ended June 30, 2022. Based on the Investment Agreements, the first payment was completed in February 2022 for the amount of RMB124,870,000 in total, with the remaining consideration amount of RMB238,000,000 to be paid later in the year. Currently the clinical trial for Weijing Medical's first product is underway.

Unless otherwise noted, the financial and non-financial data in this report refer to the aggregated data including contribution from Weijing Medical.

Research and Development

For the six months ended June 30, 2022, we made on-track progress for our pipeline products. We obtained a total of four new domestic registration approvals (excluding renewal registrations) including 4K UHD fluorescence camera system, multi-fire laparoscopic titanium clip applier with disposable titanium clip cartridge and scalpel for ultrasonic & high frequency electrosurgical system. We also added 43 new patents in China including through the acquisition of Weijing Medical. As of June 30, 2022, the Company had obtained a total of 227 domestic patents, including 39 invention patents, 157 utility patents, and 31 design patents.

We expanded our team further including senior and middle level hires to focus on advanced medical equipment and innovative medical technology, as it will be key to continue differentiating our products. We believe that products with differentiated and innovative features to address clinical needs will not only be supported by accelerated regulatory approval path (via green path) but also allow more competitive pricing in the long run.

As at June 30, 2022, we have also won the bid to acquire the land use right in the amount of RMB28.5 million for a piece of land in Xiaoshan district of Hangzhou. This will be the site for our new R&D center in Xiaoshan and the construction is expected to be completed within the next three to four years.

Management Discussion and Analysis

Sales and Distribution

In response to new local VBPs, we continue to adopt a hybrid of sales models as opposed to a single approach. Our response depends on the local competitive dynamics, market potential for our overall diversified product portfolio, and potential magnitude of price cut from VBP. Since VBP can potentially broaden our access to hospitals and deepen our penetration, we strive to work with distributors or external partners to capture the volume uptake as a result of the VBP, and to continue to market other under-penetrated products in our portfolio that are not subject to VBP.

During the Reporting Period, due to disruption caused by COVID restriction and lockdown, we mainly carried out online academic promotion activities with a focus on product clinical training. For example, we increased the frequency of our online training series on single-site trocar products. Our sale of single-site trocars, currently accounting for approximately 5% of our total sales, increased by more than 60% year-on-year in the Reporting Period thanks to our academic promotion effort in the past two years.

We continued to optimize our internal organizational structure and further strengthen all aspects of the distributor management system, from contract management, order tracking, academic promotion resources, to performance evaluation, and end-market data collection and insight. We're also in the process of establishing a more refined after-sales support system for our distributors to provide resources and support at a more local level. In turn, this support system can help us attract and engage more local distributors.

Forward Outlook

We currently expect gradual recovery of elective surgery volume in the second half of 2022, assuming there is no wide spread resurfacing of local COVID outbreak. The uncertainty of the COVID situation in China and the government's response may continue to impose risks to our future growth. Regardless, we have the resources to continue executing our long-term strategy and developing our position in the market.

FINANCIAL REVIEW

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

Revenue

	Six months ended June 30,		
	2022	2021	
	RMB'000	RMB'000	Changes
	(Unaudited)	(Unaudited)	%
Disposable products			
Disposable trocars	**155,243**	157,989	(1.7)
Polymer ligation clips	**83,128**	83,003	0.2
Disposable electrocoagulation forceps	**39,794**	30,789	29.2
Ultrasonic scalpels	**6,086**	4,453	36.7
Other disposable products[1]	**8,762**	5,755	52.3
Sub-total	**293,013**	281,989	3.9
Reusable products[2]	**39,308**	36,135	8.8
Total	**332,321**	318,124	4.5

Notes:

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

(2) Reusable products primarily include reusable trocars, reusable forceps, 4K-ultra resolution endovision camera systems and other reusable products.

Our revenue amounted to RMB332.3 million for the six months ended June 30, 2022, representing an increase of 4.5% as compared to RMB318.1 million for the corresponding period in 2021. 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 our ongoing export to expand our overseas channels, increase product registrations and overseas marketing activities.

Management Discussion and Analysis

Disposable Products

Our disposable products include disposable trocars, polymer ligation clips, disposable electrocoagulation forceps, ultrasonic scalpels, and other disposable products. Our disposable products recorded revenue of RMB293.0 million for the Reporting Period, representing an increase of 3.9% as compared to RMB282.0 million for the corresponding period in 2021. Such increase was mainly attributable to the year-on-year growth in revenue generated by sales of disposable electrocoagulation forceps, ultrasonic scalpels and other disposable products. Due to COVID outbreaks and restrictions and lockdowns across the country in the first half of 2022, demand for disposable products was affected by the decline in elective surgeries most noticeable in April and May, with gradual recovery since mid-May. During the Reporting Period, sales of disposable products accounted for 88.2% of our total revenue as compared to 88.6% for the corresponding period in 2021.

Disposable trocars recorded revenue of RMB155.2 million for the Reporting Period, representing a decrease of 1.7% as compared with RMB158.0 million for the corresponding period in 2021. Disposable trocars accounted for approximately 46.7% of our total revenue during the Reporting Period as compared to approximately 49.7% for the corresponding period in 2021. Sales of disposable trocars remained stable during the Reporting Period mainly due to the recovery in year-on-year sales growth in May and June this year, after a significant decline in sales in April this year due to COVID restrictions. Both our export sales of disposable trocars and overall sales of single-site trocars exhibited strong growth in the first half of 2022. Starting in January 2022, Hunan province implemented VBP price effective in nine cities. Similar to Shandong and Fujian provinces, we have switched to the more direct sales model of engaging with logistics and external promotion partners in the VBP regions in Hunan province while maintaining the distributor model for the remaining regions in Hunan province. The implementation of four-province alliance VBP for polymer ligation clips commenced at the end of May this year in Shandong province, followed by Henan, Hebei, and Shanxi provinces in July and early August this year.

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

Reusable Products

Our reusable products recorded revenue of RMB39.3 million for the Reporting Period, representing an increase of 8.8% as compared with RMB36.1 million for the corresponding period in 2021. Such increase was mainly due to the increase in sales of 4K-ultra resolution endovision camera systems which was launched during the first half of 2021.

Sales Channel

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

Revenue from overseas markets was approximately RMB30.5 million for the six months ended June 30, 2022, representing an increase of 45.9% from the corresponding period in 2021. We recorded export sales growth of 47.2% for the Reporting Period on a constant currency basis in terms of USD, which is the transaction currency of our export sales. Growth of our export sales was strong during the Reporting Period due to our ongoing effort to expand overseas channels, increase product registrations in overseas markets and build up our export team. Revenue from overseas markets accounted for 9.2% of our total revenue for the first half of 2022 as compared to 6.6% for the corresponding period in 2021.

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

	Six months ended June 30,		
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)	Changes %
Domestic			
– Distributors	**284,840**	271,807	4.8
– Hospitals and other customers[1]	**16,934**	25,387	(33.3)
Sub-total	**301,774**	297,194	1.5
Overseas			
– ODM customers	**25,772**	18,596	38.6
– Distributors	**4,775**	2,334	104.6
Sub-total	**30,547**	20,930	45.9
Total	**332,321**	318,124	4.5

Note:

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

Cost of Sales

Our 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, 2022, our cost of sales was RMB66.6 million, representing an increase of 17.0% as compared with RMB56.9 million for the six months ended June 30, 2021. The increase in cost of sales was primarily in line with the increase in sales revenue. During the Reporting Period, direct labor costs and manufacturing costs increased to a higher extent than that of sales revenue because we increased the headcount of our manufacturing team to support our growing operations.

Management Discussion and Analysis

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

	Six months ended June 30,			
	2022		2021	
	Amount	% of total	Amount	% of total
	RMB'000 (except percentages) (Unaudited)			
Raw materials	31,657	47.5	28,199	49.6
Direct labor costs	20,092	30.2	16,943	29.8
Manufacturing costs(1)	14,860	22.3	11,755	20.6
Total	66,609	100.0	56,897	100.0

Note:

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

Gross Profit and Gross Margin

Our gross profit increased by 1.7% to RMB265.7 million for the six months ended June 30, 2022 from RMB261.2 million for the six months ended June 30, 2021, due to an increase in sales.

Our gross profit margin was 80.0% for the six months ended June 30, 2022, down from 82.1% for the six months ended June 30, 2021, which was primarily due to the change in product mix attributable to the decrease in sales contribution from disposable trocars and polymer ligation clips which have higher gross margins than our other products.

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

	Six months ended June 30,			
	2022		2021	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000 (except percentages) (Unaudited)			
Disposable products	243,805	83.2%	239,912	85.1%
Reusable products	21,907	55.7%	21,315	59.0%
Total	265,712	80.0%	261,227	82.1%

Other Income and Gain

Other income and gain for the six months ended June 30, 2022 was RMB61.4 million, while for the six months ended June 30, 2021, it was RMB42.0 million. The increase was primarily due to (1) an increase of RMB11.9 million in interest income arising from bank deposits; and (2) an increase of RMB14.2 million in government grants representing subsidies received from the local governments as compensation for expenses incurred for R&D activities, reward for financial contribution and capital expenditure incurred for certain projects.

Selling and Distribution Expenses

Selling and distribution expenses were RMB23.9 million for the six months ended June 30, 2022, representing an increase of 13.7% as compared with RMB21.0 million for the six months ended June 30, 2021. The increase was primarily due to the increase in staff costs and share-based payment expenses associated with our RSUs granted along with the expansion of our sales and distribution staffs. The effect of such increase was partly offset by (i) the decrease in expenses associated with advertising and academic promotion activities due to the travel restrictions under COVID-19 in the Reporting Period; and (ii) the decrease in marketing and promotion fees paid to external partners in Fujian province as a result of the implementation of VBP for disposable trocars starting in June 2021.

Administrative Expenses

Administrative expenses amounted to RMB33.6 million for the six months ended June 30, 2022, representing an increase of 30.7% as compared with RMB25.7 million for the corresponding period in 2021. The increase was mainly due to an increase in staff costs, office and entertainment expenses, depreciation and amortization charges, and external consultants' fees, in which part of such expenses were contributed by Weijing Medical being acquired by us in the Reporting Period.

Research and Development Expenses

R&D expenses for the six months ended June 30, 2022 was RMB26.3 million, representing an increase of 63.5% as compared with RMB16.1 million for the six months ended June 30, 2021, primarily due to (i) contribution of R&D expense in the amount of RMB7.3 million by Weijing Medical since its acquisition, and (ii) the increase in staff costs attributable to the expansion of our R&D team based in Xiaoshan.

Other Expenses

Other expenses primarily consist of donation, foreign exchange loss, investment loss from/loss on fair value change on financial assets at FVTPL, and loss on disposal of assets. For the Reporting Period, we recorded other expenses of RMB47.8 million, which was primarily attributable to foreign exchange loss arising from the depreciation of RMB against USD as well as investment loss from financial assets at FVTPL arising from our short-term financial products being used for hedging against fluctuation in foreign exchange between RMB and USD.

Income Tax Expenses

Income tax expenses were RMB41.3 million for the six months ended June 30, 2022, representing an increase of 18.0% as compared to RMB35.0 million for the six months ended June 30, 2021. The increase in income tax expenses was primarily due to the increase in taxable profit of our operating entities in mainland China for the Reporting Period as well as an increase in the amount of RMB3.3 million in withholding taxes associated with the distributable profits of our subsidiaries in mainland China.

Management Discussion and Analysis

Non-HKFRS Adjusted Net Profit for the Reporting Period

To supplement our unaudited consolidated statement of profit or loss and other comprehensive income which is presented in accordance with the HKFRS, we also use adjusted net profit as a non-HKFRS measure, which is not required by, or presented in accordance with, HKFRS. We believe that the presentation of non-HKFRS measure when shown in conjunction with the corresponding HKFRS measures provides useful information to investors and management in facilitating a comparison of our operating performance from period to period by eliminating potential impacts of certain non-operational or one-off expenses that do not affect our ongoing operating performance, including foreign exchange difference, share-based payment expenses and investment gain/loss from short-term financial products. Such non-HKFRS measure allows investors to consider metrics used by our management in evaluating our performance.

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

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the parent	**157,713**	199,358
Add:		
Foreign exchange difference	**26,549**	3,468
Share-based payment expenses	**7,526**	3,163
Investment loss/(gain) from short-term financial products	**23,532**	(4,794)
Non-HKFRS adjusted net profit for the period attributable to owners of the parent	**215,320**	201,195

Notes:

(1) Foreign exchange difference is non-operational in nature which mainly arises from the currency fluctuation of USD against RMB for the periods, the amount of which may not directly correlate with the underlying performance of our business operations.

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

(3) Investment loss/(gain) from short-term financial products purchased mainly for hedging foreign currency fluctuations is non-operational in nature which is affected by the currency fluctuation of USD against RMB for the periods, the amount of which may not directly correlate with the underlying performance of our business operations. As the net investment gain of RMB4,794,000 in the corresponding period in 2021 is relatively immaterial, it was not excluded from the non-HKFRS adjusted net profit attributable to owners of the parent in the Company's interim report for the corresponding period in 2021.

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

Management Discussion and Analysis

Liquidity and Capital Resources

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

As of June 30, 2022, we had cash and cash equivalents of RMB3,056.5 million, as compared with RMB2,953.7 million as of December 31, 2021.

Net Current Assets

We had net current assets of RMB3,009.9 million as of June 30, 2022, representing a decrease of RMB41.9 million as compared with RMB3,051.8 million as of December 31, 2021. The decrease in net current assets was primarily due to the combined effects of (i) the net increase in cash and cash equivalents generated from our operations; (ii) our capital expenditure incurred during the current period; and (iii) the final dividends payable to our Shareholders.

Foreign Exchange Exposure

During the Reporting Period, the Group's operations were primarily based in Mainland China. Assets, liabilities and transactions in the PRC are mainly denominated in RMB, while overseas assets and transactions are mainly denominated in USD. We are exposed to foreign currency risks, primarily including account receivables, account payables and cash balances that are denominated in a foreign currency, i.e., a currency other than our functional currency. For the six months ended June 30, 2022, the Group recorded an exchange loss of RMB24.2 million, as compared to an exchange loss of RMB3.5 million for the six months ended June 30, 2021, primarily due to the remeasurement loss of RMB denominated cash balances held by offshore entities as a result of the depreciation of RMB against USD being their functional currency.

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. During the Reporting Period, the Group purchased dual-currency products issued by financial institutions with the aim of hedging against potential exchange rate fluctuation between USD and RMB.

Capital Expenditure

For the six months ended June 30, 2022, the Group's total capital expenditure amounted to approximately RMB69.9 million, which was primarily used in construction of buildings, purchase of land use rights and machinery and equipment. The Group's capital expenditure for the six months ended June 30, 2021 was approximately RMB14.9 million.

Borrowings

As of June 30, 2022, we did not have any outstanding bank loans and other borrowings. We monitor capital using a gearing ratio, which is debt divided by total assets. Debt includes trade payables, other payables and accruals, and lease liabilities. As of June 30, 2022, the gearing ratio of the Group was 7.3% (as of December 31, 2021: 2.8%).

Contingent Liabilities

As of June 30, 2022, we did not have any outstanding contingent liabilities.

Management Discussion and Analysis

Charge of Assets/Pledge of Assets

As of June 30, 2022, we did not have any charge of assets or pledge of assets.

Major Investment, Acquisition and Disposal

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

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

Future Plans for Material Investments and Capital Assets

The Group intends to utilize the net proceeds raised from the Global Offering to pursue strategic investment and to fund acquisition of capital assets for our expansion in the manner set out in the Prospectus and further explained in section headed "Use of Proceeds from the Global Offering" below. Save as disclosed in this report, the Group did not have any plan for material investments and capital assets.

Employee and Remuneration Policy

As of June 30, 2022, the Group had 846 employees (June 30, 2021: 694 employees). Total staff remuneration expenses including remuneration of the Directors and share-based payment expenses for the six months ended June 30, 2022 amounted to RMB62.3 million (for the six months ended June 30, 2021: RMB36.5 million).

The remuneration of Directors and senior management is determined with reference to the salaries of comparable companies and their experience, duties and performance. The remuneration of other employees is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice.

The table below sets forth the Group's employees by function as disclosed:

	Number	% of total
Production	522	61.7%
Research and development	130	15.4%
Sales and marketing	68	8.0%
Management and administrative	61	7.2%
Quality control	36	4.3%
Warehouse management	20	2.4%
Procurement	9	1.0%
Total	846	100.0%

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

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

Interest in the Company

Name of Director/Chief Executive	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in the total issued share capital (%)
Mr. Zhong Ming	Beneficiary of a trust (Note 2)	408,500,000 (L)	32.81 (L)
	Interest of spouse (Note 4)	231,500,000 (L)	18.59 (L)
Ms. Shentu Yinguang	Beneficiary of a trust (Note 3)	231,500,000 (L)	18.59 (L)
	Interest of spouse (Note 4)	408,500,000 (L)	32.81 (L)
Ms. Frances Fang Chovanec	Beneficial owner (Note 5)	4,120,000 (L)	0.33 (L)
Mr. YIN Zixin	Beneficial owner (Note 6)	4,125,000 (L)	0.33 (L)

Notes:

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

(2) Fortune Spring ZM B Limited is owned by Fortune Spring ZM AA Limited and Fortune Spring ZM A Limited as to 99.9% and 0.1%, respectively. Fortune Spring ZM AA Limited is wholly owned by the Fortune Spring ZM Trust, for which Credit Suisse Trust Limited serves as the trustee and Mr. Zhong Ming acts as the settlor and protector.

(3) Fortune Spring YG B Limited is owned by YG AA Limited and Fortune Spring YG A Limited as to 99.8% and 0.2%, respectively. YG AA Limited is wholly owned by The YG Trust, for which BOS Trustee Limited serves as the trustee, and Ms. Shentu Yinguang acts as the settlor and Mr. Zhong acts as the protector.

(4) Mr. Zhong Ming and Ms. Shentu Yinguang are spouses, and therefore are deemed to be interested in the Shares held by each other under the SFO.

(5) Ms. Chovanec is interested in the share options in respect of 4,120,000 underlying Shares granted to her in accordance with the Pre-IPO Share Option Plan adopted on May 6, 2020.

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

Save as disclosed above, as of the date of this report, none of the Directors or chief executive of the Company has or is deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or which will be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Corporate Governance and Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of date of this report, to the best knowledge of the Directors, the followings are the persons, other than the Directors or chief executive of the Company, who had interests or short positions in the Shares and underlying Shares which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name of Shareholders	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding (%)
Credit Suisse Trust Limited	Trustee of a trust *(Note 2)*	408,500,000 (L)	32.81 (L)
BOS Trustee Limited	Trustee of a trust *(Note 3)*	231,500,000 (L)	18.59 (L)
Fortune Spring ZM B Limited	Beneficial owner *(Note 2)*	408,500,000 (L)	32.81 (L)
Fortune Spring YG B Limited	Beneficial owner *(Note 3)*	231,500,000 (L)	18.59 (L)
Keyhole Holding Limited	Beneficial owner *(Note 4)*	216,190,500 (L)	17.36 (L)

Notes:

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

(2) Fortune Spring ZM B Limited is owned by Fortune Spring ZM AA Limited and Fortune Spring ZM A Limited as to 99.9% and 0.1%, respectively. Fortune Spring ZM AA Limited is wholly owned by the Fortune Spring ZM Trust, for which Credit Suisse Trust Limited serves as the trustee and Mr. Zhong Ming acts as the settlor and protector.

(3) Fortune Spring YG B Limited is owned by YG AA Limited and Fortune Spring YG A Limited as to 99.8% and 0.2%, respectively. YG AA Limited is wholly owned by The YG Trust, for which BOS Trustee Limited serves as the trustee, and Ms. Shentu Yinguang acts as the settlor and Mr. Zhong acts as the protector.

(4) Each of TPG Keyhole, L.P. (as sole shareholder of Keyhole Holding Limited), TPG Asia GenPar VII, L.P. (as a general partner of TPG Keyhole, L.P.), TPG Asia GenPar VII Advisors, Inc. (as a general partner of TPG Asia GenPar VII, L.P.), TPG Holdings III, L.P. (as the sole shareholder of TPG Asia GenPar VII Advisors, Inc.), TPG Holdings III-A, L.P. (as a general partner of TPG Holdings III, L.P.), TPG Holdings III-A, Inc. (as a general partner of TPG Holdings III-A, L.P.), TPG Group Holdings (SBS), L.P. (as the sole shareholder of TPG Holdings III-A, Inc.), TPG Group Holdings (SBS) Advisors, LLC (as a general partner of TPG Group Holdings (SBS), L.P.) and TPG Group Holdings (SBS) Advisors, Inc. (as the sole member of TPG Group Holdings (SBS) Advisors, LLC) is deemed to be interested in the Shares held by Keyhole Holding Limited under the SFO. TPG Group Holdings (SBS) Advisors, Inc. is controlled by Mr. David Bonderman and Mr. James G. Coulter, who disclaim beneficial ownership of the Shares held by Keyhole Holding Limited except to the extent of their pecuniary interest therein.

Save as disclosed above, as of date of this report, the Directors and the chief executive of the Company are not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which will be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the six months ended June 30, 2022 was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of the Shares in, or debentures of the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended June 30, 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed Shares.

PRE-IPO SHARE OPTION PLAN AND RSU PLAN

On May 6, 2020, the Company adopted the Pre-IPO Share Option Plan and the RSU Plan, pursuant to which the Company may grant options to subscribe for the Shares and issue certain units of Shares with restrictive rights to eligible participants subject to the terms and conditions stipulated therein. The terms of the Pre-IPO Share Option Plan and the RSU Plan are not subject to the provisions of Chapter 17 of the Listing Rules.

The Pre-IPO Share Option Plan and the RSU Plan were adopted to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to selected employees, Directors and consultants and to promote the success of the Company's business by offering these individuals an opportunity to acquire a proprietary interest in the Company.

(a) Pre-IPO Share Option Plan

As of June 30, 2022, the number of Shares in respect of which options had been granted under the Pre-IPO Share Option Plan was 4,120,000, representing approximately 0.33% of the Shares in issue. The exercise price of the options granted under the Pre-IPO Share Option Plan is RMB6.787 per Share.

The options granted under the Pre-IPO Share Option Plan shall be valid for a period of six years commencing on the date that the Pre-IPO Share Option Plan is adopted and approved by the Shareholders.

Details of the options granted under the Pre-IPO Share Option Plan are set out below:

Name of grantee	Position	Exercised during the Reporting Period	Outstanding as of June 30, 2022	Date of grant	Number of underlying Shares subject to Option	Vesting schedule	Approximate percentage of issued Shares
Ms. Frances Fang Chovanec	Executive Director and chief financial officer	Nil	4,120,000	May 6, 2020	4,120,000	580,000 Shares upon Listing; 1,180,000 Shares on the first year anniversary of the vesting commencement date; 1,180,000 Shares on the second year anniversary of the vesting commencement date; 1,180,000 Shares on the third year anniversary of the vesting commencement date	0.33%

(b) RSU Plan

The underlying Shares of the RSU Plan are Shares held by Fortune Spring KangJi 1 Limited. The maximum number of RSUs that may be granted under the RSU Plan in aggregate shall be such number of Shares held or to be held by Fortune Spring KangJi 1 Limited from time to time.

The original overall limit on the number of underlying Shares to be granted under the RSU Plan was 26,810,000 Shares, which had been reserved by Fortune Spring KangJi 1 Limited. On May 25, 2022, the Shareholders of the Company have approved the increase of limit in respect of the number of Shares to be granted under the RSU Plan from 26,810,000 Shares to 46,810,000 Shares. During the Reporting Period and up to the latest practicable date of September 16, 2022, Fortune Spring KangJi 1 Limited has purchased an aggregate of 12,392,500 shares of the Company for the purpose of the RSU Plan amounting to a total consideration of HK$82,269,210. During the Reporting Period, no RSU under the RSU Plan were granted to our senior management and employees. As of June 30, 2022, a total of 26,810,000 RSUs had been granted under the RSU Plan.

The RSUs granted under the RSU Plan shall be valid for a period of six years commencing on the date that the RSU Plan is adopted and approved by the Shareholders.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

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

The net proceeds from the Global Offering of the Company (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in that same manner, proportion and the expected timeframe as set out in the Prospectus under the section headed "Future Plans and Use of Proceeds". The table below sets out the planned applications of the net proceeds and actual usage up to June 30, 2022.

Use of proceeds	Percentage of total net proceeds (%)	Planned applications (HK$ million)	Planned applications (RMB million)	Revised application of total net proceeds[1] (RMB million)	Utilization during the six months ended June 30, 2022 (RMB million)	Actual usage up to June 30, 2022 (RMB million)	Unutilized net proceeds as at June 30, 2022 (RMB million)	Expected timeframe for unutilized net proceeds (from the Listing Date)
For expanding our production capacity and strengthen our manufacturing capabilities, including:								
to expand production capacity of our current products and further automate existing production lines	9.8	273.5	249.9	264.3	7.0	14.0	250.3	within three to five years
to build up production capabilities for pipeline products	10.2	284.7	260.1	275.1	18.4	36.7	238.4	within six years
For funding our R&D activities, including:								
to establish R&D centers	17.0	474.5	433.5	458.5	39.3	47.0	411.5	within four years
for development and expansion of our product pipeline	8.0	223.3	204.0	215.8	12.7	59.8	156.0	within five to six years
For investing in our sales and marketing activities, including:								
to be used in our domestic sales and marketing activities[2]	15.0	418.6	382.5	404.5	3.7	21.8	382.7	within four to five years
to increase our overseas sales	5.0	139.6	127.5	134.9	0.2	0.6	134.3	within three to five years
For funding potential strategic investment and acquisitions	25.0	697.8	637.5	674.3	124.9	205.0	469.3	within five years
For our working capital and general corporate purposes	10.0	279.1	255.0	269.7	25.1	97.4	172.3	within four to six years
Total	100.0	2,791.1	2,550.0	2,697.1	231.3	482.3	2,214.8	

Corporate Governance and Other Information

Notes:

(1) By excluding the underwriting commissions and related fees and expenses, the actual net proceeds planned for applications amounted to RMB2,697.1 million. Net proceeds were received in HK$ and translated to RMB for application planning.

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

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 as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry, all of the Directors have confirmed that they have complied with the Model Code and the Written Guidelines during the six months ended June 30, 2022. No incident of non-compliance of the Written Guidelines by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has adopted the code provisions of the CG Code as set out in Appendix 14 to the 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 is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting the roles of chairman and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Group. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

REVIEW OF INTERIM RESULTS

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 report of the Group for the six months ended June 30, 2022 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, 2022. 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.

Corporate Governance and Other Information

EVENTS AFTER THE REPORTING PERIOD

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

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended June 30, 2022.

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

There has been no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the Reporting Period.

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

	Notes	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
REVENUE	4	332,321	318,124
Cost of sales		(66,609)	(56,897)
Gross profit		265,712	261,227
Other income and gain	4	61,393	41,969
Selling and distribution expenses		(23,893)	(21,008)
Administrative expenses		(33,637)	(25,728)
Research and development costs		(26,280)	(16,074)
Other expenses		(47,786)	(5,930)
Finance costs		(715)	(107)
PROFIT BEFORE TAX	5	194,794	234,349
Income tax expense	6	(41,297)	(34,991)
PROFIT FOR THE PERIOD		153,497	199,358
Attributable to:			
Owners of the parent		157,713	199,358
Non-controlling interests		(4,216)	–
		153,497	199,358
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		1,062	(25)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		1,062	(25)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the Company's financial statements into presentation currency		82,182	(20,675)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		82,182	(20,675)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		83,244	(20,700)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		236,741	178,658

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

	Notes	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Attributable to:			
Owners of the parent		**240,957**	178,658
Non-controlling interests		**(4,216)**	–
		236,741	178,658
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	8	**RMB12.95cents**	RMB16.27cents
Diluted	8	**RMB12.95cents**	RMB16.14cents

Interim Condensed Consolidated Statement of Financial Position

30 June 2022

	Notes	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	111,768	87,585
Prepayments for property, plant and equipment		1,485	443
Right-of-use assets		72,348	19,796
Intangible assets		284,835	119
Goodwill		167,209	–
Financial assets at fair value through profit or loss	11	111,233	111,233
Prepayments, other receivables and other assets		28,508	–
Deferred tax assets		3,939	2,778
Total non-current assets		781,325	221,954
CURRENT ASSETS			
Inventories		95,943	68,376
Trade receivables	10	115,341	81,119
Prepayments, other receivables and other assets		14,839	4,422
Financial assets at fair value through profit or loss	11	31,150	60,814
Cash and cash equivalents	12	3,056,468	2,953,659
Total current assets		3,313,741	3,168,390
CURRENT LIABILITIES			
Trade payables	13	21,091	18,261
Other payables and accruals	14	230,502	74,095
Lease liabilities		6,613	1,695
Deferred income		636	636
Tax payable		45,010	21,885
Total current liabilities		303,852	116,572
NET CURRENT ASSETS		3,009,889	3,051,818
TOTAL ASSETS LESS CURRENT LIABILITIES		3,791,214	3,273,772

Interim Condensed Consolidated Statement of Financial Position

30 June 2022

	Note	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,791,214	3,273,772
NON-CURRENT LIABILITIES			
Lease liabilities		42,210	2,351
Deferred income		954	1,272
Deferred tax liabilities		71,075	9,748
Total non-current liabilities		114,239	13,371
Net assets		3,676,975	3,260,401
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	88	88
Reserves		3,317,731	3,260,313
		3,317,819	3,260,401
Non-controlling Interests		359,156	–
Total equity		3,676,975	3,260,401

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium account* RMB'000	Share held for share award arrangement* RMB'000	Treasury shares* RMB'000	Capital reserve* RMB'000	Share option and award reserve* RMB'000	Statutory surplus reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022 (audited)	88	2,762,034	(2)	(4,288)	33,301	26,286	77,454	(241,819)	607,347	3,260,401	–	3,260,401
Profit/(loss) for the period	–	–	–	–	–	–	–	–	157,713	157,713	(4,216)	153,497
Other comprehensive income for the period:												
Exchange differences related to foreign operations	–	–	–	–	–	–	–	83,244	–	83,244	–	83,244
Total comprehensive income/(loss) for the period	–	–	–	–	–	–	–	83,244	157,713	240,957	(4,216)	236,741
Acquisition of a subsidiary (note 16)	–	–	–	–	–	–	–	–	–	–	363,372	363,372
Purchase of shares for restricted share unit plan	–	–	(13,062)	–	–	–	–	–	–	(13,062)	–	(13,062)
Shares cancelled	–	(4,288)	–	4,288	–	–	–	–	–	–	–	–
Dividend declared (note 7)	–	–	–	–	–	–	–	–	(178,003)	(178,003)	–	(178,003)
Share-based payments	–	–	–	–	–	7,526	–	–	–	7,526	–	7,526
Transfer to statutory surplus reserve	–	–	–	–	–	–	21,613	–	(21,613)	–	–	–
At 30 June 2022 (unaudited)	88	2,757,746	(13,064)	–	33,301	33,812	99,067	(158,575)	565,444	3,317,819	359,156	3,676,975

* These reserve accounts comprise the consolidated reserves of RMB3,317,731,000 in the interim condensed consolidated statement of financial position as at 30 June 2022.

For the six months ended 30 June 2021

	Attributable to owners of the parent								
	Share capital RMB'000	Share premium account* RMB'000	Share held for share award arrangement* RMB'000	Capital reserve* RMB'000	Share option and award reserve* RMB'000	Statutory surplus reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000
At 1 January 2021 (audited)	88	2,808,820	(2)	33,301	18,001	35,723	(196,916)	237,596	2,936,611
Profit for the period	–	–	–	–	–	–	–	199,358	199,358
Other comprehensive loss for the period:									
Exchange differences related to foreign operations	–	–	–	–	–	–	(20,700)	–	(20,700)
Total comprehensive income/(loss) for the period	–	–	–	–	–	–	(20,700)	199,358	178,658
Dividend declared (note 7)	–	–	–	–	–	–	–	(44,945)	(44,945)
Share-based payments	–	–	–	–	3,163	–	–	–	3,163
At 30 June 2021 (unaudited)	88	2,808,820	(2)	33,301	21,164	35,723	(217,616)	392,009	3,073,487

* These reserve accounts comprise the consolidated reserves of RMB3,073,399,000 in the interim condensed consolidated statement of financial position as at 30 June 2021.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	194,794	234,349
Adjustments for:		
Finance costs	715	107
Bank interest income	(26,530)	(14,643)
Foreign exchange differences, net	24,153	–
Investment losses/(income) from financial assets at fair value through profit or loss	23,532	(6,942)
Fair value losses on financial assets at fair value through profit or loss	–	2,148
(Gain)/loss on disposal of items of property, plant and equipment	(12)	12
Depreciation of property, plant and equipment	6,588	4,388
Depreciation of right-of-use assets	2,253	1,102
Amortisation of intangible assets	98	34
Impairment of trade receivables, net	638	266
Impairment of other receivables, net	1	–
Recognition of deferred income	(318)	(318)
Share-based payment expense	7,526	3,163
	233,438	223,666
Increase in inventories	(27,390)	(4,324)
(Increase)/decrease in trade receivables	(34,860)	13,435
(Increase)/decrease in prepayments, other receivables and other assets	(5,694)	1,902
Increase in trade payables	1,613	3,041
(Decrease)/increase in other payables and accruals	(22,631)	12,164
Cash generated from operations	144,476	249,884
Interest received	8,301	1,007
Interest paid	–	(107)
Income tax paid	(24,026)	(18,115)
Net cash flows from operating activities	128,751	232,669

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

	Note	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Net cash flows from operating activities		128,751	232,669
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(30,447)	(11,826)
Purchases of items of intangible assets		(1,534)	(82)
Purchases of right-of-use assets		(37,890)	–
Proceeds from disposal of items of property, plant and equipment		88	–
Purchases of financial assets at fair value through profit or loss		(1,429,062)	(2,361,287)
Proceeds from sales of financial assets at fair value through profit or loss		1,435,194	2,471,399
Investment income from financial assets at fair value through profit or loss		–	6,942
Increase in pledged deposits		–	(2)
Interest received		4,681	13,636
Increase in time deposits with original maturity of over three months		(273,068)	(898,094)
Acquisition of a subsidiary, net of cash acquired	16	(19,823)	–
Net cash flows used in investing activities		(351,861)	(779,314)
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of shares for restricted share unit plan		(13,062)	–
Repayment of interest-bearing borrowings		(5,000)	–
Principal portion of lease payments		(454)	(819)
Interest paid		(715)	–
Dividend paid		–	(44,846)
Net cash flows used in financing activities		(19,231)	(45,665)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(242,341)	(592,310)
Cash and cash equivalents at beginning of period		2,177,833	2,034,337
Effect of foreign exchange rate changes, net		58,534	(16,404)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		1,994,026	1,425,623
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the condensed consolidated statement of financial position		3,056,468	2,521,426
Time deposits with original maturity of over three months when acquired		(1,062,442)	(1,095,803)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows		1,994,026	1,425,623

Notes to the Interim Condensed Consolidated Financial Information

1. CORPORATE INFORMATION

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

The Company is an investment holding company. During the reporting period, the Company's subsidiaries were principally involved in the design, development, manufacture and sale of a comprehensive suite of minimally invasive surgical instruments and accessories.

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 29 June 2020.

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

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with HKAS 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

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

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

(a) Amendments to HKFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

Notes to the Interim Condensed Consolidated Financial Information

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

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

The nature and impact of the revised HKFRSs are described below: *(Continued)*

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

(i) HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.

(ii) HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

Notes to 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 GAIN

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Revenue from contracts with customers	**332,321**	318,124

REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Disaggregated revenue information

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Type of goods		
Sale of medical instruments	**332,321**	318,124
Geographical markets		
Mainland China	**301,774**	297,194
Other	**30,547**	20,930
Total revenue from contracts with customers	**332,321**	318,124
Timing of revenue recognition		
Goods transferred at a point in time	**332,321**	318,124

An analysis of other income and gain is as follows:

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Bank interest income	**26,530**	14,643
Government grants	**34,564**	20,368
Investment income from financial assets at fair value through profit or loss	**–**	6,942
Others	**299**	16
	61,393	41,969

Notes to the Interim Condensed Consolidated Financial Information

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Cost of inventories sold	66,609	56,897
Impairment of trade receivables, net	638	266
Government grants	(34,564)	(20,368)
Foreign exchange differences, net	24,153	3,468
Share-based payment expense	7,526	3,163

6. INCOME TAX

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

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

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. The first HK$2,000,000 (2021: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%).

Pursuant to the rules and regulations of Singapore, Singapore profits tax has been provided at the rate of 17% (2021: 17%) on the estimated assessable profits arising in Singapore during the period.

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

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations, preferential tax treatment is available to Hangzhou Kangji Medical Instrument Ltd., since it was recognised as a High and New Technology Enterprise and was entitled to a preferential tax rate of 15% (2021: 15%) during the period. Jiangxi Kanghuan Medical Instrument Co., Ltd., which operates in Mainland China, was identified as Small and Micro Enterprises and entitled to a preferential tax rate of 2.5% (2021: 2.5%) during the period.

6. INCOME TAX *(Continued)*

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

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China:		
Charge for the period	**37,072**	33,229
Deferred	**4,225**	1,762
Total tax charge for the period	**41,297**	34,991

7. DIVIDENDS

A final dividend for the year ended 31 December 2021 of HK17.23 cents per share, amounting to a total of approximately HK$214,544,000 was approved by the Company's shareholders at the annual general meeting on 25 May 2022 and paid in July 2022.

A final dividend for the year ended 31 December 2020 of HK4.4 cents per share, amounting to a total of approximately HK$55,097,000 was approved by the Company's shareholders at the annual general meeting on 26 May 2021 and paid in June 2021.

The board of directors does not recommend the payment of any interim dividend for the six months ended 30 June 2022.

Notes to the Interim Condensed Consolidated Financial Information

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, and the weighted average number of ordinary shares of 1,218,260,613 (six months ended 30 June 2021: 1,225,397,500) in issue during the period.

The computation of diluted earnings per share for the six months ended 30 June 2022 does not assume the exercise of all dilutive potential ordinary shares arising from share options and restricted share units granted by the Company because the exercise price of these share options and restricted share units was higher than the average market price for shares for the period.

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

	For the six months ended 30 June	
	2022	2021
	(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	**157,713**	199,358

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,218,260,613**	1,225,397,500
Effect of dilution-weighted average number of ordinary shares arising from share options and restricted share units	**–**	9,563,306
	1,218,260,613	1,234,960,806

Notes to the Interim Condensed Consolidated Financial Information

9. PROPERTY, PLANT AND EQUIPMENT

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Carrying amount at beginning of period/year	87,585	63,251
Additions	29,871	33,971
Acquisition of a subsidiary (note 16)	976	–
Depreciation provided during the period/year	(6,588)	(9,515)
Disposals	(76)	(122)
Carrying amount at end of period/year	111,768	87,585

10. TRADE RECEIVABLES

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 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Within 3 months	93,799	66,649
3 to 6 months	8,416	9,480
6 to 12 months	12,216	3,371
1 to 2 years	905	1,445
Over 2 years	5	174
	115,341	81,119

Notes to the Interim Condensed Consolidated Financial Information

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Current		
Unlisted investments, at fair value	31,150	60,814

The unlisted investments represented certain financial products issued by commercial banks and other financial institutions. They were classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Non-current		
Unlisted equity investment, at fair value		
Shenzhen Edge Medical Co., Ltd. (formerly known as Shenzhen Jingfeng Medical Technology Co., Ltd.)	111,233	111,233

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

12. CASH AND CASH EQUIVALENTS

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Cash and bank balances	1,994,026	1,496,645
Time deposits	1,062,442	1,457,014
Cash and cash equivalents	3,056,468	2,953,659
Denominated in RMB	2,415,983	1,585,513
Denominated in HK$	4,388	12,617
Denominated in US$	635,995	1,355,375
Denominated in other currencies	102	154
Cash and cash equivalents	3,056,468	2,953,659

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, 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.

Notes to the Interim Condensed Consolidated Financial Information

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 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Within 3 months	20,197	18,148
3 to 6 months	809	95
6 to 12 months	75	8
Over 12 months	10	10
	21,091	18,261

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

14. OTHER PAYABLES AND ACCRUALS

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Dividends payable	178,003	–
Contract liabilities	2,217	2,902
Payroll payables	18,706	20,186
Other payables	15,130	30,175
Taxes other than income tax	10,048	14,629
Accrued expenses	6,398	6,203
	230,502	74,095

15. SHARE CAPITAL

During the period, the Company cancelled 700,000 of its own shares which were purchased on the Stock Exchange in 2021.

The Group purchased 2,050,500 of its shares on the Stock Exchange for a total cash consideration of HK$15,241,000 (equivalent to approximately RMB13,062,000) during the period for the purpose of the restricted share unit plan.

16. BUSINESS COMBINATION

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

Notes to the Interim Condensed Consolidated Financial Information

16. BUSINESS COMBINATION *(Continued)*

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

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

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

	Fair value recognised on acquisition (Unaudited) RMB'000
Cash and cash equivalents	3,047
Prepayments, other receivables and other assets	344,752
Inventories	177
Property, plant and equipment	976
Right-of-use assets	1,707
Intangible assets*	283,280
Interest-bearing borrowings	(5,000)
Trade payables	(1,217)
Other payables and accruals	(569)
Lease liabilities	(2,100)
Deferred tax liabilities	(66,020)
Total identifiable net assets at fair value	559,033
Non-controlling interests	(363,372)
Goodwill on acquisition	167,209
	362,870
Satisfied by:	
Cash consideration paid to the then shareholders	22,870
Cash consideration paid to Weijing Medical as capital injection	102,000
Contingent consideration payable to Weijing Medical as capital injection	238,000
	362,870

* It is in-process research and development.

16. BUSINESS COMBINATION *(Continued)*

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

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

Reconciliation of the carrying amount of the Group's goodwill at the beginning and end of the reporting period is presented below:

	RMB'000
Gross carrying amount and net book value	
At 1 January 2022 (audited)	–
Acquisition of a subsidiary	167,209
At 30 June 2022 (unaudited)	167,209

The fair values of the other receivables as at the date of acquisition amounted to RMB340,505,000. The gross contractual amounts of other receivables was RMB340,505,000, of which the total amount is expected to be collectible.

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

Since the acquisition, Weijing Medical contributed nil to the Group's revenue and a loss of RMB6,486,000 to the consolidated profit for the six months ended 30 June 2022. Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the period would have been RMB332,321,000 and the consolidated profit for the six months ended 30 June 2022 would have been RMB150,079,000.

The assessment of the fair value of the identifiable assets and liabilities of Weijing Medical is still undergoing and the information of the fair values of the identifiable assets and liabilities is provisional at the date of the interim condensed consolidated financial information. The finalised information will be disclosed in the consolidated financial statements of the Group for the year ending 31 December 2022.

17. COMMITMENTS

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

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Contracted, but not provided for:		
Buildings	**13,677**	768
Plant and machinery	**4,253**	130
	17,930	898

18. RELATED PARTY TRANSACTIONS

(a) The Group had no transactions with related parties during the six months ended 30 June 2022 and 2021.

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

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Short-term employee benefits	**3,902**	5,345
Pension scheme contributions	**205**	183
Share-based payment expense	**5,334**	2,607
Total compensation paid to key management personnel	**9,441**	8,135

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables, lease liabilities and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

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

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

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

Notes to the Interim Condensed Consolidated Financial Information

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:
As at 30 June 2022 (unaudited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	–	31,150	111,233	142,383

As at 31 December 2021 (audited)

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

The Group did not have any financial liabilities measured at fair value as at 30 June 2022 and 31 December 2021.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2021: nil).

Definitions

"Audit Committee"	the audit committee of the Board
"Board of Directors" or "Board"	the board of directors of our Company
"CG Code"	Corporate Governance Code
"China," "mainland China" or "PRC"	People's Republic of China, excluding, for the purposes of this report and for geographical reference only and except where the context requires otherwise, Hong Kong, Macau and Taiwan
"Company"	Kangji Medical Holdings Limited (康基医疗控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on February 12, 2020, and, except where the context otherwise requires, all of its subsidiaries
"COVID-19"	an infectious disease caused by a newly discovered coronavirus (severe acute respiratory syndrome coronavirus 2)
"Director(s)"	the directors of our Company, including all executive, non-executive and independent non-executive directors
"FVTPL"	fair value through profit or loss
"Global Offering"	the Hong Kong public offering and the international offering of the Company
"Group"	our Company and all of its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
"HK$" or "HK Dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IPO"	initial public offering
"Kangji Hong Kong"	Kangji Medical (Hong Kong) Limited, a wholly-owned subsidiary of the Company established under the laws of Hong Kong
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on June 29, 2020
"Listing Date"	June 29, 2020, being the date on which dealings in our Shares first commenced on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time

Definitions

"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"ODM"	original design manufacture
"Pre-IPO Share Option Plan"	the employees' share incentive plan of the Company as adopted on May 6, 2020.
"Prospectus"	the Company's prospectus dated June 16, 2020
"R&D"	research and development
"Renminbi" or "RMB"	the lawful currency of the PRC
"Reporting Period"	the six-month period from January 1, 2022 to June 30, 2022
"RSU(s)"	restricted share unit(s)
"RSU Plan"	the restricted share unit plan of the Company as adopted on May 6, 2020
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary shares in the share capital of our Company of US$0.00001 each
"Shareholder(s)"	holder(s) of our Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchange and Clearing Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"USD" or "US$"	the lawful currency of the United States of America
"VBP"	volume-based procurement