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Kangji Medical Holdings Limited

康基医疗控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9997)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Kangji Medical Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) is pleased to announce the audited consolidated annual results of the Group for the year ended December 31, 2022 (the “**Reporting Period**”), together with the comparative figures for the year ended December 31, 2021, as follows.

FINANCIAL HIGHLIGHTS

	Year ended December 31,		Changes %
	2022 RMB'000	2021 RMB'000	
Revenue	786,367	690,263	13.9
Gross profit	635,247	562,926	12.8
Profit for the year	461,174	456,789	1.0
Profit attributable to owners of the parent	478,735	456,789	4.8
Non-HKFERS adjusted net profit attributable to owners of the parent	498,711	412,058	21.0
Earnings per share			
– Basic (RMB)	39.63 cents	37.31 cents	6.2
– Diluted (RMB)	39.63 cents	37.08 cents	6.9

For the year ended December 31, 2022, the Company realized revenue of RMB786.4 million, representing an increase of 13.9% as compared to 2021. Our increase in sales was mainly attributable to a moderate growth in sales for the domestic market despite the impact from COVID related outbreaks and restrictions throughout the year, as well as strong growth in export. Domestic sales growth was mainly driven by faster growth in categories such as single-site trocars, disposable electrocoagulation forceps, and 4K endoscopic camera systems. Growth in export was mainly driven by growth in disposable trocars, polymer ligation clips and reusable products.

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

The Board has resolved to recommend the payment of a final dividend of RMB18.45 cents per ordinary share of the Company (the “**Share**”) for the year ended December 31, 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
REVENUE	4	786,367	690,263
Cost of sales		<u>(151,120)</u>	<u>(127,337)</u>
Gross profit		635,247	562,926
Other income and gains	4	146,672	120,785
Selling and distribution expenses		(53,372)	(46,515)
Administrative expenses		(71,269)	(62,060)
Research and development costs		(66,019)	(36,001)
Reversal of impairment/(impairment) on financial assets, net		1,054	(614)
Other expenses		(27,294)	(3,828)
Finance costs		<u>(1,875)</u>	<u>(196)</u>
PROFIT BEFORE TAX	5	563,144	534,497
Income tax expense	6	<u>(101,970)</u>	<u>(77,708)</u>
PROFIT FOR THE YEAR		<u>461,174</u>	<u>456,789</u>
Attributable to:			
Owners of the parent		478,735	456,789
Non-controlling interests		<u>(17,561)</u>	<u>–</u>
		<u>461,174</u>	<u>456,789</u>
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		<u>514</u>	<u>(750)</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		<u>514</u>	<u>(750)</u>
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		<u>82,182</u>	<u>(44,153)</u>

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

Year ended 31 December 2022

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		<u>82,182</u>	<u>(44,153)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		<u>82,696</u>	<u>(44,903)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>543,870</u>	<u>411,886</u>
Attributable to:			
Owners of the parent		<u>561,431</u>	411,886
Non-controlling interests		<u>(17,561)</u>	–
		<u>543,870</u>	<u>411,886</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	8	<u>RMB39.63 cents</u>	<u>RMB37.31 cents</u>
Diluted	8	<u>RMB39.63 cents</u>	<u>RMB37.08 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		169,020	87,585
Prepayment for property, plant and equipment		1,087	443
Right-of-use assets		99,571	19,796
Financial assets at fair value through profit or loss	<i>11</i>	136,437	111,233
Goodwill	<i>9</i>	167,209	–
Intangible assets		284,712	119
Deferred tax assets		3,115	2,778
Total non-current assets		861,151	221,954
CURRENT ASSETS			
Inventories		105,399	68,376
Trade receivables	<i>10</i>	163,145	81,119
Prepayments, other receivables and other assets		25,700	4,422
Financial assets at fair value through profit or loss	<i>11</i>	11,156	60,814
Cash and cash equivalents	<i>12</i>	2,818,360	2,953,659
Total current assets		3,123,760	3,168,390
CURRENT LIABILITIES			
Trade payables	<i>13</i>	20,752	18,261
Other payables and accruals		82,942	74,095
Lease liabilities		6,696	1,695
Deferred income		636	636
Tax payable		42,643	21,885
Total current liabilities		153,669	116,572
NET CURRENT ASSETS		2,970,091	3,051,818
TOTAL ASSETS LESS CURRENT LIABILITIES		3,831,242	3,273,772

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

31 December 2022

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 <i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		563,144	534,497
Adjustments for:			
Finance costs		1,875	196
Bank interest income	4	(70,003)	(33,288)
Investment loss/(income) from financial assets at fair value through profit or loss	5	23,469	(18,297)
Fair value gains on financial assets at fair value through profit or loss	4	(22,705)	(31,604)
(Gains)/losses on disposal of items of property, plant and equipment	5	(191)	122
Depreciation of property, plant and equipment	5	14,514	9,515
Depreciation of right-of-use assets	5	6,896	2,267
Amortisation of intangible assets	5	221	78
(Reversal of impairment)/impairment of trade receivables, net	10	(1,054)	614
Recognition of deferred income		(636)	(636)
Share-based payment expense		10,966	8,285
		526,496	471,749
Increase in inventories		(36,846)	(16,934)
(Increase)/decrease in trade receivables		(80,972)	5,674
(Increase)/decrease in prepayments, other receivables and other assets		(16,815)	5,221
Increase in trade payables		1,274	6,854
(Decrease)/increase in other payables and accruals		(11,500)	22,400
Cash generated from operations		381,637	494,964
Interest received		25,518	762
Income tax paid		(87,842)	(59,977)
Net cash flows from operating activities		319,313	435,749

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

Year ended 31 December 2022

	<i>Note</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(75,697)	(30,865)
Proceeds from disposal of items of property, plant and equipment		357	–
Purchases of items of intangible assets		(1,534)	(164)
Purchases of financial assets at fair value through profit or loss		(1,429,068)	(5,097,980)
Proceeds from sales of financial assets at fair value through profit or loss		1,455,257	5,593,446
Purchases of an equity investment at fair value through profit or loss		(2,500)	(80,000)
Decrease in pledged deposits		–	1,061
Prepayment of leasehold lands		(37,890)	–
Interest received		21,583	28,702
Increase in time deposits with original maturity of over three months		(280,668)	(574,293)
Acquisition of a subsidiary		(19,823)	–
Net cash flows used in investing activities		<u>(369,983)</u>	<u>(160,093)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of shares for share award arrangement		(110,154)	–
Shares repurchased		(171,610)	(51,074)
Repayment of other loans		(5,000)	–
Principal portion of lease payments		(4,206)	(1,493)
Interest paid		(1,875)	(196)
Dividend paid		(179,947)	(44,847)
Net cash flows used in financing activities		<u>(472,792)</u>	<u>(97,610)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
		(523,462)	178,046
Cash and cash equivalents at beginning of year		2,177,833	2,034,337
Effect of foreign exchange rate changes, net		84,592	(34,550)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>1,738,963</u>	<u>2,177,833</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	12	2,818,360	2,953,659
Time deposits with original maturity of over three months when acquired		(1,079,397)	(775,826)
Cash and cash equivalents as stated in the consolidated statement of cash flows		<u>1,738,963</u>	<u>2,177,833</u>

NOTES TO FINANCIAL STATEMENTS

1. Corporate information

The Company is a limited liability company incorporated in the Cayman Islands on 12 February 2020. The registered office address of the Company is 71 Fort Street, PO Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands.

The Company acts as an investment holding company of the Group and also engaged in provision of investment consultation services during the year. During the year, the Company's subsidiaries were principally involved in the design, development, manufacture and sale of a comprehensive suite of minimally invasive surgical instruments and accessories.

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Change in functional currency

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

2.1 Basis of preparation (Continued)

Basis of consolidation (Continued)

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

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

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

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

2.2 Changes in accounting policies and disclosures

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

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

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

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

2.2 Changes in accounting policies and disclosures (Continued)

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

- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- *HKFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

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.

Geographic information

(a) Revenue from external customers

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

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

3. Operating segment information (Continued)

(b) Non-current assets

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Mainland China	720,939	107,558
Other	660	385
Total	<u>721,599</u>	<u>107,943</u>

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

4. Revenue, other income and gains

An analysis of revenue is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from contracts with customers	<u>786,367</u>	<u>690,263</u>

Revenue from contracts with customers

(a) Disaggregated revenue information

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

4. Revenue, other income and gains (Continued)

(a) Disaggregated revenue information (Continued)

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

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

(b) Performance obligation

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

Sale of medical instruments

The performance obligation, which is part of a contract that has an original expected duration of one year or less, is satisfied upon acceptance of the goods and payment is generally due within one month, extending up to two to six months for certain customers.

An analysis of other income and gains is as follows:

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

* The government grants mainly represent subsidies received from the local governments for the purposes of compensation for expenses arising from research activities, reward for financial contribution and capital expenditure incurred on certain projects.

5. Profit before tax

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

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
Cost of inventories sold		151,120	127,337
Depreciation of property, plant and equipment*		14,514	9,515
Depreciation of right-of-use assets		6,896	2,267
Amortisation of intangible assets**		221	78
(Reversal of impairment)/impairment of trade receivables, net	<i>10</i>	(1,054)	614
Lease payments not included in the measurement of lease liabilities		421	471
Research and development costs		66,019	36,001
Government grants		(52,945)	(34,345)
Bank interest income		(70,003)	(33,288)
Investment loss/(income) from financial assets at fair value through profit or loss		23,469	(18,297)
Foreign exchange differences, net		3,197	(3,115)
(Gains)/losses on disposal of items of property, plant and equipment		(191)	122
Fair value gains on financial assets at fair value through profit or loss		(22,705)	(31,604)
Employee benefit expense* (excluding directors' and chief executive's remuneration):			
Wages and salaries		90,983	66,930
Pension scheme contributions***		8,714	4,767
Staff welfare expenses		11,527	8,634
Share-based payment expense		8,845	5,219
		120,069	85,550

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

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

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

6. Income tax

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

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current – Mainland China		
Charge for the year	98,852	68,808
Deferred tax	3,118	8,900
	<u>101,970</u>	<u>77,708</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

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

7. Dividends

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

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

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

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

The calculation of the diluted earnings per share amount is based on the profit for the year ended 31 December 2021 attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares arising from share options and RSUs granted by the Company.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	<u>478,735</u>	<u>456,789</u>
	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,207,994,251	1,224,312,412
Effect of dilution – weighted average number of ordinary shares arising from share options and RSUs	<u>–</u>	<u>7,708,633</u>
	<u>1,207,994,251</u>	<u>1,232,021,045</u>

9. Goodwill

	<i>RMB'000</i>
Cost as at 1 January 2022 and 31 December 2021	–
Acquisition of a subsidiary (<i>note 15</i>)	<u>167,209</u>
Net carrying amount as at 31 December 2022	<u><u>167,209</u></u>

10. Trade receivables

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

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

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

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

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
At beginning of year	4,154	3,540
Impairment losses, net (<i>note 5</i>)	<u>(1,054)</u>	<u>614</u>
At end of year	<u>3,100</u>	<u>4,154</u>

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix based on the invoice date:

As at 31 December 2022

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

10. Trade receivables (Continued)

As at 31 December 2021

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

11. Financial assets at fair value through profit or loss

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<u>Current</u>		
Unlisted investments, at fair value	<u>11,156</u>	<u>60,814</u>

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

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

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

12. Cash and cash equivalents

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

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

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

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:

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

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

14. Share capital

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

14. Share capital (Continued)

A summary of movements in the Company's issued share capital, share premium, share held for share award arrangement and treasury shares is as follows:

	Notes	Number of shares in issue	Share capital RMB'000	Share premium account RMB'000	Share held for share award arrangement RMB'000	Treasury shares RMB'000
At 1 January 2021		1,252,207,500	88	2,808,820	(2)	-
Shares repurchased	(a)	-	-	-	-	(51,074)
Shares cancelled	(a)	(6,331,000)	-	(46,786)	-	46,786
At 31 December 2021 and 1 January 2022		<u>1,245,876,500</u>	<u>88</u>	<u>2,762,034</u>	<u>(2)</u>	<u>(4,288)</u>
Shares purchased for share award arrangement	(b)	-	-	(110,153)	(1)	-
Shares repurchased	(c)	-	-	-	-	(171,610)
Shares cancelled	(c)	(26,563,500)	(2)	(170,401)	-	170,403
At 31 December 2022		<u>1,219,313,000</u>	<u>86</u>	<u>2,481,480</u>	<u>(3)</u>	<u>(5,495)</u>

- (a) The Company purchased 7,031,000 of its shares on the Stock Exchange for a total cash consideration of HK\$62,085,000 (equivalent to approximately RMB51,074,000), of which 6,331,000 shares were cancelled during the year ended 31 December 2021 (equivalent to approximately RMB46,786,000). The remaining of 700,000 shares were cancelled on 27 January 2022.
- (b) Fortune Spring KangJi 1 Limited (“ESOP BVI”), which is an incentive platform in British Virgin Islands (“BVI”) and controlled by the Company, purchased 20,000,000 of the Company's shares on the Stock Exchange for a total cash consideration of HK\$125,462,000 (equivalent to approximately RMB110,154,000) for the purpose of incentivizing the employees of the Group in the future.
- (c) The Company purchased 26,604,000 of its shares on the Stock Exchange for a total cash consideration of HK\$188,791,000 (equivalent to approximately RMB171,610,000), of which 25,863,500 shares were cancelled during the year ended 31 December 2022 (equivalent to approximately RMB166,115,000). The remaining of 740,500 shares were cancelled on 10 February 2023.

15. 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 Weijing Medical and its then shareholders, pursuant to which Kangji Hong Kong agreed to subscribe for 32.75% equity interests in Weijing Medical at a consideration of RMB340,000,000. Additionally, Kangji Hong Kong agreed to acquire 2.25% equity interests in Weijing Medical from its then shareholders at a consideration of RMB22,870,000.

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

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

15. Business combination (Continued)

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 <i>RMB'000</i>
Cash and cash equivalents	3,047
Prepayments and other receivables	344,714
Inventories	177
Property, plant and equipment	1,013
Right-of-use assets	1,707
Intangible asset*	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)
	<hr/>
Total identifiable net assets at fair value	559,032
Non-controlling interests	(363,371)
Goodwill on acquisition	167,209
	<hr/>
	362,870
	<hr/> <hr/>
Satisfied by:	
Cash consideration paid to the then shareholders as at 31 December 2022	22,870
Cash consideration paid to Weijing Medical as capital injection as at 31 December 2022	102,000
Contingent consideration payable to Weijing Medical as capital injection as at 31 December 2022	238,000
	<hr/>
	362,870
	<hr/> <hr/>

* Included in the intangible asset is in-process research and development.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

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

In the overseas market, demand for our products grew at a higher rate throughout 2022 as most of our overseas markets had relaxed COVID-related restrictions and our customers' operation had returned to normal level. Our export sales of RMB 71.3 million for the year ended December 31, 2022 represented 46.9% growth from the previous year, or approximately 41.1% growth on a constant currency basis, excluding foreign exchange impact. The growth was also attributable to our export strategy to enhance our marketing and sales capability to reach further penetration into our top markets. During the Reporting Period, we added our overseas product registrations, mainly in South America through our overseas OEM customers or distributors. Our export sales expanded to more than 100 customers in 47 countries and regions for the year ended December 31, 2022 from approximately 85 customers in 45 countries and regions in the previous year.

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

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

Research and Development

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

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

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

Sales and Distribution

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

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

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

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

Strategic Investment

As previously disclosed in our interim results announcement for the six months ended June 30, 2022, we completed the acquisition of 35% controlling interest in Weijing Medical on February 14, 2022. Weijing Medical is primarily engaged in the research and development and production of surgical robotic products and instruments for laparoscopic surgery in China. Since the acquisition, Weijing Medical has become an indirect non-wholly-owned subsidiary of the Group. In 2022, it has mainly been focused on the clinical trial of its first product which has been on track. It has also relocated most of its staff to the brand new office in Hangzhou from Changzhou in Jiangsu province. For the year ended December 31, 2022, Weijing Medical contributed a loss of approximately RMB27.0 million to the consolidated profit or RMB9.5 million to the net profit attributable to the owners of the parent.

2023 Forward Outlook

- 1) We will continue to adopt the clinical oriented R&D approach and increase our R&D efforts on equipment and innovative product development. By deepening our “equipment + instruments + consumables” synergistic product model, we aim to provide a one-stop solution for minimally invasive surgery.
- 2) We will continue to build credible and impactful academic exchange and training platforms, construct a multidisciplinary, multi-product, and diversified academic ecosystem, and collaborate with clinical experts to promote the academic development of minimally invasive surgery.
- 3) We will continue to expand our international sales and marketing team, strengthen our sales and marketing capabilities in the overseas markets, in order to achieve rapid growth of overseas sales.
- 4) We will continue to seek domestic and international strategic investment and partnership opportunities, with a focus on complementary products and technologies, and expand our scale and influence.

FINANCIAL REVIEW

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

Revenue

	For the year ended December 31,		Changes %
	2022 RMB'000	2021 RMB'000	
Disposable products			
Disposable trocars	364,946	334,123	9.2
Polymer ligation clips	192,511	178,440	7.9
Disposable electrocoagulation forceps	94,198	71,140	32.4
Ultrasonic scalpels	18,153	11,771	54.2
Other disposable products ⁽¹⁾	19,324	13,863	39.4
<i>Sub-total</i>	689,132	609,337	13.1
Reusable products			
4K endoscopic camera systems	20,557	6,165	233.4
Other reusable products ⁽²⁾	76,678	74,761	2.6
<i>Sub-total</i>	97,235	80,926	20.2
Total	786,367	690,263	13.9

Notes:

- (1) Other disposable products primarily include, among others, disposable suction and irrigation sets and retrieval bags.
- (2) Other reusable products primarily include reusable trocars and reusable forceps.

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

Disposable Products

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

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

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

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

Reusable Products

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

Sales Channel

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

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

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

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

Note:

- (1) Other customers include distribution companies we sell to directly for products under the “two-invoice” system and under VBPs that have been implemented in certain areas such as Shandong, Fujian, Hunan and Hebei provinces.

Cost of Sales

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

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

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

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

Note:

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

Gross Profit and Gross Margin

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

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

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

	For the year ended December 31,			
	2022		2021	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000 (except percentages)</i>			
Disposable products	580,187	84.2	516,769	84.8
Reusable products	55,060	56.6	46,157	57.0
Total	635,247	80.8	562,926	81.6

Other Income and Gains

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Research and Development Expenses

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

Other Expenses

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

Income Tax Expenses

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

Non-HKFRS Adjusted Net Profit for the Year

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

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

	For the year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Profit for the year attributable to owners of the parent	478,735	456,789
Add/(Less):		
Fair value gain on equity investment	(22,705)	(31,604)
Foreign exchange difference	8,246	(3,115)
Investment (gain)/loss from short-term financial products	23,469	(18,297)
Share-based payment expenses	10,966	8,285
Non-HKFRS adjusted net profit for the year attributable to owners of the parent	498,711	412,058

Notes:

- (1) Fair value gain on equity investment is non-operational in nature which mainly arises from the change in fair value of our investment in Shenzhen Edge Medical Co., Ltd.* (深圳市精鋒醫療科技有限公司) for the periods, the amount of which may not directly correlate with the underlying performance of our business operations.
- (2) Foreign exchange difference is non-operational in nature which mainly arises from the currency fluctuation of USD against RMB for the periods, the amount of which may not directly correlate with the underlying performance of our business operations. Included in the Group's net exchange loss of RMB3,197,000 in the Reporting Period was the exchange loss of RMB8,246,000 attributable to owners of the parent and the exchange gain of RMB5,049,000 attributable to non-controlling interests.

- (3) Investment loss/(gain) from short-term financial products purchased mainly for hedging foreign currency fluctuations is non-operational in nature which is affected by the currency fluctuation of USD against RMB for the periods, the amount of which may not directly correlate with the underlying performance of our business operations. As the net investment gain of RMB18,297,000 in the corresponding period in 2021 is not significant, it was not excluded from the non-HKFRS adjusted net profit attributable to owners of the parent in the Company's annual report for the corresponding period in 2021.
- (4) Share-based payment expenses are non-operational expenses arising from granting RSUs and Pre-IPO Share Options to selected management members, the amount of which may not directly correlate with the underlying performance of our business operations, and is also affected by non-operating performance related factors that are not closely or directly related to our business activities.

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

Liquidity and Capital Resources

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

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

As at December 31, 2022, most of our cash and cash equivalents were denominated in RMB, USD and HK Dollars ("HKD" or "HK\$").

Net Current Assets

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

Foreign Exchange Exposure

During the Reporting Period, the Group's operations were primarily based in mainland China. Assets, liabilities and transactions in the PRC are mainly denominated in RMB, while certain of the Group's overseas assets and transactions are denominated in USD or HKD. We are exposed to foreign currency risks, primarily including account receivables, account payables and cash balances that are denominated in a foreign currency, i.e., a currency other than our functional currency. For the year ended December 31, 2022, the Group recorded an exchange loss of RMB3.2 million, as compared to an exchange gain of RMB3.1 million for the year ended December 31, 2021, primarily attributable to the exchange rate movements of USD against RMB.

Capital Expenditure

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

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

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

Charge of Assets/Pledge of Assets

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

Borrowings

As of December 31, 2022, we did not have any outstanding bank loans and other borrowings. We monitor capital using a gearing ratio, which is debt divided by total assets. Debt includes trade payables, other payables and accruals, and lease liabilities. As of December 31, 2022, the gearing ratio of the Group was 3.8% (as of December 31, 2021: 2.8%).

Contingent Liabilities

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

Major Investments, Acquisition and Disposal

On January 18, 2022, Kangji Hong Kong, a wholly-owned subsidiary of the Company, entered into an equity investment agreement with, among others, Hangzhou Weijing Medical Robot Co., Ltd.* (杭州唯精醫療機器人有限公司) (“**Weijing Medical**”), and existing shareholders of Weijing Medical, to (i) subscribe for 32.75% equity interests in Weijing Medical at a consideration of RMB340 million; and (ii) acquire an aggregate 2.25% equity interests in Weijing Medical on a fully diluted basis from two of the shareholders at an aggregate consideration of RMB22,870,000. Weijing Medical is primarily engaged in the research and development and production of the endoscopic surgical instruments control system. Upon completion of the investment in February 2022, Weijing Medical, being held as to 35% by Kangji Hong Kong, has become an indirect non-wholly owned subsidiary of the Company and the financial results of Weijing Medical has been consolidated into the Company’s consolidated financial statements. Please refer to the announcement of the Company dated January 18, 2022 for further details.

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

Future Plans for Material Investments and Capital Assets

The Group intends to utilize the net proceeds raised from the global offering to pursue strategic investment and to fund acquisition of capital assets for our expansion in the manner set out in the prospectus of the Company dated June 16, 2020 (the “**Prospectus**”) and 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 December 31, 2022, the Group had 885 employees (December 31, 2021: 725 employees). Total staff remuneration expenses including remuneration of the Directors and share-based payment expenses for the year ended December 31, 2022 amounted to RMB127.8 million (for the year ended December 31, 2021: RMB93.3 million).

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

In recognition of the contributions of our Directors, senior management and employees and to incentivize them to further promote our development, the Company adopted the pre-IPO share option plan and the restricted share unit plan on May 6, 2020 (“**RSU Plan**”). On May 25, 2022, the shareholders of the Company have approved the increase of limit in respect of the number of shares of the Company (the “**Shares**”) to be granted under the RSU plan from 26,810,000 Shares to 46,810,000 Shares. During the Reporting Period, ESOP BVI has purchased an aggregate of 20,000,000 Shares for the purpose of the RSU plan amounting to a total consideration of HK\$125,039,105 (excluding brokerage fees and taxes). During the Reporting Period, no RSU under the RSU plan were granted to our senior management and employees. As of December 31, 2022, a total of 26,810,000 RSUs had been granted under the RSU plan.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

In connection with the Company's global offering, 225,397,500 Shares of US\$0.00001 each were issued at a price of HK\$13.88 per share for a total cash consideration of approximately HK\$2,952.5 million (equivalent to RMB2,697.1 million), after deducting underwriting commissions and related fees and expenses.

The net proceeds from the global offering of the Company (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in that same manner, proportion and the expected timeframe as set out in the Prospectus under the section headed "Future Plans and Use of Proceeds". The table below sets out the planned applications of the net proceeds and actual usage up to December 31, 2022:

Use of proceeds	Percentage of total net proceeds (%)	Planned applications (HK\$ million)	Planned applications (RMB million)	Revised application of total net proceeds ⁽¹⁾ (RMB million)	Utilization during the year ended December 31, 2022 (RMB million)	Actual usage up to December 31, 2022 (RMB million)	Unutilized net proceeds as at December 31, 2022 (RMB million)	Expected timeframe for unutilized net proceeds (from the date of listing)
For expanding our production capacity and strengthen our manufacturing capabilities, including:								
to expand production capacity of our current products and further automate existing production lines	9.8	273.5	249.9	264.3	11.3	18.3	246.0	within three to five years
to build up production capabilities for pipeline products	10.2	284.7	260.1	275.1	60.7	79.0	196.1	within six years
For funding our R&D activities, including:								
to establish an R&D centers	17.0	474.5	433.5	458.5	46.2	53.9	404.6	within four years
for development and expansion of our product pipeline	8.0	223.3	204.0	215.8	35.5	82.6	133.2	within five to six years
For investing in our sales and marketing activities, including:								
to be used in our domestic sales and marketing activities ⁽²⁾	15.0	418.6	382.5	404.5	8.0	26.1	378.4	within four to five years
to increase our overseas sales	5.0	139.6	127.5	134.9	0.8	1.2	133.7	within three to five years
For funding potential strategic investment and acquisitions	25.0	697.8	637.5	674.3	127.4	207.5	466.8	within five years
For our working capital and general corporate purposes	10.0	279.1	255.0	269.7	53.0	125.3	144.4	within four to six years
Total	100.0	2,791.1	2,550.0	2,697.1	342.9	593.9	2,103.2	

Notes:

- (1) By excluding the underwriting commissions and related fees and expenses, the actual net proceeds planned for applications amounted to RMB2,697.1 million. Net proceeds were received in HK\$ and translated to RMB for application planning.
- (2) On March 25, 2021, the Board resolved to change the location of the sales and marketing center to be established from our headquarters to Beijing, which is in line with our latest business strategy and does not deviate from our originally planned application of the net proceeds as described in the Prospectus. Other than this minor change, no amendment has been made to the disclosure in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

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

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

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

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

The Company repurchased a total of 26,604,000 Shares (2021: 7,031,000) on the Stock Exchange at an aggregate consideration of approximately HK\$188.2 million (excluding brokerage fees and taxes) during the year ended December 31, 2022 (2021: approximately HK\$62.1 million) at price ranging from HK\$5.44 to HK\$8.50. 26,563,500 Shares were cancelled during the year ended December 31, 2022. The Company repurchased a total of 1,780,500 Shares during the period from January 1, 2023 to the date of this announcement and 2,521,000 Shares were cancelled in February 2023. As at the date of this announcement, the Company has 1,216,792,000 Shares outstanding.

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company’s listed Shares during the year ended December 31, 2022.

Annual General Meeting (the “AGM”)

The AGM of the Company will be held on May 25, 2023. The notice of the AGM will be sent to the Shareholders at least 21 days before the AGM.

Final Dividend

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

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

Closure of Register of Members

- (a) For the purpose of determining the Shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from May 22, 2023 to May 25, 2023 both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with the Company’s Hong Kong branch share registrar, Computershare at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on May 19, 2023. Shareholders whose names appear on the register of members of the Company on May 25, 2023 will be entitled to attend and vote at the AGM.
- (b) For determining the entitlement to the proposed final dividend for the year ended December 31, 2022 subject to the approval by the Shareholders at the AGM, the register of members of the Company will be closed from June 1, 2023 to June 7, 2023 both days inclusive. In order to qualify for the proposed 2022 Final Dividend, all transfer documents should be lodged for registration with the Company’s Hong Kong branch share registrar, Computershare at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on May 31, 2023.

Review of Annual Results

The audit committee of the Company (the “**Audit Committee**”) consists of two independent non-executive Directors, Mr. CHEN Weibo and Mr. JIANG Feng, and one non-executive Director, Ms. CAI Li. The chairman of the Audit Committee is Mr. CHEN Weibo. The Audit Committee has reviewed the annual results of the Group for the year ended December 31, 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 consolidated financial statements for the year ended December 31, 2022. The Audit Committee considered that the annual results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

This annual results announcement is based on the audited consolidated financial statements of the Group for the year ended December 31, 2022.

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.

Publication of Annual Results and Annual Report

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.kangjimedical.com). The annual report for the year ended December 31, 2022 containing all the information in accordance with the requirements under the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

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

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

Hangzhou, PRC, March 27, 2023

As at the date of this announcement, the Board comprises Mr. ZHONG Ming, Ms. SHENTU Yinguang, Ms. Frances Fang CHOVANEC 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*