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KANGJI 康基

Kangji Medical Holdings Limited

康基医疗控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9997)

DECONSOLIDATION OF WEIJING MEDICAL

THE DECONSOLIDATION

The Board announces that, on March 20, 2024, the shareholders of Weijing Medical have approved certain amendments to the articles of association and the Change in Board Composition of Weijing Medical. Pursuant to the amended articles of association of Weijing Medical, the number of directors that Kangji Hong Kong is entitled to nominate has decreased from four to three out of seven directors on the Weijing Medical Board. As a result, Kangji Hong Kong will cease to be able to appoint a majority of members on the Weijing Medical Board and lose control over Weijing Medical. Upon the Change in Board Composition becoming effective, Weijing Medical will cease to be a subsidiary of the Company and the financial results of Weijing Medical will no longer be consolidated into the consolidated financial statements of the Company and the Company's retained interests in Weijing Medical will be accounted for as an investment in an associate in the consolidated financial statements of the Company.

The Deconsolidation does not involve any change of equity interest held by the shareholders of Weijing Medical and Kangji Hong Kong remains to hold 35% equity interests in Weijing Medical. Accordingly, Kangji Hong Kong retains significant influence over certain major corporate decisions which would require consent from shareholders representing more than two-thirds of the voting rights pursuant to the articles of association of Weijing Medical.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios of the Deconsolidation is more than 5% but all applicable percentage ratios are less than 25%, the Deconsolidation constitutes a discloseable transaction of the Company, and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

BACKGROUND

Reference is made to the voluntary announcement of the Company dated January 18, 2022 in relation to the Company's equity investment in Weijing Medical.

On January 18, 2022, Kangji Hong Kong entered into an equity investment agreement and a shareholders' agreement with Weijing Medical and its then existing shareholders, pursuant to which, amongst others, Kangji Hong Kong acquired 35% equity interests in Weijing Medical and was entitled to appoint four out of seven directors in the Weijing Medical Board. Since then, Weijing Medical had become a subsidiary of the Company and the financial results of Weijing Medical had been consolidated into the consolidated financial statements of the Company due to the Company's control over Weijing Medical through controlling a majority of members on the Weijing Medical Board.

Weijing Medical Founders have demonstrated their excellent research and development and management capabilities in 2023. With the team led by Weijing Medical Founders, Weijing Medical has consistently met the Group's expectation on product development progress. Since the second half of 2023, Weijing Medical Founders have been hoping to obtain more control over the operations and financial decision-making process of Weijing Medical, so as to improve the efficiency in the research and development process.

THE CHANGE IN BOARD COMPOSITION AND THE DECONSOLIDATION

On March 20, 2024 (after trading hours), the shareholders of Weijing Medical have approved certain amendments to its articles of association and the Change in Board Composition, whereby the number of directors that Kangji Hong Kong is entitled to nominate has decreased from four to three out of seven directors on the Weijing Medical Board. As a result, Kangji Hong Kong will cease to be able to appoint a majority of members on the Weijing Medical Board and lose control over Weijing Medical.

The amendments to the articles of association of Weijing Medical and the Change in Board Composition are subject to customary filing procedures with the competent local authority. Upon the Change in Board Composition becoming effective, Weijing Medical will cease to be a subsidiary of the Company and the financial results of Weijing Medical will no longer be consolidated into the consolidated financial statements of the Company, and the Company's retained interests in Weijing Medical will be accounted for as an investment in an associate in the consolidated financial statements of the Company.

The Deconsolidation does not involve any change of equity interest held by the shareholders of Weijing Medical and Kangji Hong Kong remains to hold 35% equity interests in Weijing Medical. Accordingly, Kangji Hong Kong retains significant influence over certain major corporate decisions which would require consent from shareholders representing more than two-thirds of the voting rights pursuant to the articles of association of Weijing Medical.

INFORMATION ON WEIJING MEDICAL

Weijing Medical is a company incorporated in the PRC and is primarily engaged in the research and development and production of the endoscopic surgical instruments control system. During the year ended December 31, 2023, Weijing Medical has been a platform of the Company for developing surgical robotic systems and related instruments and accessories for laparoscopic surgery and contributed 56 new patents.

Set out below is the unaudited financial information of Weijing Medical for each of the financial years ended December 31, 2022 and 2023, respectively, based on its management accounts prepared in accordance with HKFRS:

	For the year ended December 31, 2022 <i>(unaudited)</i> RMB'000	For the year ended December 31, 2023 <i>(unaudited)</i> RMB'000
Net loss before taxation	(30,435)	(79,577)
Net loss after taxation	(30,435)	(79,577)

The unaudited net asset value of Weijing Medical as at December 31, 2023 was approximately RMB47.8 million based on its management accounts prepared in accordance with HKFRS.

REASONS FOR AND BENEFITS OF THE DECONSOLIDATION

Taking into account the following reasons, the Directors are of the view that the Deconsolidation is in the interests of the Company and the Shareholders as a whole:

- (1) the Board considers that the Change in Board Composition would allow Weijing Medical Founders to gain more administrative flexibility in the research and development process of Weijing Medical and facilitate the efficiency of product development and commercialization, which will be mutually beneficial to both the Company and Weijing Medical in the long run;
- (2) except the director appointed by the Company, the new director being appointed to the Weijing Medical Board has been serving as the research and development director in Weijing Medical. The appointment aims to incentivize this director to commit in the development and commercialization of Weijing Medical's surgical robotic business;
- (3) the Deconsolidation would result in the income and expenses of Weijing Medical being deconsolidated from the Group's results on a line by line basis. It is expected that the consolidated financial statements of the Company would present a more meaningful comparison as the financial impact of the surgical robotic business of Weijing Medical, which is currently in the development stage, is different from that of the Group's existing business; and
- (4) the Company would remain to exert significant influence over and participation in the strategic business planning and management of Weijing Medical after the Change in Board Composition.

FINANCIAL EFFECT OF THE DECONSOLIDATION

After the Deconsolidation, the Group remains to hold 35% equity interests in Weijing Medical. The Directors consider that, in accordance with the applicable HKFRS, the Group's retained interests in Weijing Medical will be accounted for as an investment in an associate in the consolidated financial statements of the Company.

Based on the financial position of Weijing Medical as at December 31, 2023, it is estimated that as a result of the Deconsolidation, the Company is expected to record a gain of approximately RMB29 million, which is calculated based on the difference between the fair value of the Group's retained interest in Weijing Medical, as estimated with the assistance of an independent professional valuer, and the Group's share of the carrying value of the assets and liabilities of Weijing Medical. Moreover, Weijing Medical will cease to be a subsidiary of the Company, and the financial results of Weijing Medical will no longer be consolidated into the consolidated financial statements of the Company.

Shareholders and potential investors of the Company should note that the above figures are for reference only. The actual amount of gain or loss as a result of the Deconsolidation to be recorded by the Company, based on the financial information and valuation results of Weijing Medical as at the date of the Deconsolidation, will be included in the Company's consolidated financial statements for the year ended December 31, 2024 that are subject to audit to be performed by the Company's auditors.

INFORMATION OF THE COMPANY

The Company is a limited liability company incorporated in the Cayman Islands on February 12, 2020. The Group is principally involved in the design, development, manufacture and sale of a comprehensive suite of minimally invasive surgical instruments and accessories. As at the date of this announcement, the Company holds, indirectly via Kangji Hong Kong, 35% equity interests in Weijing Medical.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios of the Deconsolidation is more than 5% but all applicable percentage ratios are less than 25%, the Deconsolidation constitutes a discloseable transaction of the Company, and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall have the following meaning unless the context requires otherwise:

“Board”	the board of Directors
“Change in Board Composition”	the change in composition of the Weijing Medical Board as approved by the shareholders of Weijing Medical
“Company”	Kangji Medical Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability on February 12, 2020
“connected person(s)”	has the meaning as ascribed to it under the Listing Rules
“Deconsolidation”	the deconsolidation of the financial results of Weijing Medical from the consolidated financial statements of the Company
“Director(s)”	the director(s) of the Company
“Group”	the Company and all of its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Kangji Hong Kong”	Kangji Medical (Hong Kong) Limited, a direct wholly-owned subsidiary of the Company as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning as ascribed to it under the Listing Rules
“Weijing Medical”	Hangzhou Weijing Medical Robot Co., Ltd.* (杭州唯精醫療機器人有限公司), an indirect non-wholly-owned subsidiary of the Company as at the date of this announcement
“Weijing Medical Board”	the board of directors of Weijing Medical
“Weijing Medical Founders”	the founder members of Weijing Medical
“%”	per cent

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

Hangzhou, PRC, March 20, 2024

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

** For identification purpose only*