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IVD Medical Holding Limited

華檢醫療控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1931)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

The board (the “**Board**”) of directors (the “**Directors**”, each a “**Director**”) of IVD Medical Holding Limited (the “**Company**”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the six months ended 30 June 2023 (the “**Reporting Period**”), which have been reviewed by the Company’s audit committee (the “**Audit Committee**”) and have been approved by the Board on 18 August 2023. The financial highlights of the Group for the Reporting Period together with the comparative figures for the corresponding period in 2022 are set out as follows:

	Six months ended 30 June		Change
	2023 <i>RMB’000</i> (Unaudited)	2022 <i>RMB’000</i> (Unaudited)	
Revenue	1,377,314	1,176,557	17.1%
Gross profit	301,540	266,423	13.2%
Profit for the period	104,002	69,701	49.2%
Profit attributable to owners of the parent	103,009	81,149	26.9%
Adjusted profit for the period (<i>Non-GAAP, see Note</i>)	117,396	96,773	21.3%
Adjusted profit attributable to owners of the parent (<i>Non-GAAP, see Note</i>)	116,403	98,654	18.0%
Earnings per share			
Basic (RMB cents)	7.62	6.07	1.55
Diluted (RMB cents)	7.62	5.98	1.64

For the Reporting Period, the Group achieved a revenue of RMB1,377,314 thousand, which represented an increase of 17.1% as compared to the same period of 2022. Such increase was primarily due to increase in end customers' demand of in vitro diagnostic (“**IVD**”) products, as the operation of hospitals resumed to normal from gradual recovery of coronavirus disease (“**COVID-19**”).

Profit of the Group for the Reporting Period also recorded an increase of 49.2% as compared to the same period of 2022. Such increase was primarily due to (i) the aforesaid increase in revenue; and (ii) the impairment of property, plant and equipment and intangible assets amounting to RMB19,524 thousand for the same period of 2022 which did not recur in the Reporting Period.

Note: Adjusted profit for the period and adjusted profit attributable to owners of the parent are non-GAAP financial measures and are calculated by profit for the period and profit attributable to owners of the parent excluding certain impact of non-operating items which affect the results presented in the financial statements but are not indicative of the operating performance of the Group, with the intent to provide the shareholders of the Company (the “**Shareholders**”) and potential investors with useful supplementary information to assess the performance of the Group's core operations. See also the paragraph headed “Adjusted profit for the period” in this announcement for more information and calculation of these non-GAAP financial measures.

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

Six months ended 30 June 2023

		Six months ended 30 June	
		2023	2022
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	1,377,314	1,176,557
Cost of sales		<u>(1,075,774)</u>	<u>(910,134)</u>
Gross profit		301,540	266,423
Other income and gains	5	18,957	1,377
Selling and distribution expenses		(60,568)	(45,999)
Administrative expenses		(71,933)	(77,395)
Other expenses		–	(21,761)
Finance costs		(10,739)	(11,911)
Fair value loss on financial assets at fair value through profit or loss		(1,648)	(6,981)
Share of (loss)/profit of associates		(12,129)	561
Share of loss of a joint venture		(663)	(216)
Reversal of/(impairment of) trade receivables	6	<u>92</u>	<u>(603)</u>
Profit before tax	6	162,909	103,495
Income tax expense	7	<u>(58,907)</u>	<u>(33,794)</u>
Profit for the period		<u>104,002</u>	<u>69,701</u>
Profit for the period attributable to:			
Owners of the parent		103,009	81,149
Non-controlling interests		<u>993</u>	<u>(11,448)</u>
Profit for the period		<u>104,002</u>	<u>69,701</u>

	Six months ended 30 June	
	2023	2022
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(531)</u>	<u>(2,795)</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements	<u>14,817</u>	<u>26,306</u>
Other comprehensive income for the period, net of tax	<u>14,286</u>	<u>23,511</u>
Total comprehensive income for the period	<u>118,288</u>	<u>93,212</u>
Total comprehensive income attributable to:		
Owners of the parent	117,295	104,660
Non-controlling interests	<u>993</u>	<u>(11,448)</u>
	<u>118,288</u>	<u>93,212</u>
Earnings per share attributable to owners of the parent		
	<i>9</i>	
Basic (RMB cents)	7.62	6.07
Diluted (RMB cents)	<u>7.62</u>	<u>5.98</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

		30 June 2023	31 December 2022
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	10	81,439	83,103
Intangible assets		1,635,885	1,635,885
Investments in associates		9,831	17,460
Investment in a joint venture		38,355	38,447
Financial assets at fair value through profit or loss		53,926	59,378
Deferred tax assets		5,815	5,366
		<hr/>	<hr/>
Total non-current assets		1,825,251	1,839,639
Current assets			
Inventories		822,814	628,622
Trade receivables	11	491,036	566,796
Prepayments and other receivables		137,546	240,693
Pledged deposits		28,222	17,901
Cash and cash equivalents		1,248,799	1,020,626
		<hr/>	<hr/>
Total current assets		2,728,417	2,474,638
Current liabilities			
Trade and bills payables	12	300,884	324,054
Other payables and accruals		306,450	253,722
Interest-bearing bank borrowings		497,065	329,497
Tax payable		28,609	37,891
		<hr/>	<hr/>
Total current liabilities		1,133,008	945,164
Net current assets		1,595,409	1,529,474
		<hr/>	<hr/>
Total assets less current liabilities		3,420,660	3,369,113
		<hr/> <hr/>	<hr/> <hr/>

		30 June 2023	31 December 2022
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Non-current liabilities			
Other payables and accruals		9,184	12,566
Deferred tax liabilities		207,557	203,083
		<hr/>	<hr/>
Total non-current liabilities		216,741	215,649
		<hr/>	<hr/>
Net assets		3,203,919	3,153,464
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Equity attributable to owners of the parent			
Share capital	<i>13</i>	4,637	4,637
Reserves		3,198,211	3,148,749
		<hr/>	<hr/>
		3,202,848	3,153,386
		<hr/>	<hr/>
Non-controlling interests		1,071	78
		<hr/>	<hr/>
Total equity		3,203,919	3,153,464
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is a company with limited liability incorporated in the Cayman Islands and whose shares are publicly traded on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The principal activities of the Group are described in note 3 to the interim condensed consolidated financial information.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2023 has been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2022.

2.2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of following new and revised International Financial Reporting Standards (“**IFRSs**”) for the first time for the current period’s financial information.

IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 17	<i>Insurance Contracts</i>
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

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

- (a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group’s interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group’s annual consolidated financial statements.

- (b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022, with any cumulative effect recognised as an adjustment to the balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases that occurred on or after 1 January 2022, if any.

The amendments have no impact on the condensed consolidated statement of financial position of the Group.

- (d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the sale and manufacture of medical equipment and consumables and the provision of after-sales services related to medical equipment. For the purpose of resource allocation and performance assessment, the Group's management focuses on the operating results of the Group. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Mainland China	1,370,573	1,172,545
Others	6,741	4,012
	<u>1,377,314</u>	<u>1,176,557</u>

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

(b) Non-current assets

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
	Mainland China	1,760,466
Others	5,044	5,575
	<u>1,765,510</u>	<u>1,774,895</u>

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

Information about major customers

During the six months ended 30 June 2023 and 2022, no revenue from transaction with a single customer amounted to 10% or more of the Group's total revenue.

4. REVENUE

An analysis of revenue is as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sales of trading goods	1,293,002	1,097,468
Sales of manufactured goods	6,149	1,803
Provision of after-sales services	78,163	77,286
	1,377,314	1,176,557

Revenue from contracts with customers

Disaggregated revenue information

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Types of goods and services		
Sales of medical equipment	142,529	124,326
Sales of medical consumables	1,156,622	974,945
Provision of after-sales services	78,163	77,286
Total revenue from contracts with customers	1,377,314	1,176,557
Types of customers		
Sales to hospitals and healthcare institutions	171,061	97,054
Sales to logistics providers	79,420	46,386
Sales to distributors	1,048,670	955,831
Sales to service customers	78,163	77,286
Total revenue from contracts with customers	1,377,314	1,176,557
Timing of revenue recognition		
Goods transferred at a point in time	1,299,151	1,099,271
Services transferred over time	78,163	77,286
Total revenue from contracts with customers	1,377,314	1,176,557

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Other income		
Bank interest income	1,749	894
Government subsidies*	3,720	262
Others	656	92
	<u>6,125</u>	<u>1,248</u>
Gains		
Gain on termination/modification of lease contracts	8	129
Gain on disposal of items of property, plant and equipment	94	–
Exchange gain	12,730	–
	<u>12,832</u>	<u>129</u>
	<u><u>18,957</u></u>	<u><u>1,377</u></u>

* Government grants have been received from the PRC local government authorities to support subsidiaries' daily operating activities. There are no unfulfilled conditions or contingencies relating to these grants.

In 2022, the Group successfully applied for the funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Government of the Hong Kong Special Administrative Region. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the applicant is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees. An amount of RMB13 thousand was recognised in “Administrative expenses” and has been offset with the employee benefit expense.

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cost of inventories sold*	1,027,990	881,236
Cost of services provided*	47,784	28,898
Depreciation of owned assets	11,681	12,958
Depreciation of right-of-use assets	6,535	6,290
Amortisation of intangible assets	–	768
Research and development costs	4,057	2,855
(Reversal of)/impairment of trade receivables	(92)	603
Employee share-based compensation benefits under the Share Award Scheme	–	11,993
Foreign exchange differences, net	(12,730)**	2,232****
(Gain)/loss on disposals of property, plant and equipment	(94)**	5****
Impairment of intangible assets****	–	17,670
Impairment of property, plant and equipment****	–	1,854
Write-down of inventories to net realisable value***	4,072	904
	<u><u>4,072</u></u>	<u><u>904</u></u>

- * These expenses are included in “Cost of sales” on the face of the interim condensed consolidated statement of profit or loss and other comprehensive income.
- ** These income are included in “Other income and gains” on the face of the interim condensed consolidated statement of profit or loss and other comprehensive income.
- *** This expense is included in “Costs of inventories sold” above.
- **** These expenses are included in “Other expenses” on the face of the interim condensed consolidated statement of profit or loss and other comprehensive income.

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of the 16.5% on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (six months ended 30 June 2022: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Tax on profits assessable in Mainland China has been calculated at the applicable PRC corporate income tax (“CIT”) rate of 25% during the period.

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Mainland China		
Charge for the period	39,650	26,055
Underprovision in prior periods	10,115	6,891
Current – Hong Kong		
Charge for the period	5,117	216
Deferred	4,025	632
	<hr/>	<hr/>
Total tax charge for the period	58,907	33,794
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8. DIVIDENDS

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividend recognised as distribution during the reporting period:		
Final in respect of the year ended 31 December 2022 – HK5.556 cents per ordinary share (2022: Final in respect of the year ended 31 December 2021 – HK5.284 cents per ordinary share)	67,570	59,917
	<hr/>	<hr/>
Dividend declared after the end of the reporting period:		
Proposed 2023 Interim – HK2.970 cents per ordinary share (2022: Proposed 2022 Interim – HK2.729 cents per ordinary share)	37,009	32,035
	<hr/>	<hr/>
	104,579	91,952
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The proposed interim dividend subsequent to the reporting period has not been recognised as a liability at the end of the reporting period.

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to owners of the parent, and the weighted average number of ordinary shares in issue during the period.

The calculation of the diluted earnings per share amount for the six months ended 30 June 2023 is based on the profit for the period attributable to owners of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	103,009	81,149
	Number of shares	
	Six months ended 30 June	
	2023	2022
Shares		
Weighted average number of ordinary shares in issue less treasury shares and shares held for the Share Award Scheme held by the Company during the period used in the basic earnings per share calculation	1,351,891,655	1,337,875,234
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the period	–	4,126,954
Assumed issue at no consideration on deemed vesting of all awarded share outstanding during the period	–	14,089,375
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	1,351,891,655	1,356,091,563

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group acquired items of owned property, plant and equipment of RMB17,179 thousand (six months ended 30 June 2022: RMB8,005 thousand).

11. TRADE RECEIVABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade receivables	495,734	572,218
Impairment	<u>(4,698)</u>	<u>(5,422)</u>
	<u>491,036</u>	<u>566,796</u>

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 1 month	366,419	409,310
1 to 2 months	48,705	69,444
2 to 3 months	16,697	22,434
Over 3 months	<u>59,215</u>	<u>65,608</u>
	<u>491,036</u>	<u>566,796</u>

12. TRADE AND BILLS PAYABLES

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 1 month	273,700	131,146
1 to 2 months	341	71,531
2 to 3 months	6,081	57,479
Over 3 months	<u>20,762</u>	<u>63,898</u>
	<u>300,884</u>	<u>324,054</u>

13. SHARE CAPITAL

Shares

	30 June 2023		31 December 2022	
	<i>US\$'000</i>	<i>RMB'000</i>	<i>US\$'000</i>	<i>RMB'000</i>
	(Unaudited)		(Audited)	
Authorised:				
3,000,000,000 ordinary shares of US\$0.0005 each	<u>1,500</u>	<u>10,280</u>	<u>1,500</u>	<u>10,280</u>
Issued and fully paid:				
1,354,590,080 ordinary shares (31 December 2022: 1,354,590,080) of US\$0.0005 each	<u>678</u>	<u>4,637</u>	<u>678</u>	<u>4,637</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group is a leading distributor of IVD products in the People's Republic of China ("PRC"). The Group has also engaged in the research, development, manufacturing and sales of its self-branded IVD products. The Group has been able to increase its market share and profits steadily by taking advantage of its competitive and diverse product portfolio, extensive distribution network and hospital coverage.

During the Reporting Period, the Group recorded a revenue of RMB1,377,314 thousand, representing an increase of 17.1% as compared to the corresponding period of 2022; and the Group's profit for the period increased by 49.2% to RMB104,002 thousand.

Business segments

The Group's business in the Reporting Period can be broadly categorised into the following three segments:

- ***Distribution Business***

The distribution of IVD products forms the cornerstone of the Group's business. It primarily involves the trading of IVD analysers, reagents and other consumables to customers such as distributors, hospitals and healthcare institutions and logistics providers. The Group's distribution of IVD products was primarily conducted through Vastec Medical Equipment (Shanghai) Co., Ltd. ("**Vastec**"), a wholly-owned subsidiary of the Company. Vastec is primarily engaged in the distribution of Sysmex Corporation's ("**Sysmex**") haemostasis products in the PRC. It has been the sole national distributor of Sysmex's haemostasis products with exclusive distribution rights in the PRC since 1997 and also procures a diversified portfolio of IVD products from other leading international brands for distribution in the PRC.

Due to the long-term and excellent cooperation with Sysmex, Vastec has exclusive distribution rights of Sysmex's haemostasis products in the PRC from 1 April 2022 to 31 March 2027 pursuant to a five-year exclusive distribution agreement with Sysmex.

The Group also provides 4 Thrombotic Markers (*Note*) products manufactured by Sysmex to the market. These products adopt highly sensitive chemiluminescence technology, which may facilitate early diagnosis of thrombosis and fibrinolysis.

Note: 4 Thrombotic Markers refer to: 1) TAT: Thrombin-antithrombin complex 凝血酶－抗凝血酶複合物, 2) PIC: Plasmin- α 2-plasmin inhibitor complex, 纖溶酶- α 2 纖溶酶抑制物複合物, 3) TM: Thrombomodulin 血栓調節蛋白, 4) t-PAI-C: Tissue plasminogen activator/plasminogen activator inhibitor-1 complex 組織纖溶酶原激活物－纖溶酶原激活物抑制劑-1 複合物.

In addition, the Group provides solution services to the clinical laboratories of hospitals. This has enabled the Group to establish and maintain direct relationships with local medical practitioners so as to keep the Group close to the frontline of the medical practice and the market demand of IVD products. In the first half of 2023, the Group provided solution services to seven Class III hospitals in the PRC. Solution services contributed revenue of RMB112,227 thousand for the Reporting Period, representing an increase of 53.8% as compared to RMB72,987 thousand for the six months ended 30 June 2022. Such increase was primarily due to the operation of hospitals resumed to normal from gradual recovery of COVID-19 for the Reporting Period.

Through years of operations, the Group has established an expansive distribution network across 31 provinces, municipalities and autonomous regions in the PRC with an extensive hospital coverage. As of 30 June 2023, the Group had 240 (as of 30 June 2022: 204) direct customers, including hospitals and healthcare institutions, and 935 (as of 30 June 2022: 908) distributors in its established distribution network.

- ***After-sales Services***

Apart from distributing IVD products in the PRC, the Group also derived its revenue from providing after-sales services to end customers of Sysmex's haemostasis analysers in the PRC. In 2017, Vastec entered into an after-sales services agreement with Sysmex to provide after-sales services to haemostasis analysers procured by its end customers. The after-sales services provided by Vastec generally include maintenance and repair services, installation services and end customer trainings. Vastec primarily provides its after-sales services to hospitals and healthcare institutions. During the Reporting Period, the after-sales services business has been sustainably and steadily developing.

- ***Self-branded Products Business***

The Group has also engaged in the research, development, manufacturing and sales of IVD analysers and reagents under its own brand. The Group's self-branded IVD reagents were manufactured by Suzhou DiagVita Biotechnology Co., Ltd. and Bazoe Medical Co., Ltd. ("**Bazoe**"), and the Group's IVD analysers were produced by the Group's subsidiaries, IVD Medical Equipment (Shanghai) Ltd. and Langmai Biotechnology (Shandong) Co., Ltd. ("**Langmai**"). The Group distributes its self-developed IVD products under its own brand which includes IVD analysers and reagents primarily under the IVD testing category of Point-of-care testing ("**POCT**"), mass spectrometry and microbiology.

The Group has actively engaged in research projects to further develop its self-branded products business since listing. Over the past few years, the Group has invested in Bazoe and Langmai to develop its self-branded products of mass spectrometry and microbiology. The Group also cooperated with iCarbonX and set up an associate for IVD research and development and manufacturing, which focuses on molecular diagnostics reagents.

During the Reporting Period, operating losses amounting to RMB13,058 thousand from the operation of above projects has been included in the profit attributable to owners of the parent, as the projects are still in the early research stages. The losses did not have a material impact on the Group's operation and financial results.

INDUSTRY OVERVIEW

The continual growth of the healthcare market in the PRC is driven by a combination of favourable socio-economic factors including (i) the growth of the PRC population's disposable income and spending on healthcare, (ii) the increase of the overall PRC population and the accelerated ageing population, (iii) the expansion of the PRC economy, and (iv) strong support from the PRC government on healthcare spending as well as on continuous technological innovation. The Group expects that there will be significant growth potential for the healthcare market, especially the medical device market in the PRC. The integrated distribution value chain of the Group will provide strong support for the Group's development in the future.

According to Frost & Sullivan, by 2027, the PRC IVD market at ex-factory price level is projected to reach RMB278.7 billion with a compound annual growth rate (“CAGR”) of 15.7% during 2021 to 2027. In the future, the IVD market is expected to grow with the aggravating trend of an ageing population, the growth of medical expenses per capita and the progress of technological development.

The PRC IVD market can be divided into six major segments based on the testing principles: haematology and body fluid, clinical chemistry, immunoassay, molecular, microbiology and POCT. According to Frost & Sullivan, haematology and body fluid test includes haemostasis analysis and urinalysis had a market share of approximately 15.9% in mainland China in 2021 at ex-factory price level.

Haemostasis analysis IVD market in the PRC at ex-factory price level reached RMB5.0 billion in 2021, and the market is highly concentrated. Top three market players dominate the market with a cumulative market share of 77.7%.

Sales revenue of haemostasis analysis IVD products generated by tier 1 distributors in the PRC reached RMB6.0 billion in 2021. Vastec is the market leader by sales revenue in PRC tier 1 distributed haemostasis analysis IVD market, with a total market share of 43.2% in 2021 and penetration rate of 74.0% among China Top 100 Hospitals selected by Hospital Management Institute, Fudan University on 10 November 2019. By 2027, PRC tier 1 distributed haemostasis analysis IVD market is projected by Frost & Sullivan to reach RMB15.7 billion in terms of sales revenue with a CAGR of 17.5% during 2021 to 2027, an increase from former projection of CAGR of 13.3% due to the decreasing adverse impact of the COVID-19 pandemic.

BUSINESS OUTLOOK AND DEVELOPMENT STRATEGIES

The Company's successful listing on the Stock Exchange on 12 July 2019 provided the Group with a good opportunity for future development. With the support of the capital market, the Group will consolidate its leading position in the IVD industry in the PRC and adopt active development strategies, including but not limited to the following:

Expand product portfolio, the reach of distribution network and hospital coverage

To capitalise on the high growth potential in the IVD market, the Group aims to continuously expand its product portfolio by diversifying product categories, increasing brand coverage, and expanding the breadth of its distribution network and hospital coverage. To achieve these purposes, the Group intends to (i) establish and maintain relationship with well-known IVD manufacturers and suppliers by way of stocking sufficient target IVD products to secure more distribution rights; (ii) strengthen its relationship with hospitals in urban areas, community clinics at the provincial and municipal levels and other customers in rural areas; and (iii) establish a new department and hire more sales personnel to manage the expansion of its distribution coverage.

Continue to develop its distribution business by enhancing its capacity in providing solution services

The Group has been providing solution services to hospitals in the PRC since 2013. By being the general supplier of the clinical laboratory department in such hospitals, the Group participates in the design of laboratory layout, provides centralised procurement of IVD products, conducts real-time inventory monitoring and provides other after-sales services to clinical laboratories. Through years of operations, the Group has accumulated a wealth of operational experience and a diversified product portfolio, thus being able to promote the same to other hospitals and healthcare institutions. The Group plans to hire more sales personnel to manage the promotion and marketing of solution services of the Group and to stock sufficient IVD products of various brands to strengthen the Group's advantages in centralized procurement. In addition, the Group intends to continuously participate in national and local IVD symposiums and academic conferences to enhance brand awareness.

Further improve research and development capabilities of the Group and accelerate the expansion of self-branded products customer base

Strong research and development capabilities are critical to securing future development and sustainable growth of the Group. The Group intends to invest more resources to further improve its research and development capabilities by acquiring equipment, instruments and hiring experts in the relevant fields. The Group will engage in research projects to further develop its self-branded IVD products which are of promising market potential. The Group is also keen to further strengthen its product quality management, and optimise the performance and applicability of self-developed products to improve market competitiveness. With a high cost performance ratio of own brand/domestic products, the Group will be able to penetrate the mid to low-end market and to establish a broader customer base consisting of medical institutions in second or third-tier cities or those at grassroots level.

FINANCIAL REVIEW

Overview

The financial summary set out below is extracted or calculated from the unaudited financial statements of the Group for the Reporting Period, which were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

During the Reporting Period, the Group recorded revenue of RMB1,377,314 thousand, representing an increase of RMB200,757 thousand or 17.1% as compared to the corresponding period of 2022.

During the Reporting Period, the Group recorded profit for the period of RMB104,002 thousand, representing an increase of RMB34,301 thousand or 49.2% as compared to the corresponding period of 2022. Profit attributable to owners of the parent amounted to RMB103,009 thousand, representing an increase of RMB21,860 thousand or 26.9% as compared to the corresponding period of 2022.

During the Reporting Period, the Group recorded adjusted profit for the period of RMB117,396 thousand, representing an increase of RMB20,623 thousand or 21.3% as compared to the corresponding period of 2022.

	For the six months ended 30 June		Change
	2023 RMB'000	2022 RMB'000	
Operating Results			
Revenue	1,377,314	1,176,557	17.1%
Gross profit	301,540	266,423	13.2%
Earnings before interest and depreciation and amortization (EBITDA)	191,864	135,422	41.7%
Profit for the period	104,002	69,701	49.2%
Profit attributable to owners of the parent	103,009	81,149	26.9%
Adjusted profit for the period (<i>Note 1</i>)	117,396	96,773	21.3%
Adjusted profit attributable to owners of the parent (<i>Note 1</i>)	116,403	98,654	18.0%
Financial Ratios			
Gross profit margin (%) (<i>Note 2</i>)	21.9%	22.6%	decreased by 0.7 percentage point
Net profit margin (%) (<i>Note 2</i>)	7.6%	5.9%	increased by 1.7 percentage point
Adjusted profit for the period margin (%) (<i>Note 3</i>)	8.5%	8.2%	increased by 0.3 percentage point
Return on assets (%) (<i>Note 2</i>)	2.3%	1.6%	increased by 0.7 percentage point
Return on equity (%) (<i>Note 2</i>)	3.2%	2.7%	increased by 0.5 percentage point

	For the six months ended 30 June		Change
	2023	2022	
Average turnover days of trade receivables (days) (Note 2)	70	77	(7)
Average turnover days of inventories (days) (Note 2)	122	142	(20)
Average turnover days of trade payables (days) (Note 2)	53	80	(27)

	30 June	31 December	Change
	2023	2022	
	RMB'000	RMB'000	
Financial Position			
Total assets	4,553,668	4,314,277	5.5%
Equity attributable to owners of the parent	3,202,848	3,153,386	1.6%
Cash and cash equivalents	1,248,799	1,020,626	22.4%

Financial Ratios			
Current ratio (times) (Note 2)	2.4	2.6	(0.2)
Quick ratio (times) (Note 2)	1.7	2.0	(0.3)
Debt to equity ratio (times) (Note 2)	0.2	0.1	0.1

Note 1: Adjusted profit for the period and adjusted profit attributable to owners of the parent are non-GAAP financial measures and are calculated by profit for the period and profit attributable to owners of the parent excluding expenses in relation to employee share-based compensation benefits under the Share Award Scheme, fair value loss on financial assets at fair value through profits or loss, share of loss of a joint venture, impairment of property, plant and equipment and intangible assets, deferred tax of share of loss of a joint venture and tax effects related to employee share-based compensation benefits under the Share Award Scheme. See also the paragraph headed “Adjusted profit for the period” in this announcement for more information and calculation of these non-GAAP financial measures.

Note 2: Gross profit margin equals gross profit divided by revenue.

Net profit margin equals net profit divided by revenue.

Return on assets equals net profit divided by average total assets during the reporting period.

Return on equity equals net profit attributable to owner of the Company divided by average equity attributable to owner of the Company during the reporting period.

Average turnover days of trade receivables equal to the average of the opening and closing balances of trade receivables of the reporting period divided by revenue and multiplied by 181 days.

Average turnover days of inventories equal to the average of the opening and closing balances of inventories of the reporting period divided by cost of sales and multiplied by 181 days.

Average turnover days of trade payables equal to the average of the opening and closing balances of trade payables of the reporting period divided by cost of sales and multiplied by 181 days.

Current ratio equals total current assets divided by total current liabilities as at the end of the reporting period.

Quick ratio equals total current assets less inventories divided by total current liabilities as at the end of the reporting period.

Debt to equity ratio equals total debt divided by total equity as at the end of the reporting period. Debt means interest-bearing borrowings.

Note 3: Adjusted profit for the period margin is calculated by adjusted profit for the period (a non-GAAP financial measure, the calculation method is the same as set out in Note 1 above), divided by the revenue for the period.

Revenue

Revenue of the Group amounted to RMB1,377,314 thousand for Reporting Period, representing an increase of 17.1% compared to RMB1,176,557 thousand for the six months ended 30 June 2022. Such increase was primarily due to increase in end customers' demand of IVD products, as the operation of hospitals resumed to normal from gradual recovery of the COVID-19.

Revenue by business segment

The table below sets out the breakdown of the Group's revenue by business segment for the periods indicated:

Business segment	For the six months ended 30 June				Change
	2023 RMB'000	%	2022 RMB'000	%	
Distribution business	1,293,002	93.9	1,097,468	93.2	17.8%
After-sales services	78,163	5.7	77,286	6.6	1.1%
Self-branded products business	6,149	0.4	1,803	0.2	241.0%
Total	<u>1,377,314</u>	<u>100.0</u>	<u>1,176,557</u>	<u>100.0</u>	<u>17.1%</u>

Revenue by product type

The table below sets out the breakdown of the Group's revenue generated from distribution business and self-branded products business by product type for the periods indicated:

Product type	For the six months ended 30 June				Change
	2023 RMB'000	%	2022 RMB'000	%	
IVD analysers					
– Distribution business	140,801	10.9	124,314	11.3	13.3%
– Self-branded products business	1,728	0.1	12	0.0	14300.0%
Subtotal	<u>142,529</u>	<u>11.0</u>	<u>124,326</u>	<u>11.3</u>	<u>14.6%</u>
IVD reagents and other consumables					
– Distribution business	1,152,201	88.7	973,154	88.5	18.4%
– Self-branded products business	4,421	0.3	1,791	0.2	146.8%
Subtotal	<u>1,156,622</u>	<u>89.0</u>	<u>974,945</u>	<u>88.7</u>	<u>18.6%</u>
Total	<u>1,299,151</u>	<u>100.0</u>	<u>1,099,271</u>	<u>100.0</u>	<u>18.2%</u>

Revenue by channel

The table below sets out the breakdown of the Group's revenue generated from distribution business and self-branded products business by sales channel for the periods indicated:

Sales channel	For the six months ended 30 June				Change
	2023		2022		
	RMB'000	%	RMB'000	%	
Distribution business					
– Distributors	1,044,019	80.3	954,037	86.8	9.4%
– Hospitals and healthcare institutions	169,563	13.1	97,045	8.8	74.7%
– Logistics providers	79,420	6.1	46,386	4.2	71.2%
Subtotal	1,293,002	99.5	1,097,468	99.8	17.8%
Self-branded products business					
– Distributors	4,651	0.4	1,794	0.2	159.3%
– Hospitals and healthcare institutions	1,498	0.1	9	0.0	16544.4%
Subtotal	6,149	0.5	1,803	0.2	241.0%
Total	1,299,151	100.0	1,099,271	100.0	18.2%

Cost of sales

Cost of sales of the Group amounted to RMB1,075,774 thousand for the Reporting Period, representing an increase of 18.2% compared to RMB910,134 thousand for the six months ended 30 June 2022.

Cost of sales by business segment

The table below sets out the breakdown of the Group's cost of sales by business segment for the periods indicated:

Business segment	For the six months ended 30 June				Change
	2023		2022		
	RMB'000	%	RMB'000	%	
Distribution business	1,026,309	95.4	880,561	96.7	16.6%
After-sales services	47,784	4.4	28,898	3.2	65.4%
Self-branded products business	1,681	0.2	675	0.1	149.0%
Total	1,075,774	100.0	910,134	100.0	18.2%

Cost of sales by product type

The table below sets out the breakdown of the Group's cost of sales for distribution business and self-branded products business by product type for the periods indicated:

Product type	For the six months ended 30 June				Change
	2023		2022		
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	
IVD analysers					
– Distribution business	112,581	10.9	89,969	10.2	25.1%
– Self-branded products business	737	0.1	11	0.0	6,600.0%
Subtotal	113,318	11.0	89,980	10.2	25.9%
IVD reagents and other consumables					
– Distribution business	913,728	88.9	790,592	89.7	15.6%
– Self-branded products business	944	0.1	664	0.1	42.2%
Subtotal	914,672	89.0	791,256	89.8	15.6%
Total	1,027,990	100.0	881,236	100.0	16.7%

Gross profit and gross profit margin

Gross profit represents revenue less cost of sales. Gross profit of the Group amounted to RMB301,540 thousand for the Reporting Period, representing an increase of 13.2% as compared to RMB266,423 thousand for the six months ended 30 June 2022. Such increase was primarily due to the increase in revenue.

Gross profit margin is calculated as gross profit divided by revenue. Gross profit margin of the Group was 21.9% for the Reporting Period, decreased from 22.6% for the six months ended 30 June 2022, which was primarily due to the increase in cost of service rendered.

Gross profit and gross profit margin by business segment

The table below sets out the breakdown of the Group's gross profit and gross profit margin by business segment for the periods indicated:

Business segment	For the six months ended 30 June				Change
	2023	2022			
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	
Distribution business					
– IVD analysers	28,220	20.0	34,345	27.6	(17.8%)
– IVD reagents and other consumables	238,473	20.7	182,562	18.8	30.6%
Subtotal	266,693	20.6	216,907	19.8	23.0%
After-sales services	30,379	38.9	48,388	62.6	(37.2%)
Self-branded products business					
– IVD analysers	991	57.3	1	8.3	99,000.0%
– IVD reagents and other consumables	3,477	78.6	1,127	62.9	208.5%
Subtotal	4,468	72.7	1,128	62.6	296.1%
Total	301,540	21.9	266,423	22.6	13.2%

Gross profit and gross profit margin by product type

The table below sets out the breakdown of the Group's gross profit and gross profit margin for distribution business and self-branded products business by product type for the periods indicated:

Product type	For the six months ended 30 June				Change
	2023	2022			
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	
IVD analysers					
– Distribution business	28,220	20.0	34,345	27.6	(17.8%)
– Self-branded products business	991	57.3	1	8.3	99,000.0%
Subtotal	29,211	20.5	34,346	27.6	(15.0%)
IVD reagents and other consumables					
– Distribution business	238,473	20.7	182,562	18.8	30.6%
– Self-branded products business	3,477	78.6	1,127	62.9	208.5%
Subtotal	241,950	20.9	183,689	18.8	31.7%
Total	271,161	20.9	218,035	19.8	24.4%

Other income and gains

Other income and gains of the Group amounted to RMB18,957 thousand for the Reporting Period, representing an increase of 1,276.7% compared to RMB1,377 thousand for the six months ended 30 June 2022. Such increase was primarily due to the increase of exchange gain.

	For the six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Other income		
Bank interest income	1,749	894
Government subsidies	3,720	262
Others	656	92
	<hr/>	<hr/>
Subtotal	6,125	1,248
	<hr/>	<hr/>
Gains		
Gain on termination/modification of lease contracts	8	129
Gain on disposal of items of property, plant and equipment	94	–
Exchange gain	12,730	–
	<hr/>	<hr/>
	12,832	129
	<hr/>	<hr/>
Total	18,957	1,377
	<hr/> <hr/>	<hr/> <hr/>

Selling and distribution expenses

Selling and distribution expenses of the Group amounted to RMB60,568 thousand for the Reporting Period, representing an increase of 31.7% compared to RMB45,999 thousand for the six months ended 30 June 2022. Such increase was due to the increase of marketing activities after impact of COVID-19 diminished.

Administrative expenses

Administrative expenses of the Group amounted to RMB71,933 thousand for the Reporting Period, representing a decrease of 7.1% compared to RMB77,395 thousand for the six months ended 30 June 2022. Such decrease was primarily due to the expenses in relation to employee share-based compensation benefits under the share award scheme adopted by the Company on 19 May 2020 (the “Share Award Scheme”) amounting to RMB11,993 thousand for the six months ended 30 June 2022 which did not recur in the Reporting Period.

Other expenses

Other expenses of the Group amounted to RMB21,761 thousand for the six months ended 30 June 2022, which was mainly due to the impairment of property, plant and equipment and intangible assets which did not recur during the Reporting Period.

	For the six months ended 30 June	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Impairment of intangible assets	–	17,670
Impairment of property, plant and equipment	–	1,854
Exchange loss	–	2,232
Loss on disposal of items of property, plant and equipment	–	5
	<u>–</u>	<u>21,761</u>

Finance costs

Finance costs of the Group amounted to RMB10,739 thousand for the Reporting Period, representing a decrease of 9.8% as compared to RMB11,911 thousand for the six months ended 30 June 2022. Such decrease was primarily due to the decrease of average bank borrowing amount when compared to the six months ended 30 June 2022.

Profit for the period

Profit of the Group for the period amounted to RMB104,002 thousand for the Reporting Period, representing an increase of 49.2% as compared to RMB69,701 thousand for the six months ended 30 June 2022. Such increase was primarily due to (i) the increase in revenue as detailed above; and (ii) the impairment of property, plant and equipment and intangible assets amounting to RMB19,524 thousand for six months ended 30 June 2022 which did not recur in the Reporting Period.

Adjusted profit for the period

Certain additional non-GAAP financial measures (adjusted profit of the Group and adjusted profit attributable to owners of the parent) have been presented in this announcement. These non-GAAP financial measures exclude the impact of certain non-operating items which affect the results presented in the financial statements but are not indicative of the operating performance of the Group, with the intent to provide the Shareholders and potential investors with useful supplementary information to assess the performance of the Group's core operations. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with relevant GAAP. In addition, these non-GAAP financial measures does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies. Adjusted profit of the Group for the period amounted to RMB117,396 thousand for the Reporting Period, representing an increase of 21.3% as compared to RMB96,773 thousand for the six months ended 30 June 2022. Such increase was primarily due to the increase of revenue. The following table set out the calculation of the non-GAAP adjusted profit of the Group for the Reporting Period and the corresponding period in 2022:

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Profit for the period	104,002	69,701
Adjusted for non-operating items:		
Impairment of property, plant and equipment and intangible assets	–	19,524
Employee share-based compensation benefits under the Share Award Scheme	–	11,993
Tax effects related to employee share-based compensation benefits under the Share Award Scheme	11,249	(11,642)
Fair value loss on financial assets at fair value through profit or loss	1,648	6,981
Share of loss of a joint venture	663	216
Deferred tax of share of loss of a joint venture	(166)	–
Adjusted profit for the period (<i>Non-GAAP</i>)	<u>117,396</u>	<u>96,773</u>

Liquidity and financial resources

As of 30 June 2023, the Group had cash and cash equivalents of RMB1,248,799 thousand (primarily denominated in HKD, RMB and USD), as compared RMB1,020,626 thousand as of 31 December 2022. The approach adopted by the Board to manage the liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities so as to avoid any unacceptable losses or damage to the Group's reputation.

Capital structure

As of 30 June 2023, the Group's total equity attributable to owners of the parent was RMB3,202,848 thousand (31 December 2022: RMB3,153,386 thousand), comprising share capital of RMB4,637 thousand (31 December 2022: RMB4,637 thousand) and reserves of RMB3,198,211 thousand (31 December 2022: RMB3,148,749 thousand).

Net current assets

The Group had net current assets of RMB1,595,409 thousand as of 30 June 2023, representing an increase of RMB65,935 thousand as compared to RMB1,529,474 thousand as of 31 December 2022.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates primarily relates to its cash and bank balances and interest-bearing bank borrowings. The Group has not used any interest rate swaps to hedge its interest rate risk, and will consider hedging significant interest rate risk should the need arise.

Foreign currency risk

The Group faces transactional currency exposures arising from bank deposits held by operating units in currencies other than the units' functional currency. The currencies giving rise to such risk are primarily USD and HKD. For the Reporting Period, the Group recorded a net exchange gain of RMB12,730 thousand, as compared to a net exchange loss of RMB2,232 thousand for the six months ended 30 June 2022. As of 30 June 2023, the Group has not had any significant hedging arrangement to manage foreign exchange risks but has been actively monitoring and overseeing its foreign exchange risks.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings and projected cash flows from operations.

Capital expenditure

For the Reporting Period, the Group's total capital expenditure amounted to RMB17,179 thousand, which was primarily used in property, plant and equipment.

Charge/pledge on assets

As of 30 June 2023, the Group's bank deposits of approximately RMB28,222 thousand were pledged to secure the Group's letter of credit in the aggregate amount of RMB94,074 thousand.

Borrowings

The Group had bank borrowings of RMB497,065 thousand as of 30 June 2023 denominated in RMB, all of which bore interest at fixed rates. All of the Group's bank borrowings as of 30 June 2023 were repayable on or before 30 June 2024.

Contingent liabilities and guarantees

As of 30 June 2023, the Group did not have any material contingent liabilities, guarantees or any litigation against it (as of 31 December 2022: nil).

Gearing ratio

As of 30 June 2023, the Group's gearing ratio (the gearing ratio is equivalent to total debt divided by total assets as of the end of the period) was approximately 10.9% (as of 31 December 2022: 7.6%).

Significant investments

The aggregate carrying value of the Group's investments in joint venture(s) and associate(s) amounted to RMB48,186 thousand as of 30 June 2023.

As of 30 June 2023 and 31 December 2022, the Group did not hold any significant investments in the equity interests of any other companies.

Future plans for material investments and capital assets

As of 30 June 2023, the Group did not have any material capital commitment (as of 31 December 2022: nil) to acquire property, plant or equipment.

As of 30 June 2023, the Group did not have other plans for material investments and capital assets, save for the planned capital expenditure as disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 29 June 2019 (the "**Prospectus**"). Please also refer to the Company's 2022 Annual Report – Management Discussion and Analysis "Use of Proceeds from Initial Public Offering" for further information. The funding requirements will be satisfied by a combination of internally generated cash, external borrowings and other funds raised from the capital markets from time to time, in addition to the net proceeds from the initial public offering of the Company.

Employee and remuneration policy

As of 30 June 2023, the Group had 779 employees (as of 30 June 2022: 739 employees). Total staff remuneration expenses, including remuneration for Directors, for the Reporting Period amounted to RMB62,898 thousand (for the six months ended 30 June 2022: RMB65,990 thousand).

The Group has established a fair, cyclical, reasonable and competitive remuneration system for its staff, and pays employees based on the principles of fairness, competitiveness, motivation, reasonableness and legitimacy. The Group provides a competitive salary structure, with key considerations of the Group's operating situation, socio-economic prosperity and employees' performance, ability and contribution to the Group's business. The Group has adopted a performance-based remuneration policy, where employees' remuneration is composed of basic salary and performance salary, together with contributions under mandatory insurance/provident fund under applicable laws. Employees may also be entitled to year-end bonus based on their individual performance and the Group's operating situation, and incentives under the Company's share schemes.

To attract and retain more suitable personnel for development of the Group, the Group has adopted a pre-initial public offering share option scheme (the “**ESOP**”, as approved on 29 December 2017 and further amended on 27 March 2019) and a share option scheme (the “**Share Option Scheme**”, as approved on 21 June 2019), details of which were set out in the Prospectus. From the date of the adoption and up to the date of this announcement, 32,507,627 share options under the ESOP and 26,668,000 share options under the Share Option Scheme have been granted, and 13,003,051 options and 25,067,920 options were outstanding under the ESOP and the Share Option Scheme, respectively, as of 30 June 2023.

To recognise the contributions by certain employees of the Group and to provide incentives and to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group, the Company has adopted the Share Award Scheme.

As of 30 June 2023, 2,711,000 Shares were held in trust under the Share Award Scheme (including 155,000 Shares acquired on-market by the trustee at an aggregate consideration of approximately HKD304 thousand during the Reporting Period (excluding Shares vested but not yet transferred to the grantees)). There were no unvested award shares as of 30 June 2023.

No grants were made under the above share schemes of the Company during the Reporting Period.

Please refer to the Company’s 2022 Annual Report – Report of the Director “Share Schemes”, and the forthcoming 2023 interim report for further information about the share schemes.

Subsequent event

Change of Board composition

With effect from 17 August 2023, Mr. Sun Tao has been appointed as a non-executive Director, and Mr. Chan Kwok King, Kingsley has ceased to be a non-executive Director. Please refer to the Company’s announcement dated 17 August 2023.

The Group has had no other material event since the end of the Reporting Period and up to the date of this announcement.

SUPPLEMENTAL INFORMATION

Purchase, sale or redemption of the Company’s listed securities

During the Reporting Period, the trustee of the Share Award Scheme acquired 155,000 Shares under such scheme, see also the paragraph headed “Employee and remuneration policy” above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the Reporting Period.

Material acquisitions and disposals of subsidiaries and affiliated companies

The Group did not have any material acquisition and disposal of subsidiaries and affiliated companies during the Reporting Period.

Compliance with the model code for securities transactions by directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) regarding securities transactions by the Directors.

All Directors have confirmed, following specific enquiries by the Company, that they have complied with the Model Code throughout the Reporting Period.

Compliance with the corporate governance code

During the Reporting Period, save for the code provision addressed below, the Company has complied with all the applicable code provisions as set out in Part 2 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

Code provision C.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The roles of the chairman and chief executive officer of the Company are held by Mr. Ho Kuk Sing who is one of the founders of the Group and has extensive experience in the industry. The Board is of the view that given that Mr. Ho Kuk Sing is responsible for leading the strategic planning and business development of the Group, the arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under his strong and consistent leadership, and should be overall beneficial to the management and development of the Group's business. Please also refer to the Company's 2022 Annual Report – Corporate Governance Report "Chairman and Chief Executive Officer" for further information.

Review by the audit committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Lau Siu Ki (Chairman), Mr. Zhong Renqian and Mr. Leung Ka Sing.

The Company's interim results for the Reporting Period have been reviewed by all members of the Audit Committee. Based on such review, the Audit Committee was of the opinion that the Company's unaudited interim results were prepared in accordance with applicable accounting standards. The Audit Committee does not have any disagreement with the accounting treatment adopted by the Company.

Interim dividend

The Board resolved to declare the payment of an interim dividend of HK2.970 cents (for the six months ended 30 June 2022: HK2.729 cents) per Share for the six months ended 30 June 2023 to the Shareholders whose names appear on the register of members of the Company at the close of business on the record date, being 25 August 2023 (Friday). In order to qualify for the interim dividend, all completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 25 August 2023 (Friday). The interim dividend will be paid in Hong Kong dollars, and is expected to be paid on 6 September 2023 (Wednesday).

The payment of interim dividend, which totals approximately HKD40,231 thousand, is expected to result in an appropriation of approximately RMB37,009 thousand. It is intended that the dividend will be paid out of the share premium account of the Company, as the Board considers it unnecessary to maintain the share premium account at its current level. Such payment does not involve any reduction in the authorised or issued share capital of the Company, nor does it involve any reduction in the nominal value of the Shares or trading arrangements concerning the Shares.

Disclosure of information

This announcement has been published on the websites of the Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.ivdholding.com>). The interim report of the Company for the Reporting Period will be dispatched to Shareholders and be made available on the same websites in due course.

By Order of the Board
IVD Medical Holding Limited
Ho Kuk Sing
Chairman and Executive Director

Hong Kong, 18 August 2023

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Ho Kuk Sing, Mr. Leung King Sun and Mr. Lin Xianya, three non-executive Directors, namely, Ms. Yao Haiyun, Mr. Yang Zhaoxu and Mr. Sun Tao and three independent non-executive Directors, namely, Mr. Lau Siu Ki, Mr. Zhong Renqian and Mr. Leung Ka Sing.

Certain figures in this announcement have been subject to rounding adjustments.

This announcement may contain certain forward-looking statements that reflect the Company's beliefs, plans or expectations about the future or future events. These forward-looking statements are based on a number of assumptions, current estimates and projections, and are therefore subject to inherent risks, uncertainties and other factors which may or may not be beyond the Company's control. The actual results or outcomes of events may differ materially and/or adversely. Nothing contained in these forward-looking statements is, or shall be, relied upon as any assurance or representation as to the future or as a representation or warranty otherwise. Neither the Company nor its directors, officers, employees, agents, affiliates, advisers or representatives assume any responsibility to update these forward-looking statements or to adapt them to future events or developments or to provide supplemental information in relation thereto or to correct any inaccuracies.