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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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

The board (the “**Board**”) of directors (the “**Directors**”) of IVD Medical Holding Limited (the “**Company**”) is pleased to announce the financial results of the the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2023 as below.

FINANCIAL HIGHLIGHTS

	2023	2022	Change
	RMB'000	RMB'000	
Revenue	3,088,387	2,748,809	12.4%
Gross profit	671,701	608,141	10.5%
Profit for the year	237,126	195,530	21.3%
Profit attributable to owners of the parent	238,163	209,999	13.4%
Adjusted profit for the year (<i>Note</i>)	262,124	224,052	17.0%
Adjusted profit attributable to owners of the parent (<i>Note</i>)	263,161	228,504	15.2%
Earnings per share			
Basic (RMB cents)	17.62	15.61	2.01
Diluted (RMB cents)	17.62	15.50	2.12

Note: Adjusted profit for the year and adjusted profit attributable to owners of the parent are non-GAAP financial measures. Adjusted profit for the year and adjusted profit attributable to owners of the parent are used to 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 shareholders of the Company and potential investors with supplementary information to assess the performance of the Group's core operations. See the paragraph headed “Adjusted profit for the year” in this announcement for the basis of calculation about these measures.

For the year ended 31 December 2023 (the “**Reporting Period**”), the Group achieved a revenue of RMB3,088,387 thousand, which represented an increase of 12.4% as compared to the year ended 31 December 2022. Such increase was primarily due to the increase in end customers’ demand of in vitro diagnostic (“**IVD**”) products, as the operation of hospitals resumed to normal from the gradual recovery of coronavirus disease (“**COVID-19**”).

Profit of the Group for the Reporting Period recorded an increase of 21.3% as compared to the year ended 31 December 2022. Such increase was primarily attributable to (i) increase in revenue; (ii) absence of expenses in relation to employee share-based compensation benefits under a share award scheme adopted by the Company on 19 May 2020 (the “**Share Award Scheme**”) during the reporting period (2022: RMB11,993 thousand); and (iii) absence of impairment of property, plant and equipment and intangible assets during the reporting period (2022: RMB20,443 thousand).

The Board recommended the payment of a final dividend out of the share premium account of the Company for the year ended 31 December 2023 in the amount of HK6.209 cents per ordinary share (“**Share**”) to shareholders of the Company, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting (“**AGM**”) by way of an ordinary resolution.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Revenue	4	3,088,387	2,748,809
Cost of sales		<u>(2,416,686)</u>	<u>(2,140,668)</u>
Gross profit		671,701	608,141
Other income and gains	5	29,131	26,016
Selling and distribution expenses		(136,313)	(117,239)
Administrative expenses		(159,980)	(152,917)
Other expenses		(1,838)	(38,278)
Finance costs	6	(21,040)	(30,580)
Fair value loss on financial assets at fair value through profit or loss		(20,631)	(11,455)
Share of (losses)/profits of associates		(16,837)	495
Share of (loss)/profit of a joint venture		(5,822)	2,300
Reversal of impairment/(impairment) of trade receivables		958	(2,694)
Profit before tax	7	339,329	283,789
Income tax expense	8	(102,203)	(88,259)
Profit for the year		237,126	195,530
Profit for the year attributable to:			
Owners of the parent		238,163	209,999
Non-controlling interests		(1,037)	(14,469)
Profit for the year		237,126	195,530

	<i>Note</i>	2023 RMB'000	2022 RMB'000
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		781	(5,198)
Realisation of exchange fluctuation reserve upon deregistration of a subsidiary		<u>1,691</u>	<u>–</u>
		2,472	(5,198)
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the Company's financial statements		<u>(2,405)</u>	<u>47,283</u>
Other comprehensive income for the year, net of tax		<u>67</u>	<u>42,085</u>
Total comprehensive income for the year		<u>237,193</u>	<u>237,615</u>
Total comprehensive income attributable to:			
Owners of the parent		238,230	252,084
Non-controlling interests		<u>(1,037)</u>	<u>(14,469)</u>
		<u>237,193</u>	<u>237,615</u>
Earnings per share attributable to ordinary equity holders of the parent			
	<i>10</i>		
Basic (RMB cents)		17.62	15.61
Diluted (RMB cents)		<u>17.62</u>	<u>15.50</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*31 December 2023*

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		91,448	83,103
Intangible assets		1,635,885	1,635,885
Investments in associates		10,123	17,460
Investment in a joint venture		33,197	38,447
Financial assets at fair value through profit or loss		25,256	59,378
Deferred tax assets		6,930	5,366
		<hr/>	<hr/>
Total non-current assets		1,802,839	1,839,639
CURRENT ASSETS			
Inventories		1,109,554	628,622
Trade receivables	<i>11</i>	532,158	566,796
Prepayments and other receivables		42,740	240,693
Pledged deposits		72,975	17,901
Cash and cash equivalents		1,224,786	1,020,626
		<hr/>	<hr/>
Total current assets		2,982,213	2,474,638
CURRENT LIABILITIES			
Trade and bills payables	<i>12</i>	506,567	324,054
Other payables and accruals	<i>13</i>	330,790	253,722
Interest-bearing bank borrowings		319,896	329,497
Tax payable		41,869	37,891
		<hr/>	<hr/>
Total current liabilities		1,199,122	945,164
NET CURRENT ASSETS		1,783,091	1,529,474
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,585,930	3,369,113
		<hr/>	<hr/>

	<i>Notes</i>	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Other payables and accruals	<i>13</i>	13,289	12,566
Deferred tax liabilities		186,752	203,083
Total non-current liabilities		200,041	215,649
Net assets		3,385,889	3,153,464
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>14</i>	4,637	4,637
Reserves		3,340,298	3,148,749
		3,344,935	3,153,386
Non-controlling interests		40,954	78
Total equity		3,385,889	3,153,464

NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a company with limited liability incorporated in the Cayman Islands. The registered office address of the Company is the office of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at Room 1703, Grandtech Centre, 8 On Ping Street, Shatin, Hong Kong. Listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**stock Exchange**”) commenced on 12 July 2019.

The Company is an investment holding company. During the year, the Company’s subsidiaries were principally engaged in the sale and manufacture of medical equipment and consumables and provision of after-sales services related to medical equipment.

2.1 BASIS OF PREPARATION

The financial information have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) issued by the IASB 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 measured at fair value. The financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The financial information include the financial information of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2023. 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 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.

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 in 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 the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and 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 new and revised IFRSs for the first time for the current year's financial statements.

IFRS 17	<i>Insurance Contracts</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 the 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 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's 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. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.
- (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.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under IAS 12.

- (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. 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 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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Chinese Mainland	3,075,304	2,747,574
Others	<u>13,083</u>	<u>1,235</u>
Total revenue	<u><u>3,088,387</u></u>	<u><u>2,748,809</u></u>

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

(b) Non-current assets

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Chinese Mainland	1,765,767	1,769,320
Others	<u>4,886</u>	<u>5,575</u>
Total non-current assets	<u><u>1,770,653</u></u>	<u><u>1,774,895</u></u>

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

Information about major customers

During the years ended 31 December 2023 and 2022, no revenue from transactions with a single external customer accounted for 10% or more of the total revenue of the Group.

4. REVENUE

An analysis of revenue is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Sales of trading goods	2,898,390	2,575,382
Sales of manufactured goods	10,623	6,258
Provision of after-sales services	179,374	167,169
	<hr/>	<hr/>
Total revenue	3,088,387	2,748,809

5. OTHER INCOME AND GAINS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Other income		
Bank interest income	2,910	1,972
Rental income	301	629
Government subsidies	15,996	23,186
Others	576	147
	<hr/>	<hr/>
Total other income	19,783	25,934
Gains		
Gain on termination/modification of lease contracts	7	82
Gain on disposal of items of property, plant and equipment, net	141	–
Foreign exchange differences, net	9,200	–
	<hr/>	<hr/>
Total gains	9,348	82
	<hr/>	<hr/>
Total other income and gains	29,131	26,016

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest on bank loans	19,944	29,404
Interest on lease liabilities	993	1,176
Interest on factored trade receivables	103	–
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Total finance costs	21,040	30,580

7. PROFIT BEFORE TAX

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Cost of inventories sold*	2,319,546	2,070,006
Cost of services provided*	97,140	70,662
Depreciation of owned assets	23,968	21,007
Depreciation of right-of-use assets	13,591	12,745
Amortisation of intangible assets	–	1,537
Research and development costs	8,665	7,219
Lease payments not included in the measurement of lease liabilities	13,841	12,179
Auditors' remuneration	3,200	3,400
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries*****	148,939	136,929
Employee share-based compensation benefits under the Share Award Scheme	–	11,993
Pension scheme contributions*****	34,930	28,595
	<u>183,869</u>	<u>177,517</u>
Total	<u>183,869</u>	<u>177,517</u>
Foreign exchange differences, net	(9,200)***	10,335**
(Reversal of impairment)/impairment of trade receivables	(958)	2,694
Impairment of property, plant and equipment**	–	3,542
Impairment of intangible assets**	–	16,901
Write-off of prepayments**	–	7,495
Write-down of inventories to net realisable value****	4,239	955
Loss on deregistration of a subsidiary**	1,838	–
(Gain)/loss on disposal of items of property, plant and equipment	(141)***	5**
Fair value loss on financial assets at fair value through profit or loss	<u>20,631</u>	<u>11,455</u>

* These items are included in “Cost of sales” on the face of the consolidated statement of profit or loss and other comprehensive income.

** These items are included in “Other expenses” on the face of the consolidated statement of profit or loss and other comprehensive income.

*** These items are included in “Other income and gains” on the face of the consolidated statement of profit or loss and other comprehensive income.

**** This item is included in “Cost of inventories sold” above.

***** 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 Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees. The amount of RMB293,000 was recognised in “Administrative expenses” and has been offset with the employee benefit expense.

***** At 31 December 2023 and 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, 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 (2022: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%). Tax on profits assessable in Chinese Mainland has been calculated at the applicable PRC corporate income tax (“CIT”) rate of 25% during the year.

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Current – Hong Kong		
Over-provision in prior years	(1,914)	–
Charge for the year	4,184	2,308
Current – Chinese Mainland		
Under-provision in prior years	516	8,974
Charge for the year	117,312	80,645
Deferred	(17,895)	(3,668)
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Total tax charge for the year	102,203	88,259
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9. DIVIDENDS

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Interim – HK2.970 cents (2022 interim: HK2.729 cents) per ordinary share	36,935	32,035
Proposed final – HK6.209 cents (2022: HK5.556 cents) per ordinary share	76,314	67,570
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	113,249	99,605
	<hr/> <hr/>	<hr/> <hr/>

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

10. 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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year 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 corresponding year ended, 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 Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2023.

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	<u>238,163</u>	<u>209,999</u>
	Number of shares	
	2023	2022
Shares		
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme held by the Company during the year used in the basic earnings per share calculation	1,351,885,316	1,344,983,241
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the year	–	2,999,126
Assumed issue at no consideration on deemed vesting of all awarded shares under the Share Award Scheme outstanding during the year	–	<u>6,986,786</u>
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	<u>1,351,885,316</u>	<u>1,354,969,153</u>

11. TRADE RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	535,827	572,218
Impairment	<u>(3,669)</u>	<u>(5,422)</u>
Net carrying amount	<u>532,158</u>	<u>566,796</u>

The majority of the Group's sales of products were mainly made on the payment-in-advance basis or granted with credit periods ranging from 30 to 180 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. There is a certain concentration of credit risk. The total trade receivables from the five largest debtors at 31 December 2023 represented 41.1% (2022: 42.5%) of the total trade receivables, while 17.6% (2022: 13.4%) of the total trade receivables was due from the largest debtor.

The Group does not hold any collateral or other credit enhancement over its trade receivable balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amount due from the Group's associate of RMB3,000 in 2022 which are payable on credit term similar to those offered to the major customers of the Group.

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

	2023 RMB'000	2022 <i>RMB'000</i>
Within 1 month	396,049	409,310
1 to 2 months	84,936	69,444
2 to 3 months	22,075	22,434
Over 3 months	29,098	65,608
	<hr/>	<hr/>
Total	532,158	566,796
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12. TRADE AND BILLS PAYABLES

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

	2023 RMB'000	2022 <i>RMB'000</i>
Within 1 month	406,783	131,146
1 to 2 months	71,606	71,531
2 to 3 months	502	57,479
Over 3 months	27,676	63,898
	<hr/>	<hr/>
Total	506,567	324,054
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Included in the trade and bills payables as of 31 December 2023 are trade payables of RMB131,000 (2022: RMB110,000) due to an associate which are repayable within 60 days, which represents credit terms similar to those offered by the associate to its major customers.

Trade payables are non-interest-bearing and are normally settled on terms of 60 days.

13. OTHER PAYABLES AND ACCRUALS

	2023 RMB'000	2022 <i>RMB'000</i>
Contract liabilities	80,041	56,937
Other payables	39,582	25,962
Accruals	52,745	45,025
Dividend payables	146,637	117,674
Lease liabilities	24,425	20,424
Others	649	266
	<hr/>	<hr/>
	344,079	266,288
Less: other payables included in non-current liabilities	(13,289)	(12,566)
	<hr/>	<hr/>
Total	330,790	253,722
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14. SHARE CAPITAL

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Authorised:		
3,000,000,000 ordinary shares of US\$0.0005 each (2022: 3,000,000,000 ordinary shares of US\$0.0005 each)	10,280	10,280
Issued and fully paid:		
1,354,590,080 ordinary shares of US\$0.0005 each (2022: 1,354,590,080 ordinary shares of US\$0.0005 each)	4,637	4,637

The movements in the Company's issued share capital during the year ended 31 December 2023 and 2022 were as follows:

	Number of ordinary shares	Nominal value of ordinary shares <i>US\$'000</i>	Equivalent to <i>RMB'000</i>
At 1 January 2022	1,352,990,000	677	4,632
Share options exercised (<i>note a</i>)	<u>1,600,080</u>	<u>1</u>	<u>5</u>
At 31 December 2022, 1 January 2023 and 31 December 2023	<u>1,354,590,080</u>	<u>678</u>	<u>4,637</u>

Note:

- (a) The subscription rights attaching to 1,600,080 share options were exercised at the subscription price of HK\$3.042 (equivalent to RMB2.467 as of the date of exercise) per share, resulting in the issue of 1,600,080 shares for a total cash consideration, before expense, of RMB3,947,000. An amount of RMB1,077,000 was transferred from the share option reserve to share premium upon the exercise of the share options.

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 is 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 RMB3,088,387 thousand, representing an increase of 12.4% as compared to the corresponding period of 2022. The Group's profit for the year increased by 21.3% to RMB237,126 thousand for the Reporting Period.

Business Segments

The Group's business 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 subsidiary of the Company. Vastec is primarily engaged in the distribution of Sysmex' haemostasis products in the PRC, it has been the sole national distributor of Sysmex' haemostasis products with exclusive distribution rights in the PRC since 1997. It also procures a diversified portfolio of IVD products from other leading international brands for distribution in the PRC. As of 31 December 2023, approximately 6,920 of Sysmex' haemostasis analysers have been installed by the Group and in use at hospitals and healthcare institutions accumulatively.

Having worked together for 26 years, Vastec and Sysmex Shanghai Ltd. both agreed to enhance the parties' cooperation in order to better tackle market change in future, and entered into the Strategic Cooperation Agreements during the Reporting Period, under which the parties agreed to amend Vastec's distribution right, and to cooperate in relation to the shareholding structure of Vastec. In particular, Vastec's distribution right to distribute Sysmex's haemostasis products in designated areas in China has been amended from a specified period right to a long-term right. Pursuant to these Strategic Cooperation Agreements, Sysmex Shanghai Ltd. has made a capital injection to, and has become a shareholder of, Vastec.

The Group also provides 4 Thrombotic Markers (*Note 1*) products manufactured by Sysmex to the market. These products adopt highly sensitive chemiluminescence technology, which may facilitate early diagnosis of thrombosis and fibrinolysis. As of 31 December 2023, 106 Sysmex' haemostasis immunoassay analysers which performed the 4 Thrombotic Markers have been installed by the Group at the hospitals and healthcare institutions in the PRC.

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 medical practice and market demand of IVD products. In 2023, the Group provided solution services to seven Class III hospitals in the PRC. Solution services contributed revenue of RMB241,944 thousand for the year ended 31 December 2023, representing an increase of 17.8% as compared to RMB205,406 thousand for the year ended 31 December 2022.

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 31 December 2023, the Group had 332 direct customers, including hospitals and healthcare institutions, and 1,164 distributors in its established distribution network. As of 31 December 2023, the Group also covered 1,616 Class III hospitals mainly through its sub-distribution networks in the PRC, which further enhanced the competitiveness of the Group.

- ***After-sales Services***

Apart from distributing IVD products in the PRC, the Group also derives its revenue from providing after-sales services to end customers of Sysmex' 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., and the Group's self-branded IVD analysers were produced by the Group's equipment manufacturer, Langmai Biotechnology (Shandong) Co., Ltd.. These self-developed IVD products include IVD analysers and reagents primarily under the IVD testing category of Point-of-care testing (“**POCT**”), mass spectrometry and microbiology.

Note 1: 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

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 Chinese Mainland 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 COVID-19.

BUSINESS OUTLOOK AND DEVELOPMENT STRATEGIES

The listing of the Shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) provides the Group with good opportunity for future development. With the help of the capital market, the Group aims to 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 relationships 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 layouts, provides centralised procurement of IVD products, conducts real-time inventory monitoring and provides other after-sales services to clinical laboratories. Through years of operation, 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 intends to penetrate into 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 audited financial statements of the Group for the Reporting Period which were prepared in accordance with International Accounting Standard.

During the Reporting Period, the Group recorded revenue of RMB3,088,387 thousand, representing an increase of RMB339,578 thousand or 12.4% as compared to the corresponding period of 2022.

During the Reporting Period, the Group recorded a net profit for the year of RMB237,126 thousand, representing an increase of RMB41,596 thousand or 21.3% as compared to the corresponding period of 2022. Profit attributable to owners of the parent amounted to RMB238,163 thousand, representing an increase of RMB28,164 thousand or 13.4% as compared to the corresponding period of 2022.

During the Reporting Period, the Group recorded non-GAAP adjusted profit for the year of RMB262,124 thousand, representing an increase of RMB38,072 thousand or 17.0% as compared to the corresponding period of 2022.

	For the year ended 31 December		
	2023	2022	Change
	RMB'000	RMB'000	
Operating Results			
Revenue	3,088,387	2,748,809	12.4%
Gross profit	671,701	608,141	10.5%
Earnings before interest and depreciation and amortization (EBITDA)	397,928	349,658	13.8%
Profit attributable to owners of the parent	238,163	209,999	13.4%
Adjusted profit for the year (Note 1)	262,124	224,052	17.0%
Adjusted profit attributable to owners of the parent (Note 1)	<u>263,161</u>	<u>228,504</u>	<u>15.2%</u>
Financial Ratios			
Gross profit margin (%) (Note 2)	21.7%	22.1%	decreased by 0.4 percentage point
Net profit margin (%) (Note 2)	7.7%	7.1%	increased by 0.6 percentage point
Adjusted profit for the year margin (%) (Note 3)	8.5%	8.2%	increased by 0.3 percentage point
Return on assets (%) (Note 2)	5.2%	4.5%	increased by 0.7 percentage point
Return on equity (%) (Note 2)	7.3%	6.8%	increased by 0.5 percentage point
	<u> </u>	<u> </u>	<u> </u>
Average turnover days of trade receivables (days) (Note 2)	65	74	(9)
Average turnover days of inventories (days) (Note 2)	131	111	20
Average turnover days of trade payables (days) (Note 2)	63	70	(7)
	<u> </u>	<u> </u>	<u> </u>
		31 December	
	2023	2022	Change
	RMB'000	RMB'000	%
Financial Position			
Total assets	4,785,052	4,314,277	10.9%
Equity attributable to owners of the parent	3,344,935	3,153,386	6.1%
Cash and cash equivalents	<u>1,224,786</u>	<u>1,020,626</u>	<u>20.0%</u>
Financial Ratios			
Current ratio (times) (Note 2)	2.5	2.6	(0.1)
Quick ratio (times) (Note 2)	1.6	2.0	(0.4)
Debt to equity ratio (times) (Note 2)	<u>0.1</u>	<u>0.1</u>	<u>—</u>

Note 1: Adjusted profit for the year and adjusted profit attributable to owners of the parent are non-GAAP financial measures. See also the paragraph headed “Adjusted profit for the year” in this announcement for the basis of calculation about these 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 365 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 365 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 365 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 year margin is a financial ratio and is calculated by adjusted profit for the year (see Note 1 above), a non-GAAP financial measures, divided by the revenue for the year.

Revenue

Revenue of the Group amounted to RMB3,088,387 thousand for the Reporting Period, representing an increase of 12.4% as compared to RMB2,748,809 thousand for the year ended 31 December 2022. Such increase was primarily due to the increase in end customers' demand of IVD products, as the operation of hospitals resumed to normal from gradual recovery of COVID-19.

Revenue by business segment

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

Business segment	For the year ended 31 December				Change
	2023		2022		
	RMB'000	% of total	RMB'000	% of total	
Distribution business	2,898,390	93.9	2,575,382	93.7	12.5%
After-sales services	179,374	5.8	167,169	6.1	7.3%
Self-branded products business	10,623	0.3	6,258	0.2	69.8%
Total	<u>3,088,387</u>	<u>100</u>	<u>2,748,809</u>	<u>100</u>	<u>12.4%</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 years indicated:

Product type	For the year ended 31 December				Change
	2023		2022		
	RMB'000	% of total	RMB'000	% of total	
IVD analysers					
– Distribution business	330,517	11.3	360,620	13.9	(8.3%)
– Self-branded products business	1,868	0.1	1,632	0.1	14.5%
Subtotal	<u>332,385</u>	<u>11.4</u>	<u>362,252</u>	<u>14.0</u>	<u>(8.2%)</u>
IVD reagents and other consumables					
– Distribution business	2,567,873	88.3	2,214,762	85.8	15.9%
– Self-branded products business	8,755	0.3	4,626	0.2	89.3%
Subtotal	<u>2,576,628</u>	<u>88.6</u>	<u>2,219,388</u>	<u>86.0</u>	<u>16.1%</u>
Total	<u>2,909,013</u>	<u>100.0</u>	<u>2,581,640</u>	<u>100.0</u>	<u>12.7%</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 channels for the years indicated:

Sales channel	For the year ended 31 December				Change
	2023		2022		
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	
Distribution business					
– Distributors	2,355,731	80.9	2,171,726	84.1	8.5%
– Hospitals and healthcare institutions	377,043	13.0	282,693	11.0	33.4%
– Logistics providers	165,616	5.7	120,963	4.7	36.9%
Subtotal	2,898,390	99.6	2,575,382	99.8	12.5%
Self-branded products business					
– Distributors	9,130	0.3	6,039	0.2	51.2%
– Hospitals and healthcare institutions	1,493	0.1	219	0.0	581.7%
Subtotal	10,623	0.4	6,258	0.2	69.8%
Total	2,909,013	100.0	2,581,640	100.0	12.7%

Cost of sales

Cost of sales of the Group amounted to RMB2,416,686 thousand for the Reporting Period, representing an increase of 12.9% as compared to RMB2,140,668 thousand for the year ended 31 December 2022. Such increase was primarily due to the increase of sales.

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 years indicated:

Business segment	For the year ended 31 December				Change
	2023		2022		
	RMB'000	% of total	RMB'000	% of total	
Distribution business	2,316,752	95.9	2,067,379	96.6	12.1%
After-sales services	97,140	4.0	70,662	3.3	37.5%
Self-branded products business	2,794	0.1	2,627	0.1	6.4%
Total	<u>2,416,686</u>	<u>100.0</u>	<u>2,140,668</u>	<u>100.0</u>	<u>12.9%</u>

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 years indicated:

Product type	For the year ended 31 December				Change
	2023		2022		
	RMB'000	% of total	RMB'000	% of total	
IVD analysers					
– Distribution business	283,454	12.2	294,155	14.2	(3.6%)
– Self-branded products business	836	0.0	1,151	0.0	(27.4%)
Subtotal	<u>284,290</u>	<u>12.2</u>	<u>295,306</u>	<u>14.2</u>	<u>(3.7%)</u>
IVD reagents and other consumables					
– Distribution business	2,033,298	87.7	1,773,224	85.7	14.7%
– Self-branded products business	1,958	0.1	1,476	0.1	32.7%
Subtotal	<u>2,035,256</u>	<u>87.8</u>	<u>1,774,700</u>	<u>85.8</u>	<u>14.7%</u>
Total	<u>2,319,546</u>	<u>100.0</u>	<u>2,070,006</u>	<u>100.0</u>	<u>12.1%</u>

Gross profit and gross profit margin

Gross profit represents revenue less cost of sales. Gross profit of the Group amounted to RMB671,701 thousand for the Reporting Period, representing an increase of 10.5% as compared to RMB608,141 thousand for the year ended 31 December 2022. Such increase was primarily attributable to the increase of revenue.

Gross profit margin is calculated as gross profit divided by revenue. Gross profit margin of the Group was 21.7% for the Reporting Period, which decreased from 22.1% for the year ended 31 December 2022. The decrease of gross profit margin was primarily attributable to decrease in sales price of IVD analysers and increase in cost of services 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 years indicated:

Business segment	For the year ended 31 December				Change
	2023		2022		
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	
Distribution business					
– IVD reagents and other consumables	534,575	20.8	441,538	19.9	21.1%
– IVD analysers	47,063	14.2	66,465	18.4	(29.2%)
Subtotal	581,638	20.1	508,003	19.7	14.5%
After-sales services	82,234	45.8	96,507	57.7	(14.8%)
Self-branded products business					
– IVD reagents and other consumables	6,797	77.6	3,150	68.1	115.8%
– IVD analysers	1,032	55.2	481	29.5	114.6%
Subtotal	7,829	73.7	3,631	58.0	115.6%
Total	671,701	21.7	608,141	22.1	10.5%

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 generated from distribution business and self-branded products business by product type for the years indicated:

Product type	For the year ended 31 December				Change
	2023		2022		
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	
IVD analysers					
– Distribution business	47,063	14.2	66,465	18.4	(29.2%)
– Self-branded products business	1,032	55.2	481	29.5	114.6%
Subtotal	48,095	14.5	66,946	18.5	(28.2%)
IVD reagents and other consumables					
– Distribution business	534,575	20.8	441,538	19.9	21.1%
– Self-branded products business	6,797	77.6	3,150	68.1	115.8%
Subtotal	541,372	21.0	444,688	20.0	21.7%
Total	589,467	20.3	511,634	19.8	15.2%

Other income and gains

Other income and gains of the Group amounted to RMB29,131 thousand for the Reporting Period, representing an increase of 12.0% as compared to RMB26,016 thousand for the year ended 31 December 2022. Such increase was primarily due to the foreign exchange gain, which is partially offset by the decrease in government subsidies received.

	For the year ended	
	31 December	
	2023	2022
	RMB'000	RMB'000
Other income		
Bank interest income	2,910	1,972
Rental income	301	629
Government subsidies	15,996	23,186
Others	576	147
	<hr/>	<hr/>
Total other income	19,783	25,934
	<hr/>	<hr/>
Gains		
Gain on termination/modification of lease contracts	7	82
Gain on disposal of items of property, plant and equipment, net	141	–
Foreign exchange differences, net	9,200	–
	<hr/>	<hr/>
Total gains	9,348	82
	<hr/>	<hr/>
Total other income and gains	29,131	26,016
	<hr/> <hr/>	<hr/> <hr/>

Selling and distribution expenses

Selling and distribution expenses of the Group amounted to RMB136,313 thousand for the Reporting Period, representing an increase of 16.3% as compared to RMB117,239 thousand for the year ended 31 December 2022. Such increase was due to the increase of marketing activities after the impact of COVID-19 diminished.

Administrative expenses

Administrative expenses of the Group amounted to RMB159,980 thousand for the Reporting Period, representing an increase of 4.6% as compared to RMB152,917 thousand for the year ended 31 December 2022. Such increase was primarily due to the increase of business activities after the impact of COVID-19 diminished.

Other expenses

Other expenses of the Group amounted to RMB1,838 thousand for the Reporting Period, representing a decrease of 95.2% as compared to RMB38,278 thousand for the year ended 31 December 2022. Such significant decrease was primarily due to the absence of impairment loss of property, plant and equipment and intangible assets and exchange loss during the Reporting Period.

	For the year ended	
	31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange differences, net	–	10,335
Impairment of intangible assets	–	16,901
Impairment of property, plant and equipment	–	3,542
Write-off of prepayments	–	7,495
Loss on deregistration of a subsidiary	1,838	–
Loss on disposal of items of property, plant and equipment	–	5
	<hr/>	<hr/>
	1,838	38,278
	<hr/> <hr/>	<hr/> <hr/>

Finance costs

Finance costs of the Group amounted to RMB21,040 thousand for the Reporting Period, representing a decrease of 31.2% as compared to RMB30,580 thousand for the year ended 31 December 2022. Such decrease was primarily due to the decrease in average bank borrowing amount during the Reporting Period.

Profit for the year

Profit of the Group for the year amounted to RMB237,126 thousand for the Reporting Period, representing an increase of 21.3% as compared to RMB195,530 thousand for the year ended 31 December 2022. Such increase was primarily attributable to (i) increase in revenue; and (ii) absence of expenses in relation to employee share-based compensation benefits under the Share Award Scheme during the Reporting Period (2022: RMB11,993 thousand); and (iii) absence of impairment of property, plant and equipment and intangible assets during the Reporting Period (2022: RMB20,443 thousand).

Adjusted profit for the year

Adjusted profit of the Group is a non-GAAP financial measure used to 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 supplementary information to assess the performance of the Group’s core operations. Adjusted profit for the year is calculated by deducting the items listed below from the profit for the year (namely, fair value loss on financial assets at fair value through profit or loss, share of loss/(profit) of a joint venture, impairment loss of property, plant and equipment and intangible assets, employee share-based compensation benefits under the Share Award Scheme, tax effects related to employee share-based compensation benefits under the Share Award Scheme, and deferred tax on fair value adjustments of equity investments at fair value through profit or loss). Adjusted profit for the year amounted to RMB262,124 thousand for the Reporting Period, representing an increase of 17.0% as compared to RMB224,052 thousand for the year ended 31 December 2022. Such increase was primarily attributable to the increase in end customers’ demand of IVD products as the operation of hospitals resumed to normal from the gradual recovery of COVID-19 for the Reporting Period.

	2023 RMB’000	2022 RMB’000
Profit for the year	237,126	195,530
Adjusted for non-operating items:		
Fair value loss on financial assets at fair value through profit or loss	20,631	11,455
Share of loss/(profit) of a joint venture	5,822	(2,300)
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	–	(13,644)
Deferred tax on fair value adjustments of equity investments at fair value through profit or loss	(1,455)	575
Impairment of property, plant and equipment	–	3,542
Impairment of intangible assets	–	16,901
Adjusted profit for the year (non-GAAP)	<u>262,124</u>	<u>224,052</u>

* The aforementioned joint venture focuses on equity investment in IVD industry, see Company’s announcement dated 3 August 2020.

** Non-GAAP financial measure does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies.

*** Items marked “-” were not applicable/nil for the Reporting Period.

Liquidity and financial resources

As of 31 December 2023, the Group had cash and cash equivalents of RMB1,224,786 thousand (primarily denominated in HK\$, RMB and US\$), as compared to 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 as to avoid any unacceptable loss or damage to the Group's reputation.

Capital structure

As of 31 December 2023, the Group's total equity attributable to owners of the parent was RMB3,344,935 thousand (31 December 2022: RMB3,153,386 thousand), comprising share capital of RMB4,637 thousand (31 December 2022: RMB4,637 thousand) and reserves of RMB3,340,298 thousand (31 December 2022: RMB3,148,749 thousand).

Net current assets

The Group had net current assets of RMB1,783,091 thousand as of 31 December 2023, representing an increase of RMB253,617 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. 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 US\$ and HK\$. For the Reporting Period, the Group recorded a net foreign exchange gain of RMB9,200 thousand, as compared to a net foreign exchange loss of RMB10,335 thousand for the year ended 31 December 2022. As of 31 December 2023, the Group did not have any significant hedging arrangements to manage foreign exchange risks but has been actively monitoring and overseeing its foreign exchange risks.

Material asset valuation

Management of the Company has engaged Colliers International (Hong Kong) Limited to perform the impairment assessment on the Distribution CGU (cash generating unit (CGU) of distribution of IVD reagents and medical equipment) for the Reporting Period, which was based on value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The recoverable amount of the Distribution CGU has a significant headroom of not less than RMB100 million over the carrying amount of net assets of Distribution CGU. Management, based on the sensitivity analysis performed, is not aware of any possible change in key assumptions used that would cause a cash generating unit's carrying amount to exceed its recoverable amount.

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 approximately RMB40,508 thousand, which was primarily used in purchase of property, plant and equipment.

Charge/pledge of assets

As of 31 December 2023, the Group's bank deposits of approximately RMB72,975 thousand were pledged to secure the Group's letter of credit in the aggregate amount of RMB353,055 thousand.

Borrowings

The Group had bank borrowings of RMB319,896 thousand as of 31 December 2023 denominated in RMB, which bore interest at fixed rates. All of the Group's bank borrowings as of 31 December 2023 were repayable on or before 31 December 2024.

Contingent liabilities and guarantees

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

Gearing ratio

As of 31 December 2023, the Group's gearing ratio, which is equivalent to total debt divided by total assets, was approximately 6.7% (as of 31 December 2022: 7.6%).

Significant investments

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

Future plans for material investments and capital assets

As of 31 December 2023, the Group had a capital commitment to a joint venture of RMB29,829 thousand (as of 31 December 2022: RMB30,401 thousand).

Employee and remuneration policy

As of 31 December 2023, the Group had 803 employees (as of 31 December 2022: 755 employees). Total staff remuneration expenses, including remuneration for Directors, for the Reporting Period amounted to RMB183,869 thousand (2022: RMB177,517 thousand).

The Group has adopted a performance-based remuneration policy for its employees. Remuneration is determined with reference to performance, skills, qualifications and experience of the staff concerned and with reference to the Group's operating results and comparable market practices.

In addition to salary payments, other staff benefits include pension, social insurance and housing provident contribution made by the Group, performance-based compensation, bonus, share incentives.

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**”) and a share option scheme (the “**Share Option Scheme**”), 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; 13,003,051 share options under the ESOP, and 25,067,920 share options under the Share Option Scheme were outstanding as of 31 December 2023.

To recognise the contributions by certain employees of the Group and to provide incentives to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group, the Group has adopted the Share Award Scheme. From the date of the adoption and up to the date of this announcement, 30,000,000 share awards have been granted.

Other important events during the Reporting Period

Strategic cooperation with Sysmex

In November 2023, the Group entered into agreements for strategic cooperation with Sysmex Shanghai Ltd. in relation to haemostasis products business. More information is set out in the Company's announcements dated 2 November and 28 December 2023.

Framework agreement on distribution of Shinva products with Shinva

Pursuant to a framework agreement between Vastec and Shinva Medical Instrument Co., Ltd. (“**Shinva**”) on 15 December 2023, Shinva has designated Vastec as its distributor of Shinva's thromboelastography instruments and its ancillary reagents and consumables in designated areas for the year 2024. The framework agreement constitutes a continuing connected transaction under Chapter 14 of the Listing Rules. More information is set out in the Company's announcement dated 15 December 2023.

Change in Board composition

Mr. Sun Tao was appointed as a non-executive Director with effect from 17 August 2023, in place of Mr. Chan Kwok King, Kingsley. More information is set out in the Company's announcement dated 17 August 2023.

Subsequent events

The following changes in Board composition took place after the Reporting Period: (1) Mr. Liu Fei has been appointed as a non-executive Director with effect from 8 March 2024. Mr. Liu has obtained the legal advice from a firm of solicitors under Rule 3.09D of the Listing Rules, and has confirmed that he understood his obligations as a director, on 8 March 2024; and (2) Mr. Sun Tao and Mr. Yang Zhaoxu resigned as non-executive Directors with respective effect from 30 January 2024 and 8 March 2024. More information is set out in the Company's announcements dated 31 January 2024 and 8 March 2024.

Save as referred to in this announcement, the Group did not have any 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, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Material acquisitions and disposals of subsidiaries, associates or joint ventures

The Group did not have any material acquisition or disposal of subsidiaries, associates or joint ventures during the Reporting Period except as referred to in this announcement.

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**") set out in Appendix C3 to 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 Appendix C1 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 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 had been 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.

Scope of work of Ernst & Young

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Reporting Period set out in this announcement have been agreed by Ernst & Young to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

Review by the audit committee

The Audit Committee of the Company consists of 3 independent non-executive Directors, namely Mr. Lau Siu Ki (Chairman), Mr. Zhong Renqian and Mr. Leung Ka Sing.

The Group's annual results for the Reporting Period and this announcement have been reviewed by the Audit Committee. Based on such review, the Audit Committee was of the opinion that the Group's annual 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.

Public float

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at all times during the Reporting Period as required under the Listing Rules.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association (the "**Articles**") and the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders of the Company.

Final dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2023 out of the share premium account of the Company (the "**Share Premium Account**") in the amount of HK6.209 cents per Share to Shareholders. The final dividend is intended to be paid entirely out of the Share Premium Account pursuant to the Articles and in accordance with the Cayman Companies Act. As at 31 December 2023, based on the consolidated financial statements of the Group, the amount standing to the credit of the Share Premium Account amounted to approximately RMB2,224,295 thousand. The Board proposed to use an amount of approximately RMB76,314 thousand standing to the credit of the Share Premium Account for the payment of the final dividend. Following the payment of the final dividend on the basis of 1,354,590,080 Shares in issue as at the date of this announcement, there will be a remaining balance of approximately RMB2,147,981 thousand standing to the credit of the Share Premium Account.

It is expected that the final dividend, if approved by the shareholders at the AGM, will be paid in cash in Hong Kong dollars on Wednesday, 29 May 2024 to the qualifying Shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 22 May 2024, being the record date for determining the entitlements to the final dividend.

AGM and closure of register of members

The AGM is scheduled to be held on 16 May 2024.

The register of members of the Company will be closed for the following periods:

- (a) Shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 9 May 2024 (the AGM record date) will be entitled to attend and vote at the AGM. For the purpose of determining shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 10 May 2024 to Thursday, 16 May 2024, both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with 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 Thursday, 9 May 2024.
- (b) For the purpose of determining shareholders who qualify for the final dividend (if approved by the shareholders at the AGM), the register of members of the Company will be closed from Wednesday, 22 May 2024 to Thursday, 23 May 2024, both days inclusive. In order to qualify for the final dividend, all transfer documents should 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 Tuesday, 21 May 2024.

Annual report and notice of AGM

The 2023 annual report containing information required by the Listing Rules and the notice of the AGM will be published on the websites of the Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.ivdholding.com>) in due course.

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

Hong Kong, 15 March 2024

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, two non-executive directors, namely, Ms. Yao Haiyun and Mr. Liu Fei and three independent non-executive directors, namely, Mr. Lau Siu Ki, Mr. Zhong Renqian and Dr. 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. These statements are based on a number of assumptions, current estimates and projections, and subject to inherent risks, uncertainties and other factors which may or may not be beyond the Company's control. The actual outcomes may differ. Nothing contained in these statements is, or shall be, relied upon as any assurance, representation or warranty otherwise. Neither the Company nor its directors, staff, agents, advisers or representatives assume any responsibility to update, supplement, correct these statements or adapt them to future events.