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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 2020

FINANCIAL HIGHLIGHTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	Change
Revenue	2,428,210	2,332,740	4.1%
Gross profit	476,165	442,878	7.5%
Profit for the year	154,618	254,819	(39.3%)
Profit attributable to owners of the parent	158,718	275,001	(42.3%)
Adjusted profit for the year <i>(Note 1)</i>	172,524	259,282	(33.5%)
Adjusted profit attributable to owners of the parent <i>(Note 1)</i>	176,624	279,464	(36.8%)
Earnings per share			
Basic (RMB cents)	11.93	24.25	(12.32)
Diluted (RMB cents)	11.86	21.48	(9.62)
Adjusted earnings per share			
Basic (RMB cents)	13.28	24.65	(11.37)
Diluted (RMB cents)	13.20	21.88	(8.68)

Note 1: Adjusted profit for the year and adjusted profit attributable to owners of the parent are non-GAAP financial measures and are calculated by profit for the year and profit attributable to owners of the parent deducting gain on remeasurement of pre-existing interest in Vastec, excluding fair value loss on financial liabilities at fair value through profit or loss, expenses on realisation of inventory fair value adjustment, amortisation of intangible assets and depreciation of property, plant and equipment relating to the Acquisition (as defined below), initial public offering expenses and expenses in relation to share options. Adjusted profit of the Group (as defined below) and adjusted profit attributable to owners of the parent are used to exclude the 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, so as to provide shareholders of IVD Medical Holding Limited (the “**Company**”) and potential investors with useful supplementary information to assess the performance of the Group’s core operations.

For the year ended 31 December 2020 (the “**Reporting Period**”), the Company together with its subsidiaries (the “**Group**”) achieved a revenue of RMB2,428,210 thousand, which represented an increase of 4.1% as compared to the year ended 31 December 2019. Such increase was primarily due to the net effect of (i) the Group fully consolidated the results of Vastec Medical Limited (“**Vastec**”) together with its subsidiaries (“**Vastec Group**”) for the Reporting Period after the completion of the Company’s acquisition of 60% shareholding interest in Vastec in January 2019 (the “**Acquisition**”), details of which as set out in the prospectus of the Company dated 29 June 2019 (the “**Prospectus**”), while the results of Vastec Group for the month ended 31 January 2019 prior to the completion of Acquisition were not consolidated into results of the Group for the year ended 31 December 2019; and (ii) a temporary decrease in end customers’ demand for in vitro diagnostic (“**IVD**”) products resulting from close-down of hospitals and other quarantine and social distancing measures put in place in mainland China in response to outbreak of the coronavirus disease (“**COVID-19**”) since early 2020, which had an adverse impact on the profitability of the Group’s IVD products distribution business.

Profit of the Group for the Reporting Period recorded a decrease of 39.3% as compared to the year ended 31 December 2019. Such decrease was primarily attributable to (i) the non-existence of the one-off, non-operating gain on remeasurement of pre-existing interest in Vastec relating to the Acquisition, which was reflected in profit of the Group for the year ended 31 December 2019 but was not available for profit of the Group for the Reporting Period and (ii) the adverse impact of COVID-19 on the profitability of the Group’s IVD products distribution business. Factor (i) above was partially offset by the non-existence of (a) a one-off, non-operating fair value loss on financial liabilities at fair value through profit or loss which was triggered by the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in July 2019 (the “**Listing**”), (b) one-off expenses on realisation of inventory fair value adjustment relating to the Acquisition and (c) initial public offering expenses which were reflected in profit of the Group for the year ended 31 December 2019 but not for the Reporting Period.

The directors of the Company (the “**Directors**”) have resolved to recommend the payment of a final dividend of HK3.607 cents per share for the year ended 31 December 2020.

The board (the “**Board**”) of Directors is pleased to announce the financial results of the Group for the year ended 31 December 2020 as below.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	4	2,428,210	2,332,740
Cost of sales		<u>(1,952,045)</u>	<u>(1,889,862)</u>
Gross profit		476,165	442,878
Other income and gains	5	26,415	28,355
Gain on remeasurement of a pre-existing interest in an associate		–	208,759
Selling and distribution expenses		(105,680)	(96,620)
Administrative expenses		(144,090)	(124,676)
Other expenses		(2,897)	(114,570)
Finance costs	6	(23,745)	(7,784)
Fair value gain on financial assets at fair value through profit or loss		4,542	–
Initial public offering related expenses		–	(41,490)
Share of profits of associates		642	2,379
Share of loss of a joint venture		(65)	–
Reversal of impairment/(impairment) of trade receivables	7	<u>669</u>	<u>(291)</u>
Profit before tax	7	231,956	296,940
Income tax expense	8	<u>(77,338)</u>	<u>(42,121)</u>
Profit for the year		<u>154,618</u>	<u>254,819</u>
Profit for the year attributable to:			
Owners of the parent		158,718	275,001
Non-controlling interests		<u>(4,100)</u>	<u>(20,182)</u>
Profit for the year		<u>154,618</u>	<u>254,819</u>

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
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		7,080	(7,969)
Share of other comprehensive income of an associate		—	771
		<u>7,080</u>	<u>(7,198)</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the Company's financial statements		<u>(27,097)</u>	<u>5,359</u>
Other comprehensive loss for the year, net of tax		<u>(20,017)</u>	<u>(1,839)</u>
Total comprehensive income for the year		<u>134,601</u>	<u>252,980</u>
Total comprehensive income attributable to:			
Owners of the parent		137,267	273,347
Non-controlling interests		<u>(2,666)</u>	<u>(20,367)</u>
		<u>134,601</u>	<u>252,980</u>
Earnings per share attributable to ordinary equity holders of the parent			
Basic (RMB cents)	<i>10</i>	11.93	24.25
Diluted (RMB cents)	<i>10</i>	<u>11.86</u>	<u>21.48</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*31 December 2020*

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		86,567	83,776
Intangible assets		1,648,624	1,635,885
Investments in associates		4,418	4,270
Investment in a joint venture		11,935	–
Deferred tax assets		4,460	3,459
Financial assets at fair value through profit or loss		46,840	–
Total non-current assets		1,802,844	1,727,390
CURRENT ASSETS			
Inventories		516,065	618,892
Trade and bills receivables	<i>11</i>	431,844	390,430
Prepayments and other receivables		235,567	215,026
Pledged deposits		132,163	7,651
Cash and cash equivalents		788,613	910,871
Total current assets		2,104,252	2,142,870
CURRENT LIABILITIES			
Trade and bills payables	<i>12</i>	245,372	339,193
Other payables and accruals	<i>13</i>	172,394	180,747
Interest-bearing bank borrowings		252,332	273,531
Tax payable		20,899	68,496
Total current liabilities		690,997	861,967
NET CURRENT ASSETS		1,413,255	1,280,903
TOTAL ASSETS LESS CURRENT LIABILITIES		3,216,099	3,008,293

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		197,385	195,806
Other payables and accruals	<i>13</i>	12,451	6,314
Interest-bearing bank borrowings		146,988	–
Total non-current liabilities		356,824	202,120
Net assets		2,859,275	2,806,173
EQUITY			
Share capital	<i>14</i>	4,534	4,569
Reserves		2,846,619	2,814,097
		2,851,153	2,818,666
Non-controlling interests		8,122	(12,493)
Total equity		2,859,275	2,806,173

NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at 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 is located at Room 1703, Grandtech Centre, 8 On Ping Street, Shatin, Hong Kong. The shares of the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 12 July 2019 (the “**Listing**”).

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.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board (the “**IASB**”) and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and liabilities at fair value through profit or loss which have measured at fair value.

The consolidated financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020. 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).

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

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IFRS 16	<i>Covid-19 Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “**Conceptual Framework**”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

- (b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“**RFR**”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group’s offices have been reduced or waived by the lessors as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. The amendments did not have any significant impact on the financial position and performance of the Group.

- (e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of 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 consultancy and maintenance 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*

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Mainland China	2,414,787	2,310,982
Others	13,423	21,758
	<u>2,428,210</u>	<u>2,332,740</u>

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

(b) *Non-current assets*

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Mainland China	1,767,874	1,722,303
Others	1,894	1,628
	<u>1,769,768</u>	<u>1,723,931</u>

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

4. REVENUE

An analysis of revenue is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Sales of trading goods	2,288,136	2,185,625
Sales of manufactured goods	2,987	3,787
Provision of consultancy and maintenance services	137,087	143,328
	<u>2,428,210</u>	<u>2,332,740</u>

5. OTHER INCOME AND GAINS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other income		
Bank interest income	2,101	3,361
Other interest income	–	895
Service income	–	2,225
Rental income	511	248
Government subsidies*	22,974	14,358
Others	829	614
	<u>26,415</u>	<u>21,701</u>
Gains		
Foreign exchange differences, net	–	6,654
	<u>26,415</u>	<u>28,355</u>

* Government grants have been received from the PRC local government authorities to support subsidiaries' research and development activities and as reimbursement of operating expenses. There are no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on bank loans	22,613	6,723
Interest on lease liabilities	863	1,061
Interest on factored trade receivables	269	–
	<u>23,745</u>	<u>7,784</u>

7. PROFIT BEFORE TAX

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

		2020	2019
		RMB'000	RMB'000
Cost of inventories sold*		1,881,919	1,831,826
Cost of services provided*		70,126	58,036
Depreciation of property, plant and equipment	13	22,981	22,970
Depreciation of right-of-use assets		14,783	12,248
Amortisation of intangible assets	14		
– supplier contract***		–	12,960
– patents		–	1,259
		<hr/>	<hr/>
		–	14,219
Research and development costs		3,516	2,740
Impairment of goodwill**	14	–	6,639
Impairment of intangible assets**	14	–	26,795
Lease payments not included in the measurement of lease liabilities		5,115	2,996
Auditors' remuneration		2,800	2,469
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages and salaries****		104,929	99,547
Equity-settled share option expenses		17,906	20,337
Pension scheme contributions		13,190	19,353
		<hr/>	<hr/>
		136,025	139,237
Foreign exchange differences, net		1,998	(6,654)
(Reversal of impairment)/impairment of trade receivables	17	(669)	291
Write-down of inventories to net realisable value***		3,811	119
Loss on disposal of items of property, plant and equipment**		899	30
Fair value loss on financial liabilities at fair value through profit or loss, net**		–	80,621
		<hr/> <hr/>	<hr/> <hr/>

* These expenses are included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income

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

*** These expenses are included in "Costs of inventories sold" above.

**** In 2020, the Group successfully applied for 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 RMB557,000 was recognised in "Administrative expenses" and had been offset with the employee benefit expenses.

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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 (2019: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 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 year.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current – Hong Kong		
Charge for the year	3,034	1,342
(Overprovision)/underprovision in prior years	(7)	671
Current – China		
Charge for the year	72,261	96,644
Underprovision/(overprovision) in prior years	66	(8,152)
Deferred	1,984	(48,384)
	<hr/>	<hr/>
Total tax charge for the year	77,338	42,121
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9. DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Dividend declared to the shareholders of the Company prior to the listing	–	160,000
Final 2018 dividend declared – RMB1.32 per ordinary share	–	69,026
	<hr/>	<hr/>
	–	229,026
Interim – HK1.672 cents (2019:nil) per ordinary share	19,873	–
Proposed Final (HK3.607 cents) (2019: HK5.366 cents) per ordinary share	40,002	64,996
	<hr/>	<hr/>
	59,875	294,022
	<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 OWNERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares in issue during the year. The weighted average number of shares has been retrospectively adjusted for the effect of the capitalisation issue on the assumption that the capitalisation issue had been completed on 1 January 2019.

The calculation of the diluted earnings per share amount for the year ended 31 December 2020 is based on the profit for the year 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 year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculation of the diluted earnings per share amount for the year ended 31 December 2019 is based on the profit for the year attributable to owners of the parent, adjusted to reflect the fair value gain on the promissory note. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings		
Profit attributable to owners of the parent used in the basic earnings per share calculation	158,718	275,001
Less: fair value gain on the promissory note issued in prior acquisition	–	(30,082)
	158,718	244,919
	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue less treasury shares held by the Company during the year used in the basic earnings per share calculation	1,329,978,923	1,133,794,730
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	8,526,573	404,185
Conversion options embedded in the promissory note issued in prior acquisition	–	5,760,406
	1,338,505,496	1,139,959,321

11. TRADE AND BILLS RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	428,023	393,961
Impairment	(2,666)	(3,531)
	425,357	390,430
Bills receivables	6,487	–
	431,844	390,430

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 and bills receivables from the five largest debtors at 31 December 2020 represented 41.3% (2019: 50.5%) of total the trade receivables, while 14.5% (2019: 20.6%) of the total trade receivables were due from the largest debtor.

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

As at 31 December 2019, included in the Group's trade receivables were trade balances with the Group's associate of RMB69,000, which are repayable on credit terms similar to those offered to the major customers of the Group.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 month	301,776	313,221
1 to 2 months	62,100	46,334
2 to 3 months	21,285	3,380
Over 3 months	46,683	27,495
	431,844	390,430

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 month	29,055	51,772
1 to 2 months	31,740	25,389
2 to 3 months	757	44,620
Over 3 months	183,820	217,412
	<u>245,372</u>	<u>339,193</u>

Included in the trade and bills payables are trade payables of RMB510,000 (2019: RMB210,000) 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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Contract liabilities	36,662	41,893
Other payables	37,189	39,438
Accruals	32,065	34,894
Dividend payable	53,747	–
Deferred income	587	893
Lease liabilities	22,475	17,168
Amounts due to shareholders	312	49,268
Amount due to related parties	1,808	3,507
	<u>184,845</u>	<u>187,061</u>
Less: other payables included in non-current liabilities	<u>(12,451)</u>	<u>(6,314)</u>
	<u>172,394</u>	<u>180,747</u>

14. SHARE CAPITAL

	2020 RMB'000	2019 <i>RMB'000</i>
Authorised:		
3,000,000,000 ordinary shares of US\$0.0005 each (2019: 3,000,000,000 ordinary shares of US\$0.0005 each)	10,280	10,280
Issued and fully paid:		
1,322,990,000 ordinary shares of US\$0.0005 each (2019: 1,333,400,000 ordinary shares of US\$0.0005 each)	4,534	4,569

The movements in the Company's share capital during the year ended 31 December 2020 and 2019 were as follows:

	Number of ordinary shares	Nominal value of ordinary shares <i>US\$'000</i>	Equivalent to <i>RMB'000</i>
Authorised:			
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	3,000,000,000	1,500	10,280
Issued and fully paid:			
At 1 January 2019	52,239,658	26	171
Issue of new shares pursuant to the acquisition of a subsidiary (<i>note a</i>)	32,339,139	16	110
Issue of new shares pursuant to the Capitalisation issue (<i>note b</i>)	915,421,203	458	3,143
Issue of new shares pursuant to the Share Offer (<i>note c</i>)	333,400,000	167	1,145
At 31 December 2019 and 1 January 2020	1,333,400,000	667	4,569
Cancellation of shares purchased (<i>note d</i>)	(10,410,000)	(5)	(35)
At 31 December 2020	1,322,990,000	662	4,534

Notes:

- (a) On 25 January 2019, the Company allotted and issued 32,339,139 ordinary shares of the Company to Huatuo International Development Co., Limited (“**Huatuo**”) as a consideration to acquire the remaining 60% interest in an associate, Vastec.
- (b) On 11 July 2019, the Company allotted and issued 915,421,203 to existing shareholders by way of capitalisation from the share premium account of the Company (the “**Capitalisation Issue**”). This Capitalisation Issue was conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company’s initial public offering as detailed in note (c) below.
- (c) In connection with the listing of the shares of the Company on the Main Board of the Stock Exchange (the “**Share Offer**”), 333,400,000 ordinary shares of the Company were issued at the offer price of HK\$3.07 per share for a total cash consideration, before expenses, of HK\$1,024,000,000. Dealings in the shares of the Company on the Stock Exchange commenced on 12 July 2019 (“**Listing Date**”).
- (d) The Company repurchased 10,410,000 of its shares on the Stock Exchange at a total consideration of approximately RMB23,433,000 during the year ended 31 December 2020. The repurchases shares were cancelled during the year ended 31 December 2020.

Details of the shares repurchased by the Company during the year are summarised below:

Month of repurchase	Number of shares repurchased	Highest price per share <i>RMB</i>	Lowest price per share <i>RMB</i>	Aggregate price <i>RMB’000</i>
June 2020	441,000	2.85	2.72	1,225
July 2020	3,219,000	2.80	2.48	8,534
September 2020	5,144,000	2.12	1.98	10,500
October 2020	1,606,000	2.09	2.01	3,174
	<u>10,410,000</u>			<u>23,433</u>

15. BUSINESS COMBINATIONS

For the year ended 31 December 2020

On 24 November 2020, the Group entered into a share purchase agreement with two independent parties (the “**Bazoe Share Purchase Agreement**”), to acquire 51% of Bazoe Medical Co., Ltd. (the “**Bazoe Acquisition**”). The Bazoe Acquisition was made as part of the Group’s strategy to expand its market share of medical equipment and consumables related to mass spectrum in the PRC. The purchase consideration for the Bazoe Acquisition was RMB10,000,000 and paid on 24 December 2020. The Bazoe Acquisition was completed on 24 December 2020 (the “**Bazoe Acquisition Date**”).

The provisional fair values of the identifiable assets and liabilities of the Bazoe Group as at the Bazoe Acquisition Date were as follows:

	Provisional fair value recognised on the Bazoe Acquisition Date <i>RMB’000</i>
Property, plant and equipment	868
Right-of-use assets	753
Intangible assets	12,739
Deferred tax assets	4,572
Inventories	11
Prepayments, deposits and other receivables	194
Tax recoverables	495
Cash and bank balances	10,309
Trade payables	(377)
Other payables and accruals	(6,095)
Lease liabilities	(795)
Deferred tax liabilities	(3,160)
	<hr/>
Total identifiable net assets at fair value	19,514
Non-controlling interests	(9,514)
	<hr/>
	10,000
	<hr/> <hr/>
Satisfied by cash	10,000
	<hr/> <hr/>

The provisional fair values of the prepayments, deposits and other receivables at the Bazoe Acquisition Date amounted to RMB194,000. The gross contractual amounts of prepayments, deposits and other receivables were RMB194,000.

No transaction cost was incurred for this acquisition.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the Bazoe Acquisition Date. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable terms of the leases relative to market terms.

An analysis of the cash flows in respect of the business combinations is as follows:

	<i>RMB'000</i>
Cash consideration	(10,000)
Cash and bank balances acquired	<u>10,309</u>
Net inflow of cash and cash equivalents included in cash flows from investing activities	<u><u>309</u></u>

Since the Bazoe Acquisition, Bazoe did not contribute to the Group's revenue nor the consolidated profit for the year ended 31 December 2020.

Had the Bazoe Acquisition taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB2,428,522,000 and RMB156,304,000, respectively.

For the year ended 31 December 2019

On 25 January 2019, the Group entered into a share purchase agreement with Huatuo (the "**Vastec Share Purchase Agreement**"), a substantial shareholder of the Company, to acquire the remaining 60% interest in a 40%-owned associate, Vastec (the "**Vastec Acquisition**"). The Vastec Acquisition was made as part of the Group's strategy to expand its market share of medical equipment and consumables in the PRC. The purchase consideration for the Vastec Acquisition was satisfied by a promissory note with face value of RMB411,305,000 and 32,339,139 newly allotted ordinary shares of the Company ("**Consideration Shares**"). The Vastec Acquisition was completed on 25 January 2019 (the "**Vastec Acquisition Date**"). Upon the completion of the Vastec Acquisition, the Group's interest in Vastec increased from 40% to 100%, and Vastec became a wholly-owned subsidiary of the Group. The results of Vastec and its subsidiaries (collectively, the "**Vastec Group**") were consolidated into the Group's consolidated financial statements commencing from the Vastec Acquisition Date.

Details of the carrying value and fair value of the Group's pre-existing interest in Vastec at the Vastec Acquisition Date are summarised as follows:

	<i>RMB'000</i>
Carrying value of pre-existing interest in Vastec	508,941
Release of exchange reserves	586
Less: Fair value of pre-existing interest in Vastec	<u>(718,286)</u>
Gain on remeasurement	<u><u>(208,759)</u></u>

The fair values of the identifiable assets and liabilities of the Vastec Group as at the Vastec Acquisition Date were as follows:

	Fair value recognised on the Vastec Acquisition Date <i>RMB'000</i>
Property, plant and equipment	20,023
Right-of-use assets	12,874
Intangible assets	750,762
Deferred tax assets	601
Inventories	803,787
Trade and bills receivables	132,484
Prepayments, deposits and other receivables	150,676
Pledged deposits	11,810
Cash and bank balances	252,380
Trade and bills payables	(249,998)
Other payables and accruals	(100,652)
Amounts due to shareholders	(214,979)
Interest-bearing bank borrowings	(70,000)
Lease liabilities	(13,227)
Amount due to a related party	(21,377)
Tax payables	(21,923)
Deferred tax liabilities	(228,420)
	<hr/>
Total identifiable net assets at fair value	1,214,821
Goodwill on acquisition	898,083
	<hr/>
	2,112,904
	<hr/> <hr/>
Satisfied by:	
Promissory Note	435,478
Fair value of pre-existing interest in Vastec	718,286
Consideration Shares	959,140
	<hr/>
	2,112,904
	<hr/> <hr/>

16. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and re-presented to conform with the current year's presentation and disclosures.

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 under the brand name "IVS". 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 RMB2,428,210 thousand, representing an increase of 4.1% as compared to the corresponding period of 2019. The Group's profit for the year decreased by 39.3% to RMB154,618 thousand.

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, a wholly-owned 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 and also procures a diversified portfolio of IVD products from other leading international brands for distribution in the PRC. As of 31 December 2020, approximately 7,577 of Sysmex' haemostasis analysers have been installed by the Group and in use at hospitals and healthcare institutions accumulatively.

The Group also provides 4 Thrombotic Markers (*Note 1*) products manufactured by Sysmex to the market. These products adopt high sensitive chemiluminescence technology, which may facilitate early diagnosis of thrombosis and fibrinolysis. As of 31 December 2020, approximately 83 Sysmex' haemostasis immunoassay analysers installed by the Group at the hospitals and healthcare institutions in the PRC performed the 4 Thrombotic Markers.

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 2020, the Group provided solution services to six Class III hospitals in the PRC. Solution services contributed revenue of RMB137,292 thousand for the year ended 31 December 2020, representing an increase of 3.4% as compared to RMB132,798 thousand for the year ended 31 December 2019.

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

Through years of operations, the Group has established an expansive distribution network across 29 provinces, municipalities and autonomous regions in the PRC with an extensive hospital coverage. As of 31 December 2020, the Group had 289 direct customers, including hospitals and healthcare institutions, and 1,097 distributors in its established distribution network. As of 31 December 2020, the Group also covered 1,463 Class III hospitals mainly through its sub-distribution networks in the PRC, which further enhanced the competitiveness of the Group.

- ***Maintenance Services***

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

- ***Self-branded Products Business under Brand Name “”***

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 the Group's operating subsidiary Suzhou DiagVita Biotechnology Co., Ltd. and the Group's IVD analysers were produced by the Group's original equipment manufacturer. 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**”).

INDUSTRY OVERVIEW

The continual growth of the healthcare market in the PRC is driven by a combination of favourable socioeconomic 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 there will be a significant growth potential for the healthcare market, especially the medical device market in 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 2024, PRC IVD market at ex-factory price level is projected to reach RMB195.7 billion with a compound annual growth rate (“CAGR”) of 17.8% during 2019 to 2024. In the future, IVD market is expected to grow with the aggravating trend of ageing population, the growth of medical expenses per capita and the progress of technology development.

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. Immunoassay, clinical chemistry and haematology and body fluid analysis are the top three categories with the broadest clinical application. According to Frost & Sullivan, immunoassay, clinical chemistry and haematology and body fluid test in aggregate accounted for approximately 64.9% of the market share in the PRC IVD market. Haematology and body fluid test includes haemostasis analysis and urinalysis, which ranked third in the PRC IVD market by revenue in 2019, representing a market share of approximately 14.3%.

Haemostasis analysis IVD market in the PRC at ex-factory price level reached RMB4.8 billion in 2019, and the market is highly concentrated. Top three market players dominate the market with a cumulative market share of 81.7%. Sysmex is the market leader by sales revenue, with a total market share of 42.0% in 2019 and penetration rate of 74.0% among China Top 100 Hospitals selected by Hospital Management Institute, Fudan University on 10 November 2019.

Sales revenue of haemostasis analysis IVD products generated by tier 1 distributors in the PRC reached RMB5.5 billion in 2019. By 2024, PRC tier 1 distributed haemostasis analysis IVD market is projected by Frost & Sullivan to reach RMB7.8 billion in terms of sales revenue with a CAGR of 7.2% during 2019 to 2024, decreased from former projection of CAGR of 14.4% due to adverse impact of the COVID-19.

BUSINESS OUTLOOK AND DEVELOPMENT STRATEGIES

The Company was successfully listed on the Stock Exchange on 12 July 2019, which provided the Group with a good opportunity to develop in the future. With the help 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-sale 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. In order to capture the aforementioned trends and opportunities, the Group intends to provide solution services to two new hospitals in 2021. 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 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 RMB2,428,210 thousand, representing an increase of RMB95,470 thousand or 4.1% as compared to the corresponding period of 2019.

During the Reporting Period, the Group recorded a net profit for the year of RMB154,618 thousand, representing a decrease of RMB100,201 thousand or 39.3% as compared to the corresponding period of 2019. Profit attributable to owners of the parent amounted to RMB158,718 thousand, representing a decrease of RMB116,283 thousand or 42.3% as compared to the corresponding period of 2019.

During the Reporting Period, the Group recorded adjusted profit for the year of RMB172,524 thousand, representing a decrease of RMB86,758 thousand or 33.5% as compared to the corresponding period of 2019.

For the year ended 31 December

	2020	2019	Change
	RMB'000	RMB'000	%
Operating Results			
Revenue	2,428,210	2,332,740	4.1%
Gross Profit	476,165	442,878	7.5%
Earnings before interest and depreciation and amortization (EBITDA)	293,465	354,161	(17.1%)
Profit attributable to owners of the parent	158,718	275,001	(42.3%)
Adjusted profit for the year (Note 1)	172,524	259,282	(33.5%)
Adjusted profit attributable to owners of the parent (Note 1)	176,624	279,464	(36.8%)
Financial Ratios			
Gross profit margin (%) (Note 2)	19.6%	19.0%	increased by 0.6 percentage point
Net profit margin (%) (Note 2)	6.4%	10.9%	decreased by 4.5 percentage point
Adjusted profit for the year margin (%) (Note 3)	7.1%	11.1%	decreased by 4.0 percentage point
Return on assets (%) (Note 2)	4.0%	10.4%	decreased by 6.4 percentage point
Return on equity (%) (Note 2)	5.6%	14.6%	decreased by 9.0 percentage point
Average turnover days of trade receivables (days) (Note 2)	62	43	19
Average turnover days of inventory (days) (Note 2)	106	65	41
Average turnover days of trade payables (days) (Note 2)	55	36	19
31 December			
	2020	2019	Change
	RMB'000	RMB'000	%
Financial Position			
Total assets	3,907,096	3,870,260	1.0%
Equity attributable to owners of the parent	2,851,153	2,818,666	1.2%
Cash and cash equivalents	788,613	910,871	(13.4%)
Financial Ratios			
Current ratio (times) (Note 2)	3.0	2.5	0.5
Quick ratio (times) (Note 2)	2.3	1.8	0.5
Debt to equity ratio (times) (Note 2)	0.1	0.1	0.0

Note 1: Adjusted profit for the year and adjusted profit attributable to owners of the parent are non-GAAP financial measures and are calculated by profit for the year and profit attributable to owners of the parent deducting gain on remeasurement of pre-existing interest in Vastec, excluding fair value loss on financial liabilities at fair value through profit or loss, expenses on realisation of inventory fair value adjustment, amortisation of intangible assets and depreciation of property, plant and equipment relating to the Acquisition, initial public offering expenses and expenses in relation to share options.

Note 2: The calculation method is the same as that set out in the Prospectus.

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

Revenue

Revenue of the Group amounted to RMB2,428,210 thousand for the year ended 31 December 2020, representing an increase of 4.1% as compared to RMB2,332,740 thousand for the year ended 31 December 2019. Such increase was primarily due to the net effect of (i) the Group fully consolidated the results of Vastec Group for the year ended 31 December 2020 while the results of Vastec Group for the month ended 31 January 2019 prior to the completion of Acquisition were not consolidated into results of the Group for the year ended 31 December 2019; and (ii) a temporary decrease in end customers' demand for IVD products resulting from close-down of hospitals and other quarantine and social distancing measures put in place in mainland China in response to outbreak of COVID-19 since early 2020.

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
	2020		2019		
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	
Distribution business	2,288,136	94.2	2,185,625	93.7	4.7%
Maintenance services	137,087	5.7	143,328	6.1	(4.4%)
Self-branded products business	2,987	0.1	3,787	0.2	(21.1%)
Total	<u>2,428,210</u>	<u>100.0</u>	<u>2,332,740</u>	<u>100.0</u>	<u>4.1%</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 years indicated:

Product type	For the year ended 31 December				Change
	2020		2019		
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	
IVD analysers					
– Distribution business	531,608	23.2	370,105	16.9	43.6%
– Self-branded products business	262	0.0	27	0.0	870.4%
Subtotal	531,870	23.2	370,132	16.9	43.7%
IVD reagents and other consumables					
– Distribution business	1,756,528	76.7	1,815,520	82.9	(3.2%)
– Self-branded products business	2,725	0.1	3,760	0.2	(27.5%)
Subtotal	1,759,253	76.8	1,819,280	83.1	(3.3%)
Total	2,291,123	100.0	2,189,412	100.0	4.6%

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
	2020		2019		
	RMB'000	%	RMB'000	%	
Distribution business					
– Distributors	1,948,636	85.1	1,822,062	83.2	6.9%
– Hospitals and healthcare institutions	247,138	10.8	264,348	12.1	(6.5%)
– Logistics providers	92,362	4.0	99,215	4.5	(6.9%)
Subtotal	2,288,136	99.9	2,185,625	99.8	4.7%
Self-branded products business					
– Distributors	2,905	0.1	3,787	0.2	(23.3%)
– Hospitals and healthcare institutions	16	0.0	–	–	100.0%
– Logistics providers	66	0.0	–	–	100.0%
Subtotal	2,987	0.1	3,787	0.2	(21.1%)
Total	2,291,123	100.0	2,189,412	100.0	4.6%

As Vastec Group primarily conducts sales to distributors, the percentage of revenue generated from distributor channel increased vis-à-vis revenue generated from other channels for the year ended 31 December 2020 as compared to 2019, as a result of the consolidation of the results of Vastec Group into the Group since 1 February 2019. In addition, the decrease in the revenue generated from distribution to hospitals and healthcare institutions for the year ended 31 December 2020 as compared to 2019, which was mainly due to the adverse impact brought about by COVID-19, further increased the percentage of the revenue generated from distributor channel among all channels.

Cost of sales

Cost of sales of the Group amounted to RMB1,952,045 thousand for the year ended 31 December 2020, representing an increase of 3.3% as compared to RMB1,889,862 thousand for the year ended 31 December 2019. Such increase was primarily due to the net effect of (i) the Group fully consolidated the results of Vastec Group for the year ended 31 December 2020 while the results of Vastec Group for the month ended 31 January 2019 prior to the completion of Acquisition were not consolidated into results of the Group for the year ended 31 December 2019; and (ii) a temporary decrease in end customers' demand for IVD products resulting from close-down of hospitals and other quarantine and social distancing measures put in place in mainland China in response to outbreak of COVID-19 since early 2020.

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
	2020		2019		
	RMB'000	%	RMB'000	%	
Distribution business (<i>Note 1</i>)	1,880,754	96.3	1,830,173	96.8	2.8%
Maintenance services	70,126	3.6	58,036	3.1	20.8%
Self-branded products business	1,165	0.1	1,653	0.1	(29.5%)
Total	<u>1,952,045</u>	<u>100.0</u>	<u>1,889,862</u>	<u>100.0</u>	<u>3.3%</u>

Note 1: Inventory and intangible assets fair value adjustment, arising from the Acquisition and amounting to RMB93,387 thousand, was fully charged and amortised into cost of sales of distribution business in 2019.

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
	2020		2019		
	RMB'000	%	RMB'000	%	
IVD analysers					
– Distribution business	466,010	24.8	329,431	18.0	41.5%
– Self-branded products business	188	0.0	24	0.0	683.3%
Subtotal	<u>466,198</u>	<u>24.8</u>	<u>329,455</u>	<u>18.0</u>	<u>41.5%</u>
IVD reagents and other consumables					
– Distribution business	1,414,744	75.1	1,500,742	81.9	(5.7%)
– Self-branded products business	977	0.1	1,629	0.1	(40.0%)
Subtotal	<u>1,415,721</u>	<u>75.2</u>	<u>1,502,371</u>	<u>82.0</u>	<u>(5.8%)</u>
Total	<u>1,881,919</u>	<u>100.0</u>	<u>1,831,826</u>	<u>100.0</u>	<u>2.7%</u>

Gross profit and gross profit margin

Gross profit represents revenue less cost of sales. Gross profit of the Group amounted to RMB476,165 thousand for the year ended 31 December 2020, representing an increase of 7.5% as compared to RMB442,878 thousand for the year ended 31 December 2019. Excluding one-off expenses on realisation of inventory fair value adjustment and amortisation of intangible assets relating to the Acquisition for the year ended 31 December 2019, gross profit would have amounted to RMB536,265 thousand for the year ended 31 December 2019. The decrease of gross profit from RMB536,265 thousand to RMB476,165 thousand was primarily attributable to the adverse impact of COVID-19 on the Group's IVD products distribution business.

Gross profit margin is calculated as gross profit divided by revenue. Gross profit margin of the Group was 19.6% for the year ended 31 December 2020, which increased from 19.0% for the year ended 31 December 2019. Excluding one-off expenses on realisation of inventory fair value adjustment and amortisation of intangible assets relating to the Acquisition for the year ended 31 December 2019, gross profit margin would have been 23.0% for the year ended 31 December 2019. The decrease of gross profit margin from 23.0% to 19.6% was primarily attributable to the increase of sale discount for business promotion in response to the outbreak of COVID-19.

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
	2020		2019		
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	
Distribution business					
– IVD reagents and other consumables	341,784	19.5	314,778	17.3	8.6%
– IVD analysers	65,598	12.3	40,674	11.0	61.3%
Subtotal	407,382	17.8	355,452	16.3	14.6%
Maintenance services	66,961	48.8	85,292	59.5	(21.5%)
Self-branded products business					
– IVD reagents and other consumables	1,748	64.1	2,131	56.7	(18.0%)
– IVD analysers	74	28.2	3	11.1	2,366.7%
Subtotal	1,822	61.0	2,134	56.4	(14.6%)
Total	476,165	19.6	442,878	19.0	7.5%

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
	2020		2019		
	Gross profit RMB' 000	Gross profit margin %	Gross profit RMB' 000	Gross profit margin %	
IVD analysers					
– Distribution business	65,598	12.3	40,674	11.0	61.3%
– Self-branded products business	74	28.2	3	11.1	2,366.7%
Subtotal	65,672	12.3	40,677	11.0	61.4%
IVD reagents and other consumables					
– Distribution business	341,784	19.5	314,778	17.3	8.6%
– Self-branded products business	1,748	64.1	2,131	56.7	(18.0%)
Subtotal	343,532	19.5	316,909	17.4	8.4%
Total	409,204	17.9	357,586	16.3	14.4%

Other income and gains

Other income and gains of the Group amounted to RMB26,415 thousand for the year ended 31 December 2020, representing a decrease of 6.8% as compared to RMB28,355 thousand for the year ended 31 December 2019.

	For the year ended	
	31 December	
	2020	2019
	RMB'000	RMB'000
Other income		
Bank interest income	2,101	3,361
Other interest income	–	895
Service income	–	2,225
Rental income	511	248
Government subsidies	22,974	14,358
Others	829	614
	<hr/>	<hr/>
	26,415	21,701
	<hr/>	<hr/>
Gains		
Foreign exchange differences, net	–	6,654
	<hr/>	<hr/>
	26,415	28,355
	<hr/> <hr/>	<hr/> <hr/>

Selling and distribution expenses

Selling and distribution expenses of the Group amounted to RMB105,680 thousand for the year ended 31 December 2020, representing an increase of 9.4% as compared to RMB96,620 thousand for the year ended 31 December 2019. Such increase was contributed by the fact that the Group fully consolidated the results of Vastec Group for the year ended 31 December 2020 while the results of Vastec Group for the month ended 31 January 2019 prior to the completion of Acquisition were not consolidated into results of the Group for the year ended 31 December 2019.

Administrative expenses

Administrative expenses of the Group amounted to RMB144,090 thousand for the year ended 31 December 2020, representing an increase of 15.6% as compared to RMB124,676 thousand for the year ended 31 December 2019. Such increase was primarily due to (i) the Group donated 22 IVD analysers to hospitals in the PRC with a total value of RMB5,838 thousand as an effort to combat COVID-19; and (ii) the Group fully consolidated the results of Vastec Group for the year ended 31 December 2020 while the results of Vastec Group for the month ended 31 January 2019 prior to the completion of Acquisition were not consolidated into results of the Group for the year ended 31 December 2019.

Other expenses

Other expenses of the Group amounted to RMB2,897 thousand for the year ended 31 December 2020, representing a decrease of 97.5% as compared to RMB114,570 thousand for the year ended 31 December 2019. Such significant decrease was primarily due to the non-existence of the one-off, non-operating fair value loss on financial liabilities at fair value through profit or loss which was triggered by the Listing.

	For the year ended	
	31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange differences	1,998	–
Fair value loss on financial liabilities at fair value through profit or loss, net	–	80,621
Impairment of intangible asset	–	26,795
Impairment of goodwill	–	6,639
Loss on disposal of items of property, plant and equipment	899	30
Others	–	485
	<u>2,897</u>	<u>114,570</u>

Finance costs

Finance costs of the Group amounted to RMB23,745 thousand for the year ended 31 December 2020, representing an increase of 205.0% as compared to RMB7,784 thousand for the year ended 31 December 2019. Such significant increase was primarily due to the increase of bank borrowings.

Share of profits of associates

Decrease in share of profits of associates was primarily due to the completion of the Acquisition of Vastec, which was an associate of the Group before the completion of the Acquisition.

Profit for the year

Profit of the Group for the year amounted to RMB154,618 thousand for the year ended 31 December 2020, representing a decrease of 39.3% as compared to RMB254,819 thousand for the year ended 31 December 2019. Such decrease was primarily attributable to (i) the non-existence of the one-off, non-operating gain on remeasurement of pre-existing interest in Vastec relating to the Acquisition, which was reflected in profit attributable to owners of the parent of the Group for the year ended 31 December 2019 but was not available for profit attributable to owners of the parent of the Group for the year ended 31 December 2020 and (ii) the adverse impact of COVID-19 on the profitability of the Group's IVD products distribution business. Factor (i) above was partially offset by the non-existence of (a) a one-off, non-operating fair value loss on financial liabilities at fair value through profit or loss which was triggered by the Listing, (b) one-off expenses on realisation of inventory fair value adjustment relating to the Acquisition and (c) initial public offering expenses which were reflected in profit attributable to owners of the parent of the Group for the year ended 31 December 2019 but not for the year ended 31 December 2020.

Adjusted profit for the year

Adjusted profit of the Group is a non-GAAP financial measure used to exclude the 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, so as 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. Adjusted profit of the Group for the year is calculated by profit for the year deducting gain on remeasurement of pre-existing interest in Vastec, excluding fair value loss on financial liabilities at fair value through profit or loss, expenses on realisation of inventory fair value adjustment, amortisation of intangible assets and depreciation of property, plant and equipment relating to the Acquisition, initial public offering expenses and expenses in relation to share options. Adjusted profit of the Group for the year amounted to RMB172,524 thousand for the year ended 31 December 2020, representing a decrease of 33.5% as compared to RMB259,282 thousand for the year ended 31 December 2019. Such decrease was primarily attributable to the adverse impact of COVID-19 on the profitability of the Group's IVD products distribution business.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit for the year	154,618	254,819
Adjusted for non-operating items:		
Gain on remeasurement of pre-existing interest in Vastec	–	(208,759)
Fair value loss on financial liabilities	–	80,621
Expenses on inventory fair value adjustment	–	60,320
Initial public offering expenses	–	41,490
Share option expenses	17,906	20,337
Amortisation of intangible assets and depreciation of property, plant and equipment relating to the Acquisition	–	10,454
Adjusted profit for the year	<u>172,524</u>	<u>259,282</u>

Liquidity and financial resources

As of 31 December 2020, the Group had cash and cash equivalents of RMB788,613 thousand (primarily denominated in HK\$, RMB and US\$), as compared to RMB910,871 thousand as of 31 December 2019. 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 31 December 2020, the Group's total equity attributable to owners of the parent was RMB 2,851,153 thousand (31 December 2019: RMB2,818,666 thousand), comprising share capital of RMB4,534 thousand (31 December 2019: RMB4,569 thousand) and reserves of RMB2,846,619 thousand (31 December 2019: RMB2,814,097 thousand).

Net current assets

The Group had net current assets of RMB1,413,255 thousand as of 31 December 2020, representing an increase of RMB132,352 thousand as compared to RMB1,280,903 thousand as of 31 December 2019.

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 US\$ and HK\$. For the year ended 31 December 2020, the Group recorded a net exchange loss of RMB1,998 thousand, as compared to a net exchange gain of RMB6,654 thousand for the year ended 31 December 2019. As of 31 December 2020, 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 Roma Appraisal Limited to perform the impairment assessments on the Distribution CGU for the year ended 31 December 2020, 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 reasonably possible changes in a key assumption 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 year ended 31 December 2020, the Group's total capital expenditure amounted to approximately RMB25,625 thousand, which was primarily used in property, plant and equipment.

Charge/pledge of assets

As of 31 December 2020, the Group's bank deposits of approximately RMB132,163 thousand were pledged to secure the Group's letter of credit in the aggregate amount of RMB437,417 thousand.

Borrowings

The Group had bank borrowings of RMB399,320 thousand as of 31 December 2020 denominated in US\$ and RMB, among which RMB236,000 thousand bore interest at fixed rates. All of the Group's bank borrowings as of 31 December 2020 were repayable on or before 31 December 2022, among which RMB163,320 thousand were pledged with shares in the Company's subsidiaries.

Contingent liabilities and guarantees

As of 31 December 2020, the Group did not have any material contingent liabilities, guarantees or litigation against it (as of 31 December 2019: nil).

Gearing ratio

As of 31 December 2020, the Group's gearing ratio, which is equivalent to total debt divided by total assets, was approximately 10.2% (as of 31 December 2019: 8.4%).

Significant investments

As of 31 December 2020, 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 2020, the Group did not have any capital commitments (as of 31 December 2019: nil) to acquire property, plant or equipment.

As of 31 December 2020, 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. 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.

Share option 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 share options under the ESOP have lapsed.

Employee and remuneration policy

As of 31 December 2020, the Group had 737 employees (as of 31 December 2019: 578 employees). Total staff remuneration expenses, including remuneration for Directors, for the year ended 31 December 2020 amounted to RMB136,025 thousand (for the year ended 31 December 2019: RMB139,237 thousand).

Remuneration is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice.

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

Subsequent events

On 8 March 2021, the Company entered into a cooperation agreement with Boxin Bio Inc. (“**Boxin**”), an independent third party, under which the Company is exclusively engaged by Boxin as a strategic partner to establish several medical testing centres in the PRC for a total budget of approximately RMB200 million payable by Boxin.

Save as disclosed above, the Group has had no 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 Company repurchased and cancelled 10,410,000 shares of the Company (the “**Shares**”) at a total consideration of HKD26,601,970 on the Stock Exchange.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the Reporting Period.

Share award scheme

To recognise the contributions by certain employees of the Group and to provide incentives thereto 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 a share award scheme on 19 May 2020.

During the Reporting Period, on 15 December 2020, the Board resolved to allot and issue 30,000,000 new Shares to the trustee under the general mandate granted by the Shareholders at the annual general meeting of the Company held on 3 June 2020 in order to grant awards to certain employees pursuant to the share award scheme.

Material acquisitions and disposals of subsidiaries, associates or joint ventures

On 3 August 2020, Vastec Medical Equipment (Shanghai) Co., Ltd., a wholly-owned subsidiary of the Company, made an investment in joint venture which was in relation to the formation of the partnership focusing on equity investments. The partnership had a total capital commitment of RMB300.1 million. The respective capital commitment in the partnership was determined after arm’s length negotiation with reference to the capital requirements of the partnership and the intended proportion of capital commitment by each party. For details, please refer to the announcement of the Company dated 3 August 2020.

Save as disclosed above, the Group did not have any material acquisition or disposal of subsidiaries, associates or joint ventures for the year ended 31 December 2020.

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 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 code on corporate governance practices

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 the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules.

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

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 believes that Mr. Ho Kuk Sing can provide the Company with strong and consistent leadership that allows for effective and efficient planning and implementation of business decisions and strategies.

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 year ended 31 December 2020 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 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 year ended 31 December 2020 have been reviewed by all members of 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 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.

Annual general meeting

The annual general meeting of the Company for the year ended 31 December 2020 (the "AGM") will be held on 25 May 2021. The notice of the AGM will be sent to the Shareholders at least 20 clear business days before the AGM.

Final dividend

The Directors have resolved to recommend the payment of a final dividend of HK3.607 cents per share for the year ended 31 December 2020 to the Shareholders whose names appear on the register of members of the Company on Thursday, 3 June 2021. The final dividend, if approved by the Shareholders at the AGM to be held on 25 May 2021, will be payable on or around Friday, 2 July 2021.

Closure of register of members

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

- (a) 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 Wednesday, 19 May 2021 to Tuesday, 25 May 2021, 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 pm on Tuesday, 18 May 2021.
- (b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Tuesday, 1 June 2021 to Thursday, 3 June 2021, 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 pm on Monday, 31 May 2021.

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 annual report of the Company for the year ended 31 December 2020 containing all the information required by the Listing Rules will be dispatched to the Shareholders and 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, 19 March 2021

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, Mr. Chen Xingang, Mr. Yang Zhaoxu and Mr. Chan Kwok King, Kingsley and three independent non-executive directors, namely, Mr. Lau Siu Ki, Mr. Zhong Renqian and Mr. Leung Ka Sing.