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LifeTech Scientific Corporation **先健科技公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1302)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

- Turnover for the six months ended 30 June 2018 was approximately RMB246.9 million, representing an increase of approximately 40.4% as compared to the turnover of approximately RMB175.9 million for the six months ended 30 June 2017. Gross profit for the six months ended 30 June 2018 was approximately RMB204.2 million, representing an increase of approximately 44.8% as compared to the gross profit of approximately RMB141.0 million for the six months ended 30 June 2017.
- Net profit attributable to owners of the Company for the six months ended 30 June 2018 was approximately RMB67.3 million, as compared with a net profit of approximately RMB84.2 million for the six months ended 30 June 2017. The decrease was mainly due to (i) approximately RMB27.7 million decrease in other income and other gains resulting from consulting service; (ii) approximately RMB13.9 million increase in the income tax generated by Lifetech Scientific (Shenzhen) Co., Ltd (“Lifetech Shenzhen”) allocating profits to the parent company; and (iii) share-based payment expenses increase of approximately RMB8.0 million from approximately RMB7.5 million for the six months ended 30 June 2017 to approximately RMB15.5 million for the six months ended 30 June 2018. Excluding the influence arose therefrom, the Company would have recorded net profit attributable to owners of the Company for the six months ended 30 June 2018 which was approximately RMB96.7 million, as compared with a net profit of approximately RMB64.0 million for the six months ended 30 June 2017, representing an increase of approximately 51.1%.
- The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2018 (corresponding period in 2017: Nil).

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the "Board") of directors (the "Directors", each a "Director") of LifeTech Scientific Corporation (the "Company" or "Lifetech") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017 and the relevant explanatory notes as set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	NOTES	Six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	4	246,879	175,896
Cost of sales		(42,654)	(34,902)
Gross profit		204,225	140,994
Other income and other gains and losses		13,781	33,514
Selling and distribution expenses		(47,680)	(31,284)
Administration expenses		(35,869)	(25,050)
Research and development expenses		(40,923)	(27,021)
Operating profit		93,534	91,153
Finance income		2,451	1,210
Share of results of an associate		—	78
Profit before tax	5	95,985	92,441
Income tax expense	6	(28,522)	(8,254)
Profit for the period		67,463	84,187
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation foreign operations		817	(1,045)
Other comprehensive income (expense) for the period		817	(1,045)
Total comprehensive income for the period		68,280	83,142
Profit for the period attributable to:			
Owners of the Company		67,329	84,204
Non-controlling interests		134	(17)
		67,463	84,187
Total comprehensive income attributable to:			
Owners of the Company		68,146	83,159
Non-controlling interests		134	(17)
		68,280	83,142
Earnings per share	8		
– Basic (RMB)		0.016	0.019
– Diluted (RMB)		0.015	0.019

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	NOTES	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	355,312	322,821
Investment properties		127,737	129,952
Intangible assets	9	168,608	151,709
Prepaid lease payments	10	30,251	30,884
Deposits for acquisition of property, plant and equipment		6,587	7,119
Deferred tax assets		24,437	20,406
Equity instruments at fair value through other comprehensive income	11	172,864	—
		<u>885,796</u>	<u>662,891</u>
Current assets			
Inventories		49,211	39,408
Trade receivables	12	63,170	73,721
Other receivables and prepayments		42,889	40,499
Prepaid lease payments	10	1,308	1,308
Structured deposits	11	90,000	—
Bank balances and cash		211,343	451,930
		<u>457,921</u>	<u>606,866</u>
Current liabilities			
Trade and other payables	13	110,227	131,628
Tax payables		25,259	24,852
		<u>135,486</u>	<u>156,480</u>
Net current assets		<u>322,435</u>	<u>450,386</u>
Total assets less current liabilities		<u>1,208,231</u>	<u>1,113,277</u>
Non-current liabilities			
Government grants	14	56,494	57,311
		<u>56,494</u>	<u>57,311</u>
Net assets		<u>1,151,737</u>	<u>1,055,966</u>
Capital and reserves			
Share capital	15	35	35
Share premium and reserves		1,148,378	1,052,741
		<u>1,148,413</u>	<u>1,052,776</u>
Equity attributable to owners of the Company		1,148,413	1,052,776
Non-controlling interests		3,324	3,190
		<u>1,151,737</u>	<u>1,055,966</u>
Total equity		<u>1,151,737</u>	<u>1,055,966</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the Company										
	Share capital	Share premium	Translation reserve	Statutory surplus reserve	Capital reserve	Contribution reserve	Share option reserve	Accumulated profit (losses)	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000 (Note i)	RMB'000	RMB'000 (Note ii)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	35	768,255	1,379	50,058	(3)	32,531	51,873	(36,511)	867,617	2,978	870,595
Profit for the period	–	–	–	–	–	–	–	84,204	84,204	(17)	84,187
Other comprehensive expense for the period	–	–	(1,045)	–	–	–	–	–	(1,045)	–	(1,045)
Total comprehensive income (expense) for the period	–	–	(1,045)	–	–	–	–	84,204	83,159	(17)	83,142
Recognition of equity-settled share-based payments	–	–	–	–	–	–	8,215	–	8,215	–	8,215
Exercise of share options	–	6,987	–	–	–	–	(2,488)	–	4,499	–	4,499
At 30 June 2017 (unaudited)	<u>35</u>	<u>775,242</u>	<u>334</u>	<u>50,058</u>	<u>(3)</u>	<u>32,531</u>	<u>57,600</u>	<u>47,693</u>	<u>963,490</u>	<u>2,961</u>	<u>966,451</u>
At 1 January 2018	<u>35</u>	<u>785,303</u>	<u>492</u>	<u>50,103</u>	<u>(3)</u>	<u>32,531</u>	<u>57,399</u>	<u>126,916</u>	<u>1,052,776</u>	<u>3,190</u>	<u>1,055,966</u>
Profit for the period	–	–	–	–	–	–	–	67,329	67,329	134	67,463
Other comprehensive income for the period	–	–	817	–	–	–	–	–	817	–	817
Total comprehensive income for the period	–	–	817	–	–	–	–	67,329	68,146	134	68,280
Recognition of equity-settled share-based payments	–	–	–	–	–	–	19,398	–	19,398	–	19,398
Exercise of share options	–	13,582	–	–	–	–	(5,489)	–	8,093	–	8,093
At 30 June 2018 (unaudited)	<u>35</u>	<u>798,885</u>	<u>1,309</u>	<u>50,103</u>	<u>(3)</u>	<u>32,531</u>	<u>71,308</u>	<u>194,245</u>	<u>1,148,413</u>	<u>3,324</u>	<u>1,151,737</u>

Notes:

- (i) Statutory surplus reserve is non-distributable and the transfer to this reserve is determined according to the relevant laws in the People's Republic of China ("China" or "PRC") and by the board of directors of the PRC subsidiaries in accordance with the Article of Association of the subsidiaries. Statutory surplus reserve can be used to make up for previous year's losses or convert into additional capital of the PRC subsidiaries of the Company.
- (ii) Contribution reserve represents the difference between the fair value of the consideration paid for the acquisition of Lifetech Shenzhen from shareholders and the carrying amount of the share of net assets acquired in August 2006 and it is regarded as a deemed contribution from shareholders under merger accounting.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH FROM OPERATING ACTIVITIES	66,492	22,744
INVESTING ACTIVITIES		
Deposits paid for and purchase of property, plant and equipment	(36,270)	(55,204)
Expenditure incurred and capitalised as intangible assets	(17,047)	(23,941)
Government grants received for acquisition of plant and equipment	50	660
Proceeds on disposal of property, plant and equipment	142	20
Purchase of equity instruments at fair value through other comprehensive income	(172,864)	—
Structured deposits placed	(150,000)	—
Release of structured deposits	60,000	—
NET CASH USED IN INVESTING ACTIVITIES	(315,989)	(78,465)
FINANCING ACTIVITIES		
Proceeds from issue of shares upon exercise of share options	8,093	4,499
NET CASH FROM FINANCING ACTIVITIES	8,093	4,499
NET DECREASE IN CASH AND CASH EQUIVALENTS	(241,404)	(51,222)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	451,930	645,208
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	817	(1,045)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, representing bank balances and cash	211,343	592,941

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 17 August 2006 as an exempted company with limited liability and its shares had been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") until 5 November 2013 when its shares were delisted from the Growth Enterprise Market of the Stock Exchange, and its shares were listed on the Main Board of the Stock Exchange by way of transfer of listing on 6 November 2013. The address of the registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, and the address of the principal place of business is Cybio Electronic Building, Langshan 2nd Street, North Area of High-tech Park, Nanshan District, Shenzhen, Guangdong Province, the PRC.

The Company is an investment holding company. The principal activities of the Group are development, manufacturing and trading of advanced interventional medical devices for cardiovascular and peripheral vascular diseases and disorders.

The condensed consolidated financial statements are presented in RMB, which is the functional currency of the Company and the Group's major operating subsidiaries.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 of the Listing of Securities on the Stock Exchange (the "Listing Rules").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2018 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

In addition, in the current interim period, the Group has applied, for the first time, a new interpretation and certain amendments to International Financial Reporting Standards ("IFRSs") issued by the IASB that are mandatorily effective for the current interim period.

The application of the above new interpretation and amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. SEGMENT INFORMATION

The segment information reported internally was analysed on the basis of their products supplied by the Group's operating divisions which is consistent with the internal information that is regularly reviewed by executive Directors of the Company, the chief operating decision makers, for the purposes of resource allocation and assessment of performance.

The Group's operating segments under IFRSs 8 are as follows:

- Structural heart diseases business: trade, manufacture, research and development of devices related to structural heart diseases.
- Peripheral vascular diseases business: trade, manufacture, research and development of devices related to peripheral vascular diseases.
- Cardiac pacing and electrophysiology business: trade, manufacture, research and development of devices related to cardiac pacing and electrophysiology.

Information regarding the above segments is reported below.

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For six months ended 30 June 2018

	Structural heart diseases business RMB'000 (Unaudited)	Peripheral vascular diseases business RMB'000 (Unaudited)	Cardiac pacing and electrophysiology business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
SEGMENT REVENUE				
External sales	82,930	163,949	—	246,879
Segment profit	70,734	133,491	—	204,225
Unallocated income				
– Other income and other gains and losses				13,781
– Finance income				2,451
Unallocated expense				
– Selling and distribution expenses				(47,680)
– Administration expenses				(35,869)
– Research and development expenses				(40,923)
Profit before tax				95,985

4. **SEGMENT INFORMATION** - *continued*

(a) **Segment revenue and results – continued**

For six months ended 30 June 2017

	Structural heart diseases business RMB'000 (Unaudited)	Peripheral vascular diseases business RMB'000 (Unaudited)	Cardiac pacing and electrophysiology business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
SEGMENT REVENUE				
External sales	62,603	113,293	—	175,896
Segment profit	49,045	91,949	—	140,994
Unallocated income				
– Other income and other gains and losses				33,514
– Share of results of an associate				78
– Finance income				1,210
Unallocated expense				
– Selling and distribution expenses				(31,284)
– Administration expenses				(25,050)
– Research and development expenses				(27,021)
Profit before tax				92,441

Segment profit represents the gross profit earned by each segment without allocation of all other items of income and expenses, as set out above. This is the measure reported to the chief operating decision makers, the executive Directors of the Company, for the purposes of resources allocation and assessment of segment performance.

4. SEGMENT INFORMATION - continued

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

Segment assets

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Operating segments:		
Structural heart diseases business	177,276	207,488
Peripheral vascular diseases business	422,227	339,153
Cardiac pacing and electrophysiology business	112,802	106,469
	<hr/>	<hr/>
Total segment assets	712,305	653,110
Unallocated assets		
Property, plant and equipment	3,936	3,648
Investment properties	127,737	129,952
Deferred tax assets	24,437	20,406
Other receivables and prepayments	1,095	10,711
Equity instruments at fair value through other comprehensive income	172,864	—
Structured deposits	90,000	—
Bank balances and cash	211,343	451,930
	<hr/>	<hr/>
Consolidated assets	<u>1,343,717</u>	<u>1,269,757</u>

4. SEGMENT INFORMATION - continued

(b) Segment assets and liabilities - continued

Segment liabilities

	30 June	31 December
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Operating segments:		
Structural heart diseases business	5,612	6,763
Peripheral vascular diseases business	15,337	12,716
Cardiac pacing and electrophysiology business	1,041	2,016
	<hr/>	<hr/>
Total segment liabilities	21,990	21,495
Unallocated liabilities		
Other payables	86,533	108,443
Tax payables	25,259	24,852
Government grants	58,198	59,001
	<hr/>	<hr/>
Consolidated liabilities	191,980	213,791
	<hr/> <hr/>	<hr/> <hr/>

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than bank balances and cash, equity instruments at fair value through other comprehensive income, structured deposits, deferred tax assets, investment properties, certain other receivables and prepayments, certain property, plant and equipment, and
- only trade payables are allocated to operating segments in arriving at segment liabilities, which therefore exclude government grants (include current portion under other payables and non-current portion), tax payables and certain other payables.

5. PROFIT BEFORE TAX

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including Directors' remuneration		
Salaries, wages and other benefits	60,925	47,963
Retirement benefits scheme contributions	5,141	4,289
Less: capitalised in development costs	(10,788)	(9,744)
	55,278	42,508
Auditor's remuneration	1,148	937
Cost of inventories recognised as expenses	42,654	34,902
Depreciation of property, plant and equipment	6,582	3,278
Depreciation of investment properties	2,213	37
Amortisation charge of intangible assets	3,226	1,813
Release of prepaid lease payments	636	636
Operating lease rentals in respect of rental premises	5,904	4,591
Government grants	(2,658)	(6,808)
Interest on bank deposits	(2,451)	(1,210)
Gross rental income from investment properties	(16,170)	(782)
Less: direct operating expenses incurred for investment properties that generated rental income during the period	2,213	37
	(13,957)	(745)

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Current tax		
PRC Enterprise Income Tax	32,553	12,276
Deferred tax		
Current period	(4,031)	(4,022)
	<u>28,522</u>	<u>8,254</u>

The Company is tax exempted under the laws of the Cayman Islands.

Lifetech Scientific Trading Limited 先健科技貿易有限公司, a subsidiary of the Company, is subject to Hong Kong Profits Tax rate of 16.5% on assessable profits earned in Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except that one major operating subsidiary in the PRC was qualified as High and New Technology Enterprise since 2009, and is entitled to a preferential income tax rate of 15%. The qualification of High and New Technology Enterprises is subject to review every three years and is extended for further three years from 2017 to 2019. This major operating subsidiary continued to be recognised as a Hi-Tech enterprise for the periods ended 30 June 2018 and 2017.

For other PRC subsidiaries, their applicable income tax rates are 25% for the periods ended 30 June 2018 and 2017 respectively.

The applicable income tax rate of Lifetech Scientific India Private Ltd. is 30.9% on its taxable profits.

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim periods ended 30 June 2018 and 2017. The Directors did not recommend the payment of an interim dividend.

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Earnings:		
Earnings for the purpose of basic and diluted earnings per share	<u>67,329</u>	<u>84,204</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	4,332,367	4,322,059
Effect of dilutive potential ordinary shares: share options (in thousands)	<u>34,205</u>	<u>18,617</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	<u>4,366,572</u>	<u>4,340,676</u>

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the six months ended 30 June 2018, the Group spent approximately RMB9,175,000 (corresponding period in 2017: approximately RMB6,767,000) for the acquisition of equipment and improvement of plant to update its manufacturing capabilities. In addition, the Group also incurred construction and decoration cost for building of approximately RMB24,098,000 (corresponding period in 2017: approximately RMB63,204,000), and had addition in pacemaker project with a cost of approximately RMB6,026,000 (corresponding period in 2017: approximately RMB10,311,000) during the six months ended 30 June 2018.

During the six months ended 30 June 2018, the Group incurred approximately RMB19,481,000 (corresponding period in 2017: approximately RMB18,022,000) of development expenditure for the development of structural heart diseases business, peripheral vascular diseases business and Cardiac pacing and electrophysiology business, and incurred approximately RMB500,000 (corresponding period in 2017: approximately RMB8,674,000) for purchase of intangible assets.

10. PREPAID LEASE PAYMENTS

	30 June	31 December
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Analysed for reporting purposes as:		
Current asset	1,308	1,308
Non-current asset	30,251	30,884
	31,559	32,192

The Group's prepaid lease payments represent payment for land use right in the PRC which are held under medium-term leases.

11. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

11. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - *continued*

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30 June 2018 RMB'000	31 December 2017 RMB'000			
FINANCIAL ASSETS					
Structured deposit (classified as financial asset in the statement of financial position)	90,000	Nil	Level 2	Discounted cash flow. Market price of underlying financial instruments, including listed shares and debentures.	N/A
Equity instruments at fair value through other comprehensive income (Note)	172,864	Nil	Level 3	Market approach	N/A

Note: In May 2018, the Group invested USD20.0 million to subscribe for the equity interest in ABG-Grail Limited, thereby indirectly holding the equity interest in GRAIL. The Group also invested USD6.0 million to subscribe for the partnership interest in Ally Bridge Group Innovation Capital Partners III, L.P. The investments are classified as financial assets at fair value through other comprehensive income.

12. TRADE RECEIVABLES

The Group normally allows a credit period of 30 to 90 days to its trade customers. The following is an aged analysis of trade and bill receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
1 - 90 days	53,106	54,911
91 - 180 days	6,605	14,621
181 - 365 days	1,678	2,652
Over 365 days	1,781	1,537
	63,170	73,721

13. TRADE PAYABLES

The credit period granted by suppliers to the Group ranged from 30 to 120 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
0 - 30 days	6,358	3,729
31 - 60 days	5,027	2,850
61 - 120 days	3,100	2,123
Over 120 days	607	808
	15,092	9,510

14. GOVERNMENT GRANTS

Government grants include subsidies in relation to the acquisition of plant and equipment and the research and development of medical devices. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. During the six months ended 30 June 2018, respectively approximately RMB1,806,000 and RMB50,000 subsidies related to research and development of medical devices and the acquisition of plant and equipment (corresponding period in 2017: approximately RMB5,955,000 and RMB660,000 subsidies related to research and development of medical devices and the acquisition of plant and equipment). The Group recognised income of approximately RMB2,658,000 (corresponding period in 2017: approximately RMB6,808,000) during the six months ended 30 June 2018. The current portion of government grants, which include subsidies in relation to research and development of medical devices that have not yet been recognised in profit or loss, are included in other payables. The non-current portion of government grants, which include subsidies in relation to the acquisition of plant and equipment that have not yet been recognised in profit or loss, are included in non-current liability.

15. SHARE CAPITAL

		Number of shares	Amount USD
Ordinary shares			
Authorised:			
At 1 January 2017, 31 December 2017 and 30 June 2018 at USD0.00000125 each		40,000,000,000	50,000
		<u>40,000,000,000</u>	<u>50,000</u>
			Shown in the condensed consolidated financial statements as RMB'000
	Number of shares	Amount USD	RMB'000
Issued and fully paid:			
At 1 January 2017 at USD0.00000125 each	4,320,811,600	5,401	35
Exercise of share options	<u>8,667,200</u>	<u>11</u>	<u>—</u>
At 31 December 2017 at USD0.00000125 each	4,329,478,800	5,412	35
Exercise of share options	6,812,400	8	—
At 30 June 2018 at USD0.00000125 each	<u>4,336,291,200</u>	<u>5,420</u>	<u>35</u>

16. SHARE-BASED PAYMENTS

The Share Option Scheme was adopted by the Company on 22 October 2011 and was amended by unanimous written resolutions of the Board on 5 May 2015 for the primary purpose of providing incentives to eligible participants.

On 5 May 2015, an aggregate of 160,000,000 options was granted subject to certain vesting conditions pursuant to the Share Option Scheme to certain eligible participants (the "Grantees"). The total options are scheduled to be vested in five batches, respectively on 5 May 2016, 5 May 2017, 5 May 2018, 5 May 2019 and 5 May 2020, with 20% of total options in each batch. As at 30 June 2018, 57,536,800 options granted pursuant to the Share Option Scheme have been vested and remain exercisable.

The table below discloses movements in the Company's share options granted to the Grantees under the Share Option Scheme during the six months ended 30 June 2018:

Types	Number of shares subject to share options			Outstanding at 30 June 2018
	Outstanding at 1 January 2018	Exercised during the period	Lapsed during the period	
Batch I	20,871,600	(2,926,000)	(400)	17,945,200
Batch II	22,026,000	(2,854,800)	(400)	19,170,800
Batch III	22,432,400	(1,031,600)	(980,000)	20,420,800
Batch IV	22,432,400	—	(1,165,600)	21,266,800
Batch V	22,432,400	—	(1,165,600)	21,266,800
Total	<u>110,194,800</u>	<u>(6,812,400)</u>	<u>(3,312,000)</u>	<u>100,070,400</u>
Exercisable as at 30 June 2018				57,536,800
Weighted average exercise price				HK\$1.464

16. SHARE-BASED PAYMENTS - *continued*

In respect of the share options granted on 5 May 2015, the fair values were calculated using the Binomial Model. The inputs into the model were as follows:

Grant date share price	HK\$1.410
Exercise price	HK\$1.464
Expected life	7.75 years - 8.75 years
Expected volatility (Note i)	54.18% - 55.33%
Dividend yield	0%
Risk-free interest rate (Note ii)	1.51% - 1.56%

Notes:

- (i) Volatility is average of the annualized standard deviation of daily return of stock price of 1066.hk, 233.hk and 801.hk with the tenor equal to the option life with reference to Bloomberg.
- (ii) Risk-free interest rate represents the yields of HKD Hong Kong Sovereign Curve with respective tenors as the valuation date. Linear Interpolation is adopted when necessary.

The Binomial Model had been used to estimate the fair value of the options. The model involves the construction of a binomial lattice which represents different possible paths that might be followed by the stock price over the life of the options. In developing the binomial lattice, the life of the options is divided into various time steps. In each time step there is a binomial stock price movement. The main inputs to the model include the share price of the Company, exercise price, risk-free rate, expected volatility, dividend yield and expected life of the options. Expected volatility was determined by the historical share price of comparable companies in the relevant period.

16. SHARE-BASED PAYMENTS - *continued*

On 10 May 2018, an aggregate of 201,280,000 options was granted subject to certain vesting conditions pursuant to the Share Option Scheme to Grantees. The total options are scheduled to be vested in five batches, respectively on 10 May 2019, 10 May 2020, 10 May 2021, 10 May 2022 and 10 May 2023, with 20% of total options in each batch. As at 30 June 2018, no option granted pursuant to the Share Option Scheme has been vested.

The table below discloses movements in the Company's share options granted to the Grantees under the Share Option Scheme during the six months ended 30 June 2018:

Types	Number of shares subject to share options				Outstanding at 30 June 2018
	Outstanding	Granted	Exercised	Lapsed	
	at 1 January 2018	during the period	during the period	during the period	
Batch I	—	40,256,000	—	—	40,256,000
Batch II	—	40,256,000	—	—	40,256,000
Batch III	—	40,256,000	—	—	40,256,000
Batch IV	—	40,256,000	—	—	40,256,000
Batch V	—	40,256,000	—	—	40,256,000
Total	—	201,280,000	—	—	201,280,000
Exercisable as at 30 June 2018					—
Weighted average exercise price					HK\$2.630

In respect of the share options granted on 10 May 2018, the fair values were calculated using the Binomial Model. The inputs into the model were as follows:

Grant date share price	HK\$2.630
Exercise price	HK\$2.630
Time to maturity	10 years
Vesting period	1-5 years
Initial underlying	HK\$2.630
Risk-free interest rate (Note i)	2.162%
Dividend yield	0%
Volatility (Note ii)	49.774%

Notes:

- (i) Risk-free interest rate represents the yields of HKD Hong Kong Sovereign Curve with respective tenors as at the valuation date. Linear Interpolation is adopted when necessary.
- (ii) Volatility is average of the annualized standard deviation of daily return of stock price of 1066.hk, 233.hk and 801.hk with the tenor equal to the option life with reference to Bloomberg.
- (iii) The values of exercise multiple adopted are 2.80 and 1.41 for directors and employees, respectively. The exercise multiple of employee is estimate based on historical option movement records. Due to no historical exercise records for director, the value is reference to John Hull and Alan White, "How to Value Employee Stock Options".

16. SHARE-BASED PAYMENTS - *continued*

The Binomial Model involves the construction of a binomial lattice which represents different possible paths that might be followed by the stock price over the life of the options. In developing the binomial lattice, the life of the options is divided into various time steps. In each time step there is a binomial stock price movement. For instance, if there is a total of 20 time steps, the lattice would be made up of 220 possible stock price paths and 220 +1 terminal stock price.

For the six months ended 30 June 2018, the Group recognised approximately RMB15,535,000 (2017: approximately RMB7,533,000) share-based payment expenses in profit or loss. In addition, approximately RMB4,045,000 (2017: approximately RMB1,453,000) was capitalised in development costs and inventories.

17. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	9,186	3,896
In the second to fifth years inclusive	16,232	1,991
	25,418	5,887

Operating lease payments represent rentals payable by the Group for certain properties. Leases are negotiated and rentals are fixed for terms ranging from one to five years.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	37,073	28,601
In the second to fifth years inclusive	113,691	102,283
	150,764	130,884

18. CAPITAL COMMITMENTS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment - contracted for but not provided in the condensed consolidated financial statements	18,435	39,907

19. RELATED PARTY DISCLOSURES

(a) Transactions and trade balances

The amount is unsecured, interest-free and trade in nature with a credit period of 60 to 90 days. The amount is aged within 90 days at the end of the reporting period.

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Amount due to a Shareholder: Medtronic	—	11,985

The Group entered into the following transactions with related parties during the period:

Nature of transactions	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Pacemaker project consulting fee paid and payable to Medtronic	1,407	3,792
Royalty fee paid and payable to Medtronic	4,264	3,406
Purchase of goods from Medtronic	2	917
Revenue from sales of goods to Shenzhen EnKe Medical Technology Co., Ltd. ("Enke Medical")	—	74

19. RELATED PARTY DISCLOSURES - continued

(a) Transactions and trade balances - continued

On 5 May 2018, Medtronic had entered into a definitive agreement with China Everbright Limited ("CEL", stock code: 165.HK) and another investor to dispose (i) 22.4% equity interests in the Company to CEL and (ii) the rest of Medtronic's minority equity interests in the Company to such other investor. Following completion of the transaction, Medtronic will cease to have any interests in shares of the Company.

In 2017, the Group entered into a sale and purchase agreement with an independent third party, pursuant to which the Group disposed of all the equity shares in Enke Medical with cash proceeds of RMB760,000. Upon the completion of the disposal, the Group lost significant influence over Enke Medical.

(b) Compensation of key management personnel

The remuneration of key management personnel during the period was as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	4,937	4,476
Post-employment benefits	182	138
	<u>5,119</u>	<u>4,614</u>

The remuneration of key management personnel is determined by reference to the performance of individuals and market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group is a developer, manufacturer and marketer of advanced minimally invasive interventional medical devices for cardiovascular and peripheral vascular diseases and disorders. We have three main product lines, including structural heart diseases business, peripheral vascular diseases business and cardiac pacing and electrophysiology business. The structural heart diseases business mainly includes congenital heart diseases occluder and LAA occluder. The peripheral vascular diseases business mainly includes vena cava filter and stent graft. The new product line cardiac pacing and electrophysiology is mainly related to pacemakers. These product lines provide clinically effective and commercially attractive product offerings.

We currently have distributors in numerous countries across Asia, Africa, North America, South America and Europe, with sales network spreading all over the world.

First-half performances

Despite facing with the increasingly fierce competition of global medical device industry, coupled with the revolution of medical devices bidding mode in the PRC and more stringent price regulations, the Company still achieved a substantial growth for the six months ended 30 June 2018. Our revenue was approximately RMB246.9 million for the six months ended 30 June 2018, with an increase of approximately RMB71.0 million or approximately 40.4% as compared to the revenue of approximately RMB175.9 million for the six months ended 30 June 2017. As compared to the corresponding period in 2017, domestic sales increased approximately 40.6% and overseas sales increased approximately 39.6% for the six months ended 30 June 2018. The sales generated from the Chinese market accounted for approximately 78.5% of our total revenue for the six months ended 30 June 2018 (corresponding period in 2017: approximately 78.4%). The gross profit of the Group increased by approximately 44.8% from approximately RMB141.0 million for the six months ended 30 June 2017 to approximately RMB204.2 million for the six months ended 30 June 2018.

Marketing activity

During the six months ended 30 June 2018, we were continuously strengthening the distribution system by choosing quality distributors, and we also promoted our products by expanding our activities in tradeshow marketing and sales network coverage. Below are marketing activities highlights:

- From 31 January to 3 February, 2018, the Catheter Interventions in Congenital, Structural and Valvular Heart Disease (“CSI”) ASIA PACIFIC 2018 was held in Ho Chi Minh, Vietnam. During the conference, a high-intensity ventricular septal defect closure procedure was performed by three Thai doctors using Lifetech’s KONAR-MF™ multifunctional occluder, which achieved great success. At the left atrial appendage (“LAA”) symposium, doctors highly affirmed the advantage of LAMBRE™ LAA occluder for its product design and innovation. We also held a satellite conference themed “Device Experience in Congenital Heart Diseases”, which was co-chaired by top experts in the field of interventional therapy for congenital heart disease, and invited numerous world-renowned experts to discuss and share their clinical experience in using Lifetech’s occluders.

- From 22 to 25 March, 2018, the 16th China Interventional Therapeutics (“CIT 2018”) was held in Suzhou, China. During the opening ceremony of the conference, IBS™ Sirolimus-eluting Iron Bioresorbable Coronary Scaffold System was successfully implanted in human body for the first time in the world, which was live broadcasted. IBS™ Sirolimus-eluting Iron Bioresorbable Coronary Scaffold System developed by Lifetech, is the only bioabsorbable scaffold which is comparable to permanent scaffolds in terms of performance and specification coverage so far. The CIT 2018 also showcased the outstanding performance of Ankura™ stent graft system, LAmbre™ LAA occluder and KONAR-MF™ multifunctional occluder.
- From 24 to 27 April, 2018, one of the world’s largest vascular surgery conferences, the Charing Cross Symposium was held in London, England. Lifetech was invited to attend the academic event as one of the few Chinese enterprises. During the conference, Lifetech’s booth and case sharing attracted many overseas doctors and agents to visit and consult. On April 24, a meeting themed “A Case Involving Aortic Treatment Techniques” was held as scheduled, which successfully demonstrated our innovative strength in the field of peripheral vascular intervention.
- From 22 to 25 May, 2018, one of the top-level events in the field of interventional cardiology, the EuroPCR 2018 was held in Paris, France. Numerous famous experts and scholars were invited to attend this event, exchanging and discussing the latest process of cardiovascular interventional technology. During the conference, many famous experts discussed and shared their experiences in using Lifetech’s LAmbre™ LAA occluder and KONAR-MF™ multifunctional occluder through live case and seminar.
- From 17 to 22 June, 2018, the 14th Complex Cardiovascular Catheter Therapeutics (“C3”) was held in Orlando, Florida, United States. The conference focused on topics such as aorta, peripheral blood vessels, complex coronary arteries and surgical treatment of structural heart disease. In the conference, the vascular surgery team of Fuwai Hospital Chinese Academy of Medical Sciences used Lifetech’s Ankura™ Thoracic Stent Graft System to conduct a live broadcasting procedure, which was highly appraised by the experts.
- 6 June, 2018, was the sixth China Atrial Fibrillation Day, Lifetech launched the national surgery tour themed “Focus on Atrial Fibrillation and Prevent Stroke”. We plan to conduct LAmbre™ LAA academic activities at more than 30 medical centers in Mainland China, Hong Kong, Macao and Taiwan. Through various kinds of academic activities such as online lectures and exchanges, case sharing and discussion, and surgical demonstrations, more doctors can learn the prevention and treatment of atrial fibrillation stroke, and grasp the clinical and surgical skills of left atrial appendage occlusion, reducing the risk of stroke caused by atrial fibrillation. The first batch of procedures of the simulcast were performed at Zhongshan Hospital of Fudan University, Renmin Hospital of Wuhan University and Shanghai Tenth People’s Hospital. The online broadcasted procedure caught the attention around the world, and attracted more than 4,000 views and online discussions. The simulcast gave the viewers a more detailed and comprehensive understanding of both the left atrial appendage occlusion and the skill of using LAmbre™ LAA Occluder during procedures.

Research and development (“R&D”)

During the six months ended 30 June 2018, we made the following achievements in R&D field:

- KONAR-MF™ multifunctional occluder was granted with the CE certification in Europe.
- The study on the first in man (“FIM”) implantation of IBS™ Sirolimus-Eluting Iron Bioresorbable Coronary Scaffold System, which was developed by Lifetech, was approved by the CFDA. In March, IBS™ Sirolimus-Eluting Iron Bioresorbable Coronary Scaffold System was successfully implanted in human body for the first time in the world, which was live broadcasted during CIT 2018.
- The project “Establishment of a Three-level Prevention and Treatment System for Congenital Heart Diseases and Key Technology Innovations and Applications”, completed by Lifetech and Guangdong General Hospital, was awarded the first prize of “Guangdong Science and Technology Award for 2017”.

FINANCIAL REVIEW

OVERVIEW

Despite facing a challenging environment with fierce competitions in the medical device market, the revenue of the Company still achieved a substantial growth for the six months ended 30 June 2018.

The following discussion is based on, and should be read in conjunction with, the financial information and the notes appended thereto included in this interim results announcement.

REVENUE

Our revenue was approximately RMB246.9 million for the six months ended 30 June 2018, with an increase of approximately RMB71.0 million or approximately 40.4% as compared to the revenue of approximately RMB175.9 million for the six months ended 30 June 2017. The increase was primarily attributable to the increase of revenue from stent grafts, vena cava filter and LAMBRE™ LAA occluder.

Revenue from structural heart diseases business

The turnover contributed by the structural heart diseases business for the six months ended 30 June 2018 was approximately RMB82.9 million (corresponding period in 2017: approximately RMB62.6 million), representing an increase of approximately 32.4%.

With the diversification of product portfolio, our products cover a wide spectrum of the structural heart diseases business, which mainly includes LAA occluder and three generations of congenital heart occluders named HeartR, Cera and CeraFlex.

As compared to the corresponding period of 2017, the revenue generated from the sales of Cera devices increased by approximately 15.5% and CeraFlex devices increased by approximately 69.1% for the six months ended 30 June 2018. HeartR devices decreased by approximately 14.0%, which was mainly due to the gradual replacement of HeartR devices by Cera devices.

We launched our new product LAMBRE™ LAA occluder in the market after obtaining the CE and CFDA certifications in June 2016 and June 2017, respectively. The revenue generated from the sales of LAMBRE™ LAA occluder was approximately RMB17.6 million for the six months ended 30 June 2018 (corresponding period in 2017: approximately RMB2.9 million), representing a growth of approximately 506.9%.

Revenue from peripheral vascular diseases business

The turnover contributed by the peripheral vascular diseases business for the six months ended 30 June 2018 was approximately RMB164.0 million (corresponding period in 2017: approximately RMB113.3 million), representing a growth of approximately 44.7%.

The products we offered in the peripheral vascular diseases business mainly included vena cava filter, Thoracic Aortic Aneurysm ("TAA") stent graft, Abdominal Aortic Aneurysm ("AAA") stent graft and Fustar™ steerable introducer. As compared to the corresponding period of 2017, the revenue generated from the sales of stent grafts increased by approximately 42.5% and vena cava filter increased by approximately 47.3% for the six months ended 30 June 2018.

Revenue from cardiac pacing and electrophysiology

As at the date of this interim results announcement, the preparation for mass production of HeartTone™ implantable pacemaker was completed, and the new product is expected to be launched in the market in the second half of 2018.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the increased sales and diversity of our products, gross profit of the Group increased by approximately 44.8% from approximately RMB141.0 million for the six months ended 30 June 2017 to approximately RMB204.2 million for the six months ended 30 June 2018. Gross profit margin increased by approximately 2.5% from approximately 80.2% for the six months ended 30 June 2017 to approximately 82.7% for the six months ended 30 June 2018. The increase was mainly attributable to the improvement of manufacturing technique and portfolio changes of products sold.

OTHER INCOME AND OTHER GAINS

Other income and other gains decreased from RMB33.5 million for the six months ended 30 June 2017 to approximately RMB13.8 million for the six months ended 30 June 2018, which was mainly due to the decrease of consulting service income.

Pursuant to a consulting agreement signed between the Group and an independent third party, the purchaser of Beijing PerMed Biomedical Engineering Co., Ltd. ("Purchaser"), the Group was engaged to provide consulting services to the Purchaser for a period of 12 months since December of 2016 at a consideration of USD8.0 million (approximately RMB55.4 million). During the six months ended 30 June 2017, the Group recognised approximately RMB27.7 million as other income upon the services. As the consulting agreement expired in November 2017, no consulting service income was recognised during the six months ended 30 June 2018.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by approximately 52.4% from approximately RMB31.3 million for the six months ended 30 June 2017 to approximately RMB47.7 million for the six months ended 30 June 2018. The increase was primarily due to (i) an increase in marketing expenses, especially for LAmbre™ LAA occluder; (ii) an increase in staff costs; and (iii) an increase in royalty fee paid and payable to Medtronic, Inc. and its affiliates ("Medtronic").

ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately 43.0% from approximately RMB25.1 million for the six months ended 30 June 2017 to approximately RMB35.9 million for the six months ended 30 June 2018. The increase was primarily due to (i) an increase in staff costs; and (ii) a net increase in depreciation expense, property management fee and utilities for the building, which situated at High-Tech Industrial Park, Nanshan District, Shenzhen, PRC (“Lifetech Building”).

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased by approximately 51.5% from approximately RMB27.0 million for the six months ended 30 June 2017 to approximately RMB40.9 million for the six months ended 30 June 2018. In addition, during the current period, approximately RMB19.5 million (corresponding period in 2017: approximately RMB18.0 million) was capitalised in development expenditure. Considering such capitalised expenditure, research and development cost increased by approximately 34.2% from approximately RMB45.0 million for the six months ended 30 June 2017 to approximately RMB60.4 million for the six months ended 30 June 2018. The increase was primarily due to (i) an increase in expenditure of developing projects, especially for significant increase in clinical trials; and (ii) an increase in salary, bonus and related expenses for staff in the research and development department.

OPERATING PROFIT

During the six months ended 30 June 2018, we recorded an operating profit of approximately RMB93.5 million, which represented an increase of approximately 2.5% as compared to the operating profit of approximately RMB91.2 million for the six months ended 30 June 2017. Such increase was primarily due to (i) the growth of sales revenue; and (ii) the increase of other income and other gains resulting from rental income.

FINANCE INCOME AND FINANCE COSTS

Finance income increased by approximately 108.3% from approximately RMB1.2 million for the six months ended 30 June 2017 to approximately RMB2.5 million for the six months ended 30 June 2018.

During the six months ended 30 June 2018 and corresponding period in 2017, no finance costs were recognised.

INCOME TAX

Income tax increased from approximately RMB8.3 million for the six months ended 30 June 2017 to approximately RMB28.5 million for the six months ended 30 June 2018. The increase was mainly due to the income tax generated by Lifetech Shenzhen allocating profits to the parent company, which amounted to approximately 13.9 million.

NET PROFIT

Net profit attributable to owners of the Company for the six months ended 30 June 2018 was approximately RMB67.3 million, as compared with a net profit of approximately RMB84.2 million for the six months ended 30 June 2017. The decrease was mainly due to (i) approximately RMB27.7 million decrease in other income and other gains resulting from consulting service; (ii) approximately RMB13.9 million increase in the income tax generated by Lifetech Shenzhen allocating profits to the parent company; and (iii) share-based payment expenses increase of approximately RMB8.0 million from approximately RMB7.5 million for the six months ended 30 June 2017 to approximately RMB15.5 million for the six months ended 30 June 2018. Excluding the influence arose therefrom, the Company would have recorded net profit attributable to owners of the Company for the six months ended 30 June 2018 which was approximately RMB96.7 million, as compared with a net profit of approximately RMB64.0 million for the six months ended 30 June 2017, representing an increase of approximately 51.1%.

Equity instruments at fair value through other comprehensive income

In May 2018, the Group invested USD20.0 million to subscribe for the equity interest in ABG-Grail Limited, thereby indirectly holding the equity interest in Grail, Inc. ("GRAIL"). The Group also invested USD6.0 million to subscribe for the partnership interest in Ally Bridge Group Innovation Capital Partners III, L.P (the "Partnership"). The investments are classified as financial assets at fair value through other comprehensive income ("FVTOCI") and they do not constitute notifiable transaction of the Company.

GRAIL is a healthcare company whose mission is to detect cancer early, when it can be cured. GRAIL uses the power of high-intensity sequencing, population-scale clinical studies, and state-of-the-art computer science and data science to enhance the scientific understanding of cancer biology, and to develop and commercialize pioneering products for the early detection of cancer. The company is located in Menlo Park, California and Hong Kong. It is supported by leading global investors and pharmaceutical, technology, and healthcare companies.

The Partnership was registered as an exempted limited partnership under the Exempted Limited Partnership Law of the Cayman Islands on 13 May 2016. The Partnership launched and commenced operations on 11 July 2016, as a private equity fund. The objective of the Partnership is to seek appreciation over the long-term, principally through investments in securities or assets of companies that are involved in the healthcare industry, with a particular focus on cross-border innovative late-stage venture opportunities and cross-over investments.

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 June 2018, the Group mainly financed its operations with its own working capital and equity funding.

As at 30 June 2018, the Group had net current assets of approximately RMB457.9 million (31 December 2017: approximately RMB606.9 million), including cash and bank balances of approximately RMB211.3 million (31 December 2017: approximately RMB451.9 million) and structured deposits of RMB90.0 million (31 December 2017: Nil).

BORROWINGS

On 8 June 2015, Lifetech Shenzhen, being one of our key operating subsidiaries in the PRC, entered into the loan agreement (the "Loan Agreement") and pledge agreement (the "Pledge Agreement") with China Construction Bank Co., Ltd. Shenzhen branch (the "Lender"), pursuant to which the Lender agreed to lend the loan amount of RMB200.0 million (equivalent to approximately HK\$253.6 million) to Lifetech Shenzhen, with interest rate of the benchmark interest rate commencing on the day the loan money is drawn from the bank and adjusted 10% below to 60% rise benchmark interest rate, for a term of five years subject to the terms and conditions under the Loan Agreement. Under the Loan Agreement, Lifetech Shenzhen had pledged its land use right held for own use with a net book value of approximately RMB31.6 million as at 30 June 2018 and Lifetech Building for the purpose of securing the bank borrowings. As at 30 June 2017, the bank borrowings were RMB200.0 million. In July 2017, the bank borrowings were repaid in full, and accordingly the Pledge Agreement was terminated.

As at 30 June 2018, there were no borrowings for the Group.

GEARING RATIO

As at 30 June 2018 and 31 December 2017, the gearing ratio (calculated as a ratio of bank borrowings to total equity) of the Group was nil.

CAPITAL STRUCTURE

Total equity attributable to equity holders of the Company amounted to approximately RMB1,148.4 million as at 30 June 2018 as compared to approximately RMB1,052.8 million as at 31 December 2017.

BUILDING CONSTRUCTION AND OPERATING LEASES

On 19 December 2014, Lifetech Shenzhen entered into the construction contract (the "Original Construction Contract") with the China Construction Fourth Engineering Division – Third Construction & Engineering Co. (中建四局第三建筑工程有限公司) (the "Contractor") pursuant to which the Contractor has agreed to undertake the construction work for the Company at an agreed contract price. For further details, please refer to the announcements of the Company dated 19 December 2014 and 29 October 2015, the circular of the Company dated 21 April 2015 and the poll results announcement of the Company dated 7 May 2015.

In June 2017, the construction of the Lifetech Building was completed and the Company has obtained the property ownership certificate for the Lifetech Building. The Board has decided that approximately 50% of the total gross floor area of the Lifetech Building has been allocated as office premises for the Group's operational and administration purposes, and the remaining 50% of the total gross floor area has been allocated for rental to external tenants.

Since 2017, the Company entered into the lease agreements with the tenants for the Lifetech Building. For further details, please refer to the announcement of the Company dated 27 March 2018.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

There were no material acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2018.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this interim results announcement, there were no significant investments held by the Company for the six months ended 30 June 2018, nor was there any plan authorised by the Board for other material investments or additions of capital assets as at the date of this interim results announcement.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2018.

FINANCIAL INSTRUMENT

During the six months ended 30 June 2018, the Group did not have or use any financial instruments for hedging purpose.

CAPITAL EXPENDITURE

For the six months ended 30 June 2018, the capital expenditure of the Group for property, plant and equipment (the "PPE"), construction in progress, intangible assets, prepaid lease payments and deposits for PPE amounted to approximately RMB53.3 million (corresponding period in 2017: approximately RMB69.9 million).

FOREIGN EXCHANGE RISK

During the six months ended 30 June 2018, the Group's operations were primarily based in the PRC and Europe. The revenue derived from Europe accounted for approximately 6.9% (corresponding period in 2017: approximately 5.8%) of the total revenue of the Group. There were currency fluctuations among Euro, US Dollars, Indian Rupees and HK Dollars during the period, the Group's operational results and financial condition may be affected by changes in the exchange rates. As the Group reasonably arranges the currency structure, which effectively reduces foreign exchange risk, the Directors believe that there is no significant foreign exchange risk to the Group at the current stage. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure during the period. The Group will continuously monitor its foreign exchange exposure and will consider hedging of foreign currency risk should the need arise.

CHARGES ON GROUP ASSETS

As at 30 June 2018, the Group did not have any charges on its assets.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had 663 (corresponding period in 2017: 564) full time employees and three executive Directors (corresponding period in 2017: three). Total staff costs, including Directors' emoluments, amounted to approximately RMB55.3 million for six months ended 30 June 2018 (corresponding period in 2017: approximately RMB42.5 million). In respect of retirement benefit scheme, the defined contribution plan is adopted by the Group. The amount of contributions to retirement benefits scheme for the six months ended 30 June 2018 was approximately RMB5.1 million (corresponding period in 2017: approximately RMB4.3 million). Forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) may not be used by the Group to reduce the existing level of contributions.

The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employees, as well as the results of the Group and the market conditions. The benefits provided by the Group to its employees include discretionary bonus, transportation and lunch subsidies, basic medical insurance, work injury insurance, unemployment insurance, team commercial accident insurance, team commercial medical insurance and share options to the employees. Discretionary bonus is linked to the performance of the Group as well as individual performance. The share option scheme (the "Share Option Scheme") was also adopted for employees of the Group on 22 October 2011 which was subsequently amended by unanimous written resolutions of the Board on 5 May 2015. In order to ensure that the Group's employees remain competitive in the industry, the Group also arranges training to its staff to enhance their skills and knowledge.

FUTURE PROSPECTS

The Group will continue relying on its two core businesses, namely structural heart diseases business and peripheral vascular diseases business, for potential growth in the second half of 2018. The Group will also actively expand its product offering and strengthen its established market position.

Lifetech's HeartTone™ pacemaker and TruSense™ implantable cardiac pacing lead were granted with registration certificates by CFDA in 2017, which made the Group the first Chinese manufacturer with an implantable cardiac pacing system that has world-class pacemaker technology and features. As at the date of this interim results announcement, the preparation for mass production of HeartTone™ implantable pacemaker was completed, and the new product is expected to be launched in the market in the second half of 2018.

We continuously invest in research and development to improve, upgrade and develop products in response to the demands of our various markets and customers. Our broad portfolio of products, robust product development pipeline and strong research and development capabilities provide substantial opportunities for us to grow our business and revenue through further penetration and expansion into key international markets.

Looking further ahead, the Group will actively grasp the development trend of the medical device industry and seek fast-growing, high-margin and high-potential opportunities within or outside of our existing business segments.

OTHER INFORMATION

INTERIM DIVIDEND

The Directors did not recommend the payment of any interim dividend for the six months ended 30 June 2018 (corresponding period in 2017: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2018, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to achieving high standards of corporate governance to safeguard the interest of its shareholders (the "Shareholders") and enhance its corporate value. The Company has applied the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance and confirms that it has complied with all material code provisions of the CG Code during the six months ended 30 June 2018, save for the deviation from code provision A.2.1 of the CG Code as mentioned below.

According to code provision A.2.1 of the CG Code, the roles of the Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Subsequent to the resignation of Mr. ZHAO Yiwei Michael as Chief Executive Officer of the Company on 2 March 2015, Mr. XIE Yuehui, Chairman of the Board, has been appointed to act as the Chief Executive Officer of the Company. Accordingly, the roles of the Chairman of the Board and the Chief Executive Officer are performed by the same individual. Although the dual roles of the Chairman and Chief Executive Officer is a deviation from the code provision A.2.1 of the CG Code, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in an experienced and qualified person such as Mr. XIE Yuehui provides the Company with strong and consistent leadership while allowing for effective and efficient planning and implementation of business decisions and strategies.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors on terms no less exacting than the required standard set out in the Model Code.

Having made specific enquiries with all the Directors, the Company confirmed that all members of the Board complied with the Model Code during the six months ended 30 June 2018.

Senior management, executives and staff who, because of their offices in the Company, are likely to possess inside information, have also been requested to comply with the provision of the Model Code. No incident of non-compliance with the Model Code by such employees was noted by the Company during the six months ended 30 June 2018.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Board has established an audit committee (the "Audit Committee") in accordance with the corporate governance requirements of listed companies of the Stock Exchange. As at the date of this interim results announcement, the Audit Committee consists of three members, all of whom are independent non-executive Directors, namely Mr. LIANG Hsien Tse Joseph who possesses appropriate professional qualifications to serve as its Chairman, Mr. ZHOU Luming and Mr. WANG Wansong.

The Group's unaudited interim results for the six months ended 30 June 2018 and accounting principles have been reviewed and discussed by the Audit Committee, which was of the opinion that the preparation of such results was in compliance with the relevant accounting standards, the Listing Rules and the applicable legal requirements, and that adequate disclosure has been made.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.lifetechmed.com. The 2018 interim report of the Company containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the above websites in due course.

On behalf of the Board
LifeTech Scientific Corporation
XIE Yuehui
*Executive Director, Chairman and
Chief Executive Officer*

Hong Kong, 27 August 2018

As at the date of this announcement, the Board comprises Mr. XIE Yuehui, Mr. ZHANG Deyuan and Mr. LIU Jianxiong being executive Directors; Mr. JIANG Feng being a non-executive Director; and Mr. LIANG Hsien Tse Joseph, Mr. WANG Wansong and Mr. ZHOU Luming being independent non-executive Directors.