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Vincent Medical Holdings Limited

永勝醫療控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1612)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

- ✧ During this global outbreak of COVID-19, Vincent Medical is proudly contributing by supporting its worldwide customers with the supply of critical respiratory devices and disposables.
- ✧ Recorded new high in revenue and profitability for the six months ended 30 June 2020 (“**1H2020**” or the “**Period**”):
 - Revenue increased by 103.8% to HK\$502.3 million, with revenue from respiratory products recorded a 249.5% increase to HK\$363.4 million.
 - Strong organic revenue growth in both the original brand manufacturing (“**OBM**”) (up by 313.8%) and the original equipment manufacturing (“**OEM**”) (up by 35.2%) segments. The OBM segment became the major revenue contributor, accounted slightly over 50.0% of 1H2020 revenue and recorded maiden profit contribution of HK\$77.0 million.
 - Gross profit increased by 169.2% to HK\$225.3 million with overall gross profit margin up by 10.9 percentage points (“**ppts**”) to 44.9%.
 - Net profit surged by 606.5% to HK\$109.5 million. Net profit margin expanded 15.5 ppts to 21.8%.
 - Basic earnings per share rose by 572.9% to HK14.40 cents.
- ✧ Fast expansion in production capacity to capture opportunities:
 - Robust sales growth of electronic devices for COVID-19 treatment. Sales volume of the inspired™ VHB series humidifiers and the inspired™ O2FLO high flow respiratory humidifier reached 95,572 units and 4,306 units, respectively.
 - Tripled its production capacity for various respiratory disposable products.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Vincent Medical Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2020, together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
		2020	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Revenue	4	502,346	246,524
Cost of sales		<u>(277,042)</u>	<u>(162,826)</u>
Gross profit		225,304	83,698
Other income, other gains and losses		2,040	1,348
Selling and distribution expenses		(22,203)	(15,617)
Administrative expenses		<u>(73,549)</u>	<u>(47,942)</u>
Profit from operations		131,592	21,487
Finance costs		(1,551)	(1,451)
Share of losses of associates		(428)	(455)
Share of losses of joint ventures		<u>(624)</u>	<u>(677)</u>
Profit before tax		128,989	18,904
Income tax expense	5	<u>(19,513)</u>	<u>(3,394)</u>
Profit for the period	6	<u>109,476</u>	<u>15,510</u>
Attributable to:			
Owners of the Company		91,842	13,667
Non-controlling interests		<u>17,634</u>	<u>1,843</u>
		<u>109,476</u>	<u>15,510</u>
Earnings per share	8		
Basic		<u>HK14.40 cents</u>	<u>HK2.14 cents</u>
Diluted		<u>n/a</u>	<u>n/a</u>

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

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Profit for the period	<u>109,476</u>	<u>15,510</u>
Other comprehensive income:		
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value changes of equity investments at fair value through other comprehensive income (“FVTOCI”)	<u>(2,678)</u>	<u>2,684</u>
<i>Items that will be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(4,607)	(1,017)
Share of other comprehensive income of associates and joint ventures	<u>–</u>	<u>39</u>
	<u>(4,607)</u>	<u>(978)</u>
Other comprehensive income for the period, net of tax	<u>(7,285)</u>	<u>1,706</u>
Total comprehensive income for the period	<u><u>102,191</u></u>	<u><u>17,216</u></u>
Attributable to:		
Owners of the Company	85,349	15,281
Non-controlling interests	<u>16,842</u>	<u>1,935</u>
	<u><u>102,191</u></u>	<u><u>17,216</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

		30 June 2020	31 December 2019
	<i>Note</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		80,600	68,732
Right-of-use assets		20,305	21,408
Goodwill		–	–
Other intangible assets		34,743	31,123
Investments in associates		4,775	5,204
Investments in joint ventures		16,130	17,027
Equity investments at FVTOCI		40,521	43,199
Deferred tax assets		1,856	1,892
		198,930	188,585
Total non-current assets			
Current assets			
Inventories		224,598	118,544
Trade receivables	9	191,485	112,707
Contract assets		9,397	12,991
Prepayments, deposits and other receivables		115,154	67,541
Bank and cash balances		109,897	69,951
		650,531	381,734
Total current assets			
		849,461	570,319
TOTAL ASSETS			
EQUITY AND LIABILITIES			
Share capital		6,377	6,377
Reserves		424,841	346,074
		431,218	352,451
Equity attributable to owners of the Company		76,435	61,696
Non-controlling interests		507,653	414,147
		507,653	414,147
Total equity			

		30 June 2020	31 December 2019
	<i>Note</i>	HK\$'000 (unaudited)	HK\$'000 (audited)
Non-current liabilities			
Lease liabilities		7,767	11,528
Deferred tax liabilities		<u>5,424</u>	<u>5,830</u>
Total non-current liabilities		<u>13,191</u>	<u>17,358</u>
Current liabilities			
Trade payables	10	145,274	43,277
Other payables and accruals		97,684	41,899
Lease liabilities		13,498	10,675
Borrowings		46,965	30,598
Current tax liabilities		<u>25,196</u>	<u>12,365</u>
Total current liabilities		<u>328,617</u>	<u>138,814</u>
TOTAL EQUITY AND LIABILITIES		<u>849,461</u>	<u>570,319</u>
Net current assets		<u>321,914</u>	<u>242,920</u>
Total assets less current liabilities		<u>520,844</u>	<u>431,505</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosures required by the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

These condensed consolidated financial statements should be read in conjunction with the 2019 annual financial statements. The accounting policies (including the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2019 except as stated below.

Provision for warranty cost

Provision for warranty cost is recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

The Group recognises the estimated liability to repair or replace products still under warranty at the end of reporting period. This provision is calculated based on historical experience of the level of repairs and replacements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the Period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The accounting policies applied in these condensed consolidated financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2019. A number of new or amended standards are effective from 1 January 2020 but they do not have a material effect on the Group’s consolidated financial statements.

3. SEGMENT INFORMATION

Information about reportable segment profit or loss:

	OBM <i>HK\$'000</i> (unaudited)	OEM <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
Six months ended 30 June 2020			
Revenue from external customers	251,218	251,128	502,346
Segment profit	<u>77,036</u>	<u>57,689</u>	<u>134,725</u>
Six months ended 30 June 2019			
Revenue from external customers	60,711	185,813	246,524
Segment (loss)/profit	<u>(5,061)</u>	<u>28,567</u>	<u>23,506</u>

Reconciliation of reportable segment profit or loss:

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Total profit or loss of reportable segments	134,725	23,506
Interest income	48	69
Interest expenses	(1,551)	(1,451)
Share-based payments	(650)	(1,347)
Share of losses of associates	(428)	(455)
Share of losses of joint ventures	(624)	(677)
Unallocated corporate income	2,312	523
Unallocated corporate expenses	<u>(4,843)</u>	<u>(1,264)</u>
Consolidated profit before tax	<u>128,989</u>	<u>18,904</u>

Revenue from major customers:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
OEM segment		
Customer A	91,034	78,694
Customer B (<i>Note</i>)	n/a	37,630
Customer C	54,877	–
	_____	_____

Note:

Revenue from Customer B represented less than 10% of the Group's revenue for the six months ended 30 June 2020.

4. REVENUE

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers.

In the following table, revenue is disaggregated by product category, geographical market and timing of revenue recognition.

	Six months ended 30 June (unaudited)					
	OBM		OEM		Total	
	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By product category						
Respiratory products	247,671	54,843	115,751	49,126	363,422	103,969
Imaging disposable products	–	–	83,602	76,752	83,602	76,752
Orthopaedic and rehabilitation products	3,547	5,868	17,493	36,174	21,040	42,042
Other products	–	–	34,282	23,761	34,282	23,761
	_____	_____	_____	_____	_____	_____
	251,218	60,711	251,128	185,813	502,346	246,524
	_____	_____	_____	_____	_____	_____
By geographical market						
The United States (the "US")	6,532	2,952	199,690	150,602	206,222	153,554
The People's Republic of China (the "PRC")	141,020	32,031	–	–	141,020	32,031
Saudi Arabia	30,554	271	–	–	30,554	271
Israel	4,850	1,371	18,564	1,775	23,414	3,146
The Netherlands	746	–	11,761	7,516	12,507	7,516
Japan	3,265	2,658	8,404	8,008	11,669	10,666
Australia	1,291	749	5,813	12,056	7,104	12,805
Others	62,960	20,679	6,896	5,856	69,856	26,535
	_____	_____	_____	_____	_____	_____
	251,218	60,711	251,128	185,813	502,346	246,524
	_____	_____	_____	_____	_____	_____
By timing of revenue recognition						
Products transferred at a point in time	251,218	60,711	167,526	109,061	418,744	169,772
Products transferred over time	–	–	83,602	76,752	83,602	76,752
	_____	_____	_____	_____	_____	_____
	251,218	60,711	251,128	185,813	502,346	246,524
	_____	_____	_____	_____	_____	_____

The following table provides information about receivables and contract assets from contracts with customers:

	30 June 2020	31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Receivables, which included in “trade receivables”	191,485	112,707
Contract assets	9,397	12,991
	<u><u> </u></u>	<u><u> </u></u>

Contract assets primarily consist of unbilled amount resulting from sales of OEM products transferred over time. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Current tax		
– Hong Kong Profits Tax	8,671	2,071
– PRC Corporate Income Tax	11,174	973
Deferred tax	(332)	350
	<u><u> </u></u>	<u><u> </u></u>
	19,513	3,394

Under the two-tiered profits tax regime, profits tax rate for the first HK\$2.0 million of assessable profits of the qualifying corporation established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. For other Hong Kong established subsidiaries, Hong Kong Profits Tax has been provided at a rate of 16.5% (six months ended 30 June 2019: 16.5%) on the estimated assessable profits.

PRC Corporate Income Tax has been provided at tax rates ranging from 15% to 25% for the six months ended 30 June 2020 (six months ended 30 June 2019: 10% to 25%).

6. PROFIT FOR THE PERIOD

The Group's profit for the Period is arrived at after charging:

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Allowance for inventories (included in cost of inventories sold)	6,399	–
Amortisation	3,119	1,122
Cost of inventories sold	277,042	162,826
Depreciation of property, plant and equipment	7,569	7,371
Depreciation of right-of-use assets	6,689	5,157
Directors' emoluments	3,159	3,061
Equity-settled share-based payments	650	1,347
Exchange loss, net (included in other gains and losses)	914	1,668
Impairment of trade receivables (included in other gains and losses)	144	–
Research and development expenditure	15,754	11,696
Staff costs including directors' emoluments	108,105	74,319
Write off of inventories (included in cost of inventories sold)	–	982
Write off of property, plant and equipment (included in other gains and losses)	768	27
	<u>768</u>	<u>27</u>

7. DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

The final dividend of HK1.10 cents amounting to approximately HK\$7,014,000 for the year ended 31 December 2019 has been approved and paid on 18 June 2020.

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following:

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	91,842	13,667
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	637,650	637,650
Effect of dilutive potential ordinary shares arising from share options issued by the Company (<i>Note</i>)	n/a	n/a
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	n/a	n/a

Note:

No diluted earnings per share are presented as the Company did not have any dilutive ordinary shares during the six months ended 30 June 2020 and 2019.

9. TRADE RECEIVABLES

The general credit terms of the Group granted to its customers range from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
0 to 30 days	65,980	26,905
31 to 60 days	61,741	24,548
61 to 90 days	37,462	28,712
Over 90 days	26,302	32,542
	<u>191,485</u>	<u>112,707</u>

10. TRADE PAYABLES

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
0 to 30 days	100,796	24,508
31 to 60 days	25,007	7,795
Over 60 days	19,471	10,974
	<u>145,274</u>	<u>43,277</u>

MANAGEMENT DISCUSSION AND ANALYSIS

1H2020 was transformational for Vincent Medical, as the Group's revenue and profitability soared to record high. Total revenue increased by 103.8% to HK\$502.3 million (six months ended 30 June 2019 (“**1H2019**”): HK\$246.5 million), with the OBM segment becoming the key growth engine, surpassing the revenue contribution from the OEM segment. Overall gross profit margin significant increased by 10.9 ppts to 44.9% (1H2019: 34.0%), leading to an exponential growth of 5.7 times in profit attributable to owners of the Company to HK\$91.8 million (1H2019: HK\$13.7 million). Basic earnings per share of the Company (the “**Share(s)**”) surged 5.7 times to HK14.40 cents (1H2019: HK2.14 cents). The Board did not recommend the payment of an interim dividend to the shareholders of the Company (the “**Shareholders**”) for 1H2020 (1H2019: Nil).

REVIEW OF OPERATIONS

As one of the key global suppliers of respiratory devices and disposables, the COVID-19 pandemic has greatly increased product demand, providing a window for Vincent Medical to contribute and the catalyst for the fast growth in 1H2020.

Towards the end of January 2020, the Group started to see an increasing demand for its respiratory devices from the PRC, and has then initiated its crisis management procedure.

Despite the temporary supply shortage in the PRC, the Group strived to ramp up its manufacturing capabilities immediately after Chinese New Year. With the production and supply chain gradually returned to normal, the Group was able to triple its production capacity by June 2020 thanks to the swift response from our devoted staff (especially our manufacturing, procurement and sales and marketing teams), along with the support from the local government.

While the Group strived to safeguard the supply of critical devices and consumables to its worldwide partners, safety of staff is always the number one priority. The Group implemented proactive measures to protect the health and safety of our workers including visitor and travel restrictions, social distancing at production facilities, remote work for office-based colleagues, temperature monitoring and supply of personal protective equipment (PPE) to staff and their families.

The significant increase in profitability in 1H2020 was a testament to the Group's long-term strategy of respiratory-focused research and development (“**R&D**”) to optimise product portfolio, its efficient and agile manufacturing capabilities, as well as the solid foundation of its operation.

OBM Segment

During the Period, the OBM segment has become the major revenue contributor to the Group, accounting for slightly over 50.0% (1H2019: 24.6%) of the Group's total revenue. The significant revenue jump of 313.8% to HK\$251.2 million (1H2019: HK\$60.7 million) was primarily driven by the increasing global demand for respiratory devices and ventilation disposables (breathing circuits and filters) to treat COVID-19 patients, as well as the growth in disposables sales benefited from the increasing number of installed base of the inspired™ VHB series humidifiers (the “VHB Humidifier”) and the inspired™ O2FLO high flow respiratory humidifier (the “O2FLO”), a standalone nasal high-flow therapy device with dedicated disposables in the existing and new markets.

Segment gross profit margin surged by 16.9 ppts to 56.3% (1H2019: 39.4%), attributable to the strong growth in sales of the higher-margin O2FLO and the VHB Humidifier.

The following table sets forth the revenue breakdown of the Group's OBM segment by product category:

	For the six months ended 30 June (unaudited)				Change
	2020		2019		
	<i>HK\$'000</i>	<i>% of segment revenue</i>	<i>HK\$'000</i>	<i>% of segment revenue</i>	
Respiratory products					
– Electronic devices	127,098	50.6%	10,035	16.5%	+1,166.5%
– Disposables	120,573	48.0%	44,808	73.8%	+169.1%
	247,671	98.6%	54,843	90.3%	+351.6%
Orthopaedic and rehabilitation products	3,547	1.4%	5,868	9.7%	–39.6%
Total	251,218	100.0%	60,711	100.0%	+313.8%

Demand for the Group's respiratory devices and disposables across the globe has accelerated in a way that was unprecedented, with sales gaining further momentum in the second quarter of 2020 due to the virus outbreak in Europe, the US and the rest of the world. While there was a huge demand for invasive mechanical ventilator, the active humidification system, a key component of hospital-use mechanical ventilators, was also in huge demand. For patients who are critically ill and require the support of ventilators, the VHB Humidifier is the servo feedback system which is a critical part of the life supporting system for them. Supported by the related disposables including humidification chambers, breathing circuits and filters, the VHB Humidifier provides warm and humidified air to intubated patients, and is a standard of care in mechanical ventilation. During the Period, the Group delivered 95,572 units (1H2019: 3,840 units) of humidifiers to support ventilator makers, with sales from the VHB Humidifier and the related disposables recorded a significant growth of 587.9% to HK\$119.7 million (1H2019: HK\$17.4 million).

Meanwhile, the O2FLO has gained traction in the treatment of patients with COVID-19. A series of published evidence, guidance documents issued by the government and health administration and clinical case studies have indicated that high-flow nasal cannula may reduce the need for invasive ventilation and escalation of therapy compared with conventional oxygen therapy in patients with acute hypoxemic respiratory failure and has now become one of the key treatments used in helping patients with milder COVID-19 symptoms.

Since the official launch of the O2FLO in November 2019, the Group has accumulated an installed base of over 6,000 units in over 30 countries, including the PRC, Japan, Saudi Arabia, India, United Kingdom, Germany, Turkey and South Africa. This unit also requires the use of dedicated single-use disposables such as humidification chambers, nasal cannula, breathing circuits and filters, in order to deliver the optimal airflow to patients. During the Period, the Group delivered 4,306 units (1H2019: 200 units) of the O2FLO and the sales of O2FLO's dedicated disposables and accessories reached HK\$25.6 million (1H2019: HK\$0.2 million).

In addition to the VHB Humidifier and the O2FLO, the HypnusTM positive airway pressure device 7 series and 8 series were one of the first non-invasive ventilators being used in the treatment of COVID-19 patients in the PRC. During the Period, 5,607 units (1H2019: 2,346 units) of the HypnusTM ventilators were sold.

As for the sales of orthopaedic and rehabilitation products, it was negatively impacted by COVID-19 as planned non-urgent surgical procedures and the relevant marketing activities were postponed.

The table below sets forth the revenue breakdown of the Group's OBM segment by location of customers:

	For the six months ended 30 June (unaudited)				
	2020		2019		Change
	<i>HK\$'000</i>	<i>% of segment revenue</i>	<i>HK\$'000</i>	<i>% of segment revenue</i>	
The PRC	141,020	56.1%	32,031	52.8%	+340.3%
Europe	36,978	14.7%	9,705	16.0%	+281.0%
Saudi Arabia	30,554	12.2%	271	0.4%	+11,174.5%
North America	8,021	3.2%	5,020	8.3%	+59.8%
India	6,908	2.8%	817	1.3%	+745.5%
Others (including Israel, Latin America and etc.)	27,737	11.0%	12,867	21.2%	+115.6%
Total	251,218	100.0%	60,711	100.0%	+313.8%

The PRC market continues to be the major market for the OBM segment, with sales grew by 340.3% to HK\$141.0 million (1H2019: HK\$32.0 million). With our persistent efforts to expand and penetrate key markets, the installed base of inspired™ brand devices recorded a significant growth, resulting in an increasing regional market share at a fast pace. Nonetheless, the Group has further strengthened its cooperation with its business partners and distributors in overseas markets, and gained a sustainable revenue of HK\$110.2 million (1H2019: HK\$28.7 million) from the international market for the first time. With the grant of Emergency Use Authorization (the “EUA”) from the Food and Drug Administration of the US (the “FDA”) on the O2FLO and certain disposables, the Group is in negotiation with its partners in North America for the launch of those products.

OEM Segment

For the Group's OEM segment, demand for certain respiratory products has also increased significantly, including the Ventec One-Circuit™ for the VOCSN ventilator, the Ventway Sparrow® ventilator and other respiratory disposable products for its long-term OEM customers. The Group has in turn, boosted its production capacity and to help address the higher demand of such OEM products.

The following table sets forth the revenue breakdown of the Group's OEM segment by product category:

	For the six months ended 30 June (unaudited)				Change
	2020		2019		
	<i>HK\$'000</i>	<i>% of segment revenue</i>	<i>HK\$'000</i>	<i>% of segment revenue</i>	
Respiratory products	115,751	46.1%	49,126	26.4%	+135.6%
Imaging disposable products	83,602	33.3%	76,752	41.3%	+8.9%
Orthopaedic and rehabilitation products	17,493	7.0%	36,174	19.5%	-51.6%
Others products (including moulds, surgical disposables, patient warming blankets and infusion regulators)	34,282	13.6%	23,761	12.8%	+44.3%
Total	251,128	100.0%	185,813	100.0%	+35.2%

Higher revenue contribution from respiratory products were mainly attributable to the additional orders for the Ventec One-Circuit™ and other respiratory disposables from the Group's major OEM customers. Imaging disposable products also recorded a 8.9% growth in revenue as the supply of certain raw materials resumed in the second quarter of 2020. In aggregate, the growth in these two product categories was able to more than offset the decrease in revenue from orthopaedic and rehabilitation products, which was suffering from a decrease in demand due to the postponement of orthopaedic procedures under COVID-19. The OEM segment gross profit margin increased to 33.4% (1H2019: 32.2%), primarily attributable to product mix enhancement and greater economics of scale in production.

The table below sets forth the revenue breakdown of the Group’s OEM segment by location of customers:

	For the six months ended 30 June (unaudited)				
	2020		2019		Change
	<i>HK\$'000</i>	<i>% of segment revenue</i>	<i>HK\$'000</i>	<i>% of segment revenue</i>	
North America	199,690	79.5%	150,602	81.1%	+32.6%
Israel	18,564	7.4%	1,775	0.9%	+945.9%
Europe	17,625	7.0%	10,246	5.5%	+72.0%
Japan	8,404	3.4%	8,008	4.3%	+4.9%
Others (including Hong Kong, Australia and etc.)	6,845	2.7%	15,182	8.2%	-54.9%
Total	251,128	100.0%	185,813	100.0%	+35.2%

During the Period, the Group’s OEM sales to North America increased by 32.6% to HK\$199.7 million, mainly attributable to the additional orders for ventilator related disposables from customers. Sales to Israel increased by 945.9% attributable primarily to the manufacturing of the Ventway Sparrow® ventilator and the related disposables.

Investments and collaboration

On 29 June 2020, the FDA cleared the Somnera™ positive airway pressure delivery system of Fresca Medical, Inc. (“Fresca”). This is the second FDA approval, a “510(k) clearance”, following the granting of our de novo application in mid of 2018. The clearance covers the commercial version of Fresca’s system, including the auto-adjusting pressure algorithm, cloud features, “go to sleep” ramp, elegant touchscreen-controlled airbox, and the molded/manufactured versions of all of the system components. The Fresca team is now focusing on ramping up the manufacturing capability and supporting its market launch.

During the Period, the Ventway Sparrow® ventilator of Inovytec Medical Solutions Ltd. (“Inovytec”) received strong market demand as this compact, ultra-handly and user-friendly ventilator is suitable for chronic or life support-ventilation of COVID-19 patients. Ventway Sparrow® ventilator received the EUA in March 2020. As a key manufacturer for Inovytec, the Group has expanded its production line for Ventway Sparrow® ventilator and its dedicated disposables.

With an accumulated active user base of over one million individual households and over 1,500 corporate users, 廣州柏頤信息科技有限公司 (translated as “Guangzhou 100ecare Technology Co. Ltd.”, “100ecare”) was selected as one of the top 10 “2020 Elderly Care Service Enterprise” in the PRC. In May 2020, 100ecare launched its new “Home Security Alarm” service to connect elderly care service centers with the elderlies at home, by utilizing its smart elderly healthcare platform to consolidate the service needs of elderlies and alert the relevant service support centers in real time.

OUTLOOK

The pandemic will continue in the second half of 2020 and has already changed the global healthcare system. While we are not certain when COVID-19 will be under control, what is certain is that global demand for COVID-19 related medical devices will continue to increase and Vincent Medical continues in supplying these respiratory devices. With over 20 years in respiratory and humidification, a key supplier to the major global respiratory companies and an increasing distribution network into 70 countries, the Group expects continuous growth for the second half of 2020. Vincent Medical will continue to drive market expansion while building an even stronger intellectual property and patent portfolio. The acceleration of demand has seen a faster installed base of the inspired™ brand products and in particularly with the VHB Humidifier and O2FLO. The greater use and acceptance of inspired™ products globally will increase over time and allow the Group to penetrate further with future product portfolio expansion.

Going forward, Vincent Medical will continue to pursue a growth strategy of “device + disposables” through the introduction of new devices, as well as deriving recurring income from dedicated disposables. The pandemic has put the spotlight on the use of high flow oxygen therapy in the treatment of respiratory failure, yet the full potential of high flow oxygen therapy has yet to be realised as the therapy can be used in numerous respiratory treatments beyond COVID-19. We will see accelerated adoption and expansion of the use throughout the hospital and there are signs that such treatments have potential for home use in the future. We will certainly see more and more clinical papers and discussions on high flow oxygen therapy in the near future. To further capture such growing market, the Group will continue to invest in product innovation and aims to be a significant player with strategic collaboration with global medical technology companies and distributors.

On cost and efficiency, the Group will continue to improve its production and operation efficiency in order to support sustainable business growth and further improvement in profitability. It will also strive to streamline its corporate structure and exercise caution over the management of working capital.

The Group would not be able to achieve the above without the support of its stakeholders. As such, the Group would like to recognise its suppliers, customers, business partners, government agencies – and especially, its employees – for their enormous contributions during this challenging time. Everyone at Vincent Medical have worked tirelessly and selflessly in fighting COVID-19 everyday. As one of the key respiratory suppliers, the Group will continue to do everything to support the healthcare system in fighting against the pandemic.

FINANCIAL REVIEW

REVENUE

Total revenue increased by 103.8% to HK\$502.3 million (1H2019: HK\$246.5 million), largely driven by the surging demand for respiratory products, the launch of new products under the OBM segment and new orders under the OEM segment.

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit margin significantly improved to 44.9% (1H2019: 34.0%), largely reflecting the enhancement of product mix with much stronger sales from electronic devices and greater economies of scale in production as revenue continued to increase with a relatively stable cost of revenue. Gross profit recorded a strong growth of 169.2% to HK\$225.3 million (1H2019: HK\$83.7 million).

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by 42.3% to HK\$22.2 million (1H2019: HK\$15.6 million) with its percentage of revenue decreased to 4.4% (1H2019: 6.3%), primarily attributable to the increase in sales volume yet under an effective control of selling and distribution expenses.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 53.4% to HK\$73.5 million (1H2019: HK\$47.9 million), primarily attributable to increased R&D expenses and higher administrative personnel related expenses due to increased number of staff and general increase in average salary. Administrative expenses for the Period accounted for 14.6% of revenue (1H2019: 19.4%).

INCOME TAX EXPENSE

Income tax expense increased by 473.5% to HK\$19.5 million (1H2019: HK\$3.4 million), implying an effective tax rate for the Group of 15.1% for the Period (1H2019: 18.0%).

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company increased by 570.1% to HK\$91.8 million (1H2019: HK\$13.7 million), attributable primarily to the strong growth in revenue, greater economies of scale in production and effective control of expenses during the Period.

PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group expanded its production capacity through the purchase of additional machineries, tooling and equipment and the fitting of an additional floor of production area. Capital expenditure on property, plant and equipment for the Period were HK\$21.6 million (1H2019: HK\$16.5 million). As at 30 June 2020, property, plant and equipment was HK\$80.6 million (31 December 2019: HK\$68.7 million).

INVENTORIES

Inventories as at 30 June 2020 was HK\$224.6 million (31 December 2019: HK\$118.5 million). The increase was attributable to the additional safety stock in raw materials in response to the surging market demand.

TRADE RECEIVABLES

Trade receivables as at 30 June 2020 was HK\$191.5 million (31 December 2019: HK\$112.7 million), in line with the higher sales during the Period.

HUMAN RESOURCES

As at 30 June 2020, the total number of full-time employees of the Group was 2,151 (31 December 2019: 1,149). The remuneration of employees was determined according to their experience, qualifications, result of operations of the Group and market condition. We offered senior management performance-based bonus and share options to reward and retain a high calibre management team. We also adopted commission and incentive plans to motivate and reward our sales and marketing team.

During the Period, staff costs including Directors' emoluments (excluding capitalised salaries and wages of R&D staff) amounted to HK\$108.1 million (1H2019: HK\$74.3 million), representing 21.5% (1H2019: 30.1%) of the Group's revenue. The increase was mainly due to the increase in the number of employees, salary adjustment and rise in overtime wages.

LIQUIDITY AND FINANCIAL RESOURCES AND BORROWINGS

Bank and cash balances as at 30 June 2020 was HK\$109.9 million (31 December 2019: HK\$70.0 million). This was a result of the net cash inflow from operating activities of HK\$71.7 million, net cash outflow from investing activities of HK\$29.3 million, net cash inflow from financing activities of HK\$1.0 million and the negative effect of foreign exchange rate changes of HK\$3.5 million. Most of the bank and cash balances were denominated in HKD, US dollars ("USD") and Renminbi ("RMB").

Net cash outflow from investing activities during the Period were mainly due to the purchase of property, plant and equipment of HK\$21.6 million and additions to other intangible assets of HK\$7.9 million, while net cash inflow from financing activities mainly arose from net cash inflow of HK\$16.8 million from borrowings, net off by dividend paid to owners of the Company and principal elements of lease payment.

As at 30 June 2020, total borrowings amounted to HK\$47.0 million (31 December 2019: HK\$30.6 million). The increase was primarily due to new bank loans of HK\$18.2 million raised during the Period. The net gearing ratio, which was calculated on the basis of the amount of total borrowings divided by the total equity attributable to owners of the Company, was 0.11 (31 December 2019: 0.09). As at 30 June 2020, the Group had unutilised bank facilities of HK\$20.0 million.

CAPITAL STRUCTURE

As at 30 June 2020, the issued share capital of the Company was approximately HK\$6.4 million, comprising 637,650,000 Shares of nominal value of HK\$0.01 per Share.

SIGNIFICANT INVESTMENTS

As at 30 June 2020, the Company considered that the significant investments were as follows:

Equity investments at FVTOCI

Name of company	Principal business	Approximate percentage of shareholding	Total investment	Fair value of the equity investment		Assets ratio defined under the Listing Rules	
				30 June 2020 (unaudited)	31 December 2019 (audited)	30 June 2020 (unaudited)	31 December 2019 (audited)
Inovytec	An Israeli medical device company specialises in the development, production and marketing of devices for out-of-hospital critical care, respiratory, cardiac, central nervous system and trauma emergencies.	13.68%	US\$3.0 million (equivalent to HK\$23.4 million)	US\$1.9 million (equivalent to HK\$15.1 million)	US\$1.9 million (equivalent to HK\$15.1 million)	1.8%	2.6%
Fresca	A US California-based sleep solution and connected health company that is developing a system for the treatment of obstructive sleep apnea.	17.5%	US\$3.0 million (equivalent to HK\$23.4 million)	US\$0.8 million (equivalent to HK\$5.9 million)	US\$1.1 million (equivalent to HK\$8.6 million)	0.7%	1.5%

Investments in a joint venture

Name of company	Principal business	Approximate percentage of shareholding	Total investment	Carrying amount of investment		Assets ratio defined under the Listing Rules	
				30 June 2020 (unaudited)	31 December 2019 (audited)	30 June 2020 (unaudited)	31 December 2019 (audited)
100ecare	A PRC-based company specialises in design, development and sale of a series of wearable smart devices, and operate a cloud-based safety and healthcare platform targeting the elderly population in the PRC.	10%	RMB8.0 million (equivalent to HK\$9.2 million)	RMB8.4 million (equivalent to HK\$9.2 million)	RMB8.4 million (equivalent to HK\$9.4 million)	1.1%	1.6%

For additional information regarding the performance during the Period and prospects of the above significant investments, please refer to the paragraph headed “Investments and Collaboration” above.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Period, the Group had no material acquisitions or disposals of subsidiaries and associated companies.

EVENTS AFTER THE REPORTING PERIOD

On 25 August 2020 (after trading hours), the Company entered into a memorandum of understanding with Bayer Medical Care, Inc. whereby the parties agreed to enter into an agreement in respect of the possible acquisition by the Company or its subsidiary of the 1,718,861 shares in Vincent Medical Manufacturing Co., Limited (永勝醫療製品有限公司), representing approximately 19.90% of its issued shares, and 3.98% equity interest in 東莞永勝醫療製品有限公司 (translated as “Vincent Medical (Dongguan) Mfg. Co. Ltd.”). For details, please refer to the Company’s announcement dated 25 August 2020.

On 25 August 2020, an environmental, social and governance committee of the Company (the “**ESG Committee**”) has been established with its written terms of reference. The purpose of the ESG Committee is to advise and assist the Board in managing matters relating to the environmental, social and governance of the Group, such as governance, policies, initiatives, performance and reporting. Mr. Fu Kwok Fu, an executive Director, has been appointed as the chairman of the ESG Committee. Mr. Lai Hoi Ming, the Group’s chief financial officer and Ms. Tsui Lai Ki Vicki, the Group’s company secretary have been appointed as members of the ESG Committee, all with effect from 25 August 2020.

Saved as disclosed above, there were no other significant events after the reporting period up to the date of this announcement.

CHARGES ON THE GROUP’S ASSETS

As at 30 June 2020, none of the assets of the Group were pledged.

FOREIGN EXCHANGE EXPOSURE

While some of the Group’s costs and expenses are denominated in RMB, there was a substantial amount of sales denominated in USD given the export-oriented nature of the business. Thus, any appreciation of RMB against USD may subject the Group to increased costs and lower profitability. The Directors have assessed the impact of such foreign currency risk and considered that it may materially affect the Group’s profitability. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have other contingent liabilities.

OTHER INFORMATION

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2020 (1H2019: Nil).

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining the highest possible standards of corporate governance, and strives to maintain transparent, responsible and value-driven management practices that will enhance and safeguard the interests of the Shareholders. The Board believes that effective and high quality corporate governance is an essential platform for creating value for the Shareholders. The Board is committed to continuously reviewing and improving the Group's corporate governance practices, and maintaining the highest standards of ethical corporate behaviour across the organisation.

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as contained in Appendix 14 to the Listing Rules as its own code of corporate governance. The corporate governance principles of the Company emphasise a quality Board, sound internal controls and risk management, and transparency and accountability to all Shareholders.

In the opinion of the Directors, the Company has complied with the code provisions set out in the CG Code throughout the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding their securities transactions throughout the Period.

AUDIT COMMITTEE

The Company established the audit committee of the Company (the “**Audit Committee**”) with written terms of reference which deal clearly with its authority and duties. The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Au Yu Chiu Steven, Mr. Mok Kwok Cheung Rupert and Prof. Yung Kai Leung.

The Group's unaudited consolidated interim results for the six months ended 30 June 2020 have been reviewed by the Audit Committee.

RSM Hong Kong, the Company's auditor, has reviewed the unaudited consolidated interim results of the Group for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The auditor's independent review report will be included in the Company's interim report for the six months ended 30 June 2020 to the Shareholders.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.vincentmedical.com>), respectively.

The interim report of the Company for the six months ended 30 June 2020 containing all the relevant information required by the Listing Rules and the relevant laws and regulations will be dispatched to the Shareholders and available on above websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our stakeholders and business partners for their ongoing support, and our Directors, management and employees for their dedication and contributions to our progress.

By Order of the Board
Vincent Medical Holdings Limited
Choi Man Shing
Chairman and Executive Director

Hong Kong, 25 August 2020

As at the date of this announcement, the Board of the Company comprises Mr. Choi Man Shing, Mr. To Ki Cheung, Mr. Koh Ming Fai and Mr. Fu Kwok Fu as executive Directors, Mr. Guo Pengcheng as a non-executive Director, and Mr. Mok Kwok Cheung Rupert, Mr. Au Yu Chiu Steven and Prof. Yung Kai Leung as independent non-executive Directors.