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 2019

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2019 ("**1H2019**" or the "**Period**") was HK$246.5 million, an increase of 8.5% as compared to HK$227.1 million for the six months ended 30 June 2018 ("**1H2018**"), with revenue generated from the original brand manufacturing ("**OBM**") segment jumped by 40.8%.

- Gross profit for 1H2019 grew by 15.0% to HK$83.7 million (1H2018: HK$72.8 million) and gross profit margin improved to 34.0% (1H2018: 32.1%), attributable to strong sales growth from the OBM segment, which has a higher gross profit margin than the original equipment manufacturing ("**OEM**") segment.

- Profit attributable to owners of the Company for 1H2019 was HK$13.7 million, an increase of 6.2% from HK$12.9 million in 1H2018.

- Basic earnings per share of the Company for 1H2019 increased by 5.9% to HK2.14 cents (1H2018: HK2.02 cents).

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 2019, 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 2019

		Six months ended 30 June	
		2019	2018
	Note	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	4	**246,524**	227,088
Cost of sales		**(162,826)**	(154,298)
Gross profit		**83,698**	72,790
Other income		**3,043**	893
Selling and distribution expenses		**(15,617)**	(12,499)
Administrative expenses		**(49,637)**	(41,817)
Profit from operations		**21,487**	19,367
Finance costs		**(1,451)**	(344)
Share of losses of associates		**(455)**	(932)
Share of losses of joint ventures		**(677)**	(689)
Profit before tax		**18,904**	17,402
Income tax expense	5	**(3,394)**	(4,167)
Profit for the period	6	**15,510**	13,235
Attributable to:			
Owners of the Company		**13,667**	12,905
Non-controlling interests		**1,843**	330
		15,510	13,235
Earnings per share	8		
Basic		**HK2.14 cents**	HK2.02 cents
Diluted		**n/a**	n/a

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period	**15,510**	13,235
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Fair value changes of equity investments at fair value through other comprehensive income (FVTOCI)	**2,684**	1,816
Items that will be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(1,017)**	(2,056)
Share of other comprehensive income of associates and joint ventures	**39**	(47)
	(978)	(2,103)
Other comprehensive income for the period, net of tax	**1,706**	(287)
Total comprehensive income for the period	**17,216**	12,948
Attributable to:		
Owners of the Company	**15,281**	13,080
Non-controlling interests	**1,935**	(132)
	17,216	12,948

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	Note	30 June 2019 HK$'000 (unaudited)	31 December 2018 HK$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**62,270**	53,594
Right-of-use assets		**25,022**	–
Goodwill		**1,670**	1,670
Other intangible assets		**33,239**	31,987
Investments in associates		**11,568**	12,024
Investments in joint ventures		**20,155**	20,833
Equity investments at FVTOCI		**66,988**	64,304
Deferred tax assets		**1,927**	1,935
Total non-current assets		**222,839**	186,347
Current assets			
Inventories		**114,261**	95,550
Trade receivables	9	**99,694**	109,953
Contract assets		**15,431**	17,177
Prepayments, deposits and other receivables		**54,609**	47,109
Bank and cash balances		**69,331**	81,141
Total current assets		**353,326**	350,930
TOTAL ASSETS		**576,165**	537,277
EQUITY AND LIABILITIES			
Share capital		**6,377**	6,377
Reserves		**374,500**	368,074
Equity attributable to owners of the Company		**380,877**	374,451
Non-controlling interests		**61,677**	59,742
Total equity		**442,554**	434,193

	Note	**30 June 2019** *HK$'000* **(unaudited)**	31 December 2018 *HK$'000* (audited)
Non-current liabilities			
Lease liabilities		**15,486**	–
Deferred tax liabilities		**5,413**	5,082
		20,899	5,082
Current liabilities			
Trade payables	10	**43,598**	40,814
Other payables and accruals		**31,682**	31,398
Lease liabilities		**10,020**	–
Borrowings		**16,306**	17,244
Current tax liabilities		**11,106**	8,546
Total current liabilities		**112,712**	98,002
TOTAL EQUITY AND LIABILITIES		**576,165**	537,277
Net current assets		**240,614**	252,928
Total assets less current liabilities		**463,453**	439,275

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

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 2018 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 2018 except as stated below.

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 2019. HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has initially adopted HKFRS 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied HKFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained profits at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

(a) *Definition of a lease*

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement Contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(b) *As a lessee*

The Group leases many assets, including properties.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under HKFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. IT equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The recognised right-of-use assets relate to the following types of assets:

	Balances as at	
	30 June 2019	1 January 2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Properties	**25,022**	30,353

Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Transition

Previously, the Group classified property leases as operating leases under HKAS 17. These include offices and factory premises. Leases are negotiated for terms ranging from one to four years and rentals are fixed over the lease terms and do not include contingent rentals.

At transition, for leases classified as operating leases under HKAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17.

– Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

– Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(c) Impacts of financial statements

Impact on transition

On transition to HKFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained profits. The change in accounting policy affected the following items on the condensed consolidated statement of financial position (increase/(decrease)) as at 1 January 2019 is summarised below.

	1 January 2019
	HK$'000
	(unaudited)
Assets	
Right-of-use assets	30,353
Liabilities	
Lease liabilities	30,353

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 6.9%.

	HK$'000
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements (audited)	36,417
Discounted using the incremental borrowing rate at 1 January 2019	(3,695)
Less: Recognition exemption for leases of low-value assets	(7)
Less: Recognition exemption for leases with less than 12 months of leases term at transition	(2,362)
Lease liability recognised as at 1 January 2019 (unaudited)	30,353
Of which are:	
Current lease liabilities	9,680
Non-current lease liabilities	20,673
	30,353

Impacts for the Period

As a result of initially applying HKFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised approximately HK$25,022,000 of right-of-use assets and approximately HK$25,506,000 of lease liabilities as at 30 June 2019.

Also, in relation to those leases under HKFRS 16, the Group has recognised depreciation and finance costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised approximately HK$5,157,000 of depreciation charges and approximately HK$974,000 of finance costs from these leases.

3. SEGMENT INFORMATION

Information about reportable segment profit or loss:

	OEM	**OBM**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)
Six months ended 30 June 2019			
Revenue from external customers	**185,813**	**60,711**	**246,524**
Segment profit/(loss)	**28,567**	**(5,061)**	**23,506**
Six months ended 30 June 2018			
Revenue from external customers	183,974	43,114	227,088
Segment profit/(loss)	29,862	(7,430)	22,432

Reconciliation of reportable segment profit or loss:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Total profit or loss of reportable segments	**23,506**	22,432
Interest income	**69**	21
Interest expenses	**(1,451)**	(344)
Share-based payments	**(1,347)**	(1,381)
Share of losses of associates	**(455)**	(932)
Share of losses of joint ventures	**(677)**	(689)
Unallocated corporate income	**523**	872
Unallocated corporate expenses	**(1,264)**	(2,577)
Consolidated profit before tax	**18,904**	17,402

Revenue from major customers:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
OEM segment		
Customer A	**78,694**	85,162
Customer B	**37,630**	39,571

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)					
	OEM		OBM		Total	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
By product category						
Respiratory products	**49,126**	41,558	**54,843**	38,638	**103,969**	80,196
Imaging disposable products	**76,752**	81,729	**–**	–	**76,752**	81,729
Orthopaedic and rehabilitation products	**36,174**	31,402	**5,868**	4,476	**42,042**	35,878
Other products	**23,761**	29,285	**–**	–	**23,761**	29,285
	185,813	183,974	**60,711**	43,114	**246,524**	227,088
By geographical market						
United States (the "**US**")	**150,602**	145,532	**2,952**	1,888	**153,554**	147,420
The People's Republic of China (the "**PRC**")	**–**	–	**32,031**	23,887	**32,031**	23,887
Australia	**12,056**	13,225	**749**	430	**12,805**	13,655
Netherlands	**7,516**	8,380	**–**	–	**7,516**	8,380
Japan	**8,008**	6,163	**2,658**	1,320	**10,666**	7,483
Others	**7,631**	10,674	**22,321**	15,589	**29,952**	26,263
	185,813	183,974	**60,711**	43,114	**246,524**	227,088
By timing of recognition						
Products transferred at a point in time	**109,061**	98,812	**60,711**	43,114	**169,772**	141,926
Products transferred over time	**76,752**	85,162	**–**	–	**76,752**	85,162
	185,813	183,974	**60,711**	43,114	**246,524**	227,088

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

	30 June 2019 *HK$'000* **(unaudited)**	31 December 2018 *HK$'000* (audited)
Receivables, which included in "trade receivables"	**99,694**	109,953
Contract assets	**15,431**	17,177

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	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax		
– Hong Kong Profits Tax	**2,071**	2,647
– PRC Corporate Income Tax	**973**	1,271
Deferred tax	**350**	249
	3,394	4,167

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profits for the six months ended 30 June 2019 and 2018.

PRC Corporate Income Tax has been provided at tax rates ranging from 10% to 25% for the six months ended 30 June 2019 (six months ended 30 June 2018: 15% to 25%).

6. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Amortisation	**1,122**	1,890
Cost of inventories sold	**162,826**	154,298
Depreciation of property, plant and equipment	**7,371**	6,212
Directors' emoluments	**3,061**	3,098
Equity-settled share-based payments	**1,347**	1,381
Exchange loss, net	**1,668**	2,633
Research and development expenditure	**11,696**	9,746
Staff costs including directors' emoluments	**74,319**	57,185
Write off of inventories (included in cost of inventories sold)	**982**	–

7. DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

The final dividend of HK1.6 cents amounting to approximately HK$10,202,000 for the year ended 31 December 2018 has been approved and paid on 20 June 2019.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	**13,667**	12,905
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**637,650**	637,656
Effect of dilutive potential ordinary shares arising from share options issued by the Company *(Note)*	**n/a**	n/a
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**n/a**	n/a

Note:
The effects of all potential ordinary shares are anti-dilutive for the six months ended 30 June 2019 and 2018.

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 2019	31 December 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 to 30 days	**40,401**	49,235
31 to 60 days	**26,610**	25,258
61 to 90 days	**19,486**	20,005
Over 90 days	**13,197**	15,455
	99,694	109,953

10. TRADE PAYABLES

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

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 to 30 days	**38,608**	25,821
31 to 60 days	**3,431**	6,303
Over 60 days	**1,559**	8,690
	43,598	40,814

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's financial results have been encouraging with sustained sales growth and gross profit margin improvement. For 1H2019, the Group's revenue increased by 8.5% to HK$246.5 million (1H2018: HK$227.1 million). Overall gross profit margin increased by 1.9 percentage points to 34.0% (1H2018: 32.1%). Profit attributable to owners of the Company increased by 6.2% to HK$13.7 million (1H2018: HK$12.9 million). Basic earnings per share of the Company (the "**Share(s)**") was HK2.14 cents (1H2018: HK2.02 cents). The Board did not recommend the payment of interim dividend to the shareholders of the Company (the "**Shareholders**") for 1H2019 (1H2018: Nil).

REVIEW OF OPERATIONS

During 1H2019, the Group continued to execute its strategy and focused on expansion of product offerings, operation improvements and production capacity expansion. Both the OEM and OBM segments recorded continuous growth, with the rapid development of its branded business being one of the notable highlights.

Through the launch of the Bubble CPAP (continuous positive airway pressure) System, the O_2FLO Respiratory Unit and the O_2B Electronic Oxygen Blender under the Inspired® brand, as well as the release of Series 7 and 8 PAP (positive airway pressure) machines under the Hypnus™ brand, these have marked an important milestone in the Group's gradual transformation to become a comprehensive respiratory medical device provider for both disposables and equipment. Although the maiden revenue contributions from these equipment during the Period were relatively modest, the Group sees huge room for growth in the years to come. During the Period under review, our marketing team faced growing development and manufacturing opportunities, as international players continued to look for partners on such new products in selective markets with the aim of launching the products upon regulatory clearance.

In March 2019, the Guangdong Provincial Medical Products Administration announced that our high flow oxygen therapy device (VUN-001) was qualified for priority approval for Class II medical device in the PRC. The implementation of priority approval procedures by the administration since October 2018 aims to expedite the development of domestic medical devices, and the Group is excited about the potential of bringing the VUN-001 to the PRC market at the earliest opportunity.

In May 2019, the National Medical Products Administration of the PRC (the "**NMPA**") also approved the Hypnus™ PAP 8 Series ventilator and its accessories. The Hypnus™ PAP 8 Series is an adaptive servo ventilation machine supported by the web-based cloud application iHypnusCare™ that can adjust the positive airway pressure while monitoring apneas during sleep. The NMPA's approval of the 8 Series represents an important milestone for Hypnus™, and the Group has since immediately launched it to the market in June 2019.

In terms of production capacity, certain production lines for disposable products have been operating at full capacity since the end of 2018. As the new machineries and production lines will not be ready for production until the second half of 2019, the overtime wages paid to workers during the Period have negatively impacted the Group's profit margin. Nevertheless, higher sales contribution from the OBM segment, the depreciation of Renminbi ("**RMB**") along with other cost rationalization measures have more than offset the profit margin impact from production bottle-neck during the Period.

OEM

Revenue from the OEM segment amounted to HK$185.8 million (1H2018: HK$184.0 million), representing a modest growth of 1.0% and accounting for 75.4% of the Group's total revenue (1H2018: 81.0%). Higher revenue contribution from respiratory products and orthopaedic and rehabilitation products more than offset the decrease in revenue from imaging disposable products and other products. The OEM segment gross profit margin increased to 32.2% (1H2018: 31.0%), attributable primarily to the depreciation of RMB.

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

By product category

	For the six months ended 30 June (unaudited)				
	2019		2018		Change
	HK$'000	***% of revenue***	*HK$'000*	*% of revenue*	
Imaging disposable products	**76,752**	**41.3%**	81,729	44.4%	–6.1%
Respiratory products	**49,126**	**26.4%**	41,558	22.6%	+18.2%
Orthopaedic and rehabilitation products	**36,174**	**19.5%**	31,402	17.1%	+15.2%
Other products (includes infusion regulators, moulds, surgical tools and plastic disposable products)	**23,761**	**12.8%**	29,285	15.9%	–18.9%
Total	**185,813**	**100.0%**	183,974	100.0%	+1.0%

Our OEM sales to the US market increased by 3.5% to HK$150.6 million, mainly attributable to higher demand in respiratory products and orthopaedic and rehabilitation products in the US market. Sales to Australia and Europe decreased by 8.8% and 25.4% respectively, primarily due to lower sales from mould fabrication in Australia and lower sales from respiratory products in Europe.

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

By geography

	For the six months ended 30 June (unaudited)				
	2019		2018		Change
	HK$'000	***% of revenue***	*HK$'000*	*% of revenue*	
The US	**150,602**	**81.1%**	145,532	79.1%	+3.5%
Australia	**12,056**	**6.5%**	13,225	7.2%	–8.8%
Europe	**10,246**	**5.5%**	13,734	7.5%	–25.4%
Japan	**8,008**	**4.3%**	6,163	3.3%	+29.9%
Others (includes Israel and Hong Kong)	**4,901**	**2.6%**	5,320	2.9%	–7.9%
Total	**185,813**	**100.0%**	183,974	100.0%	+1.0%

OBM

With the gradual roll out of new products and the strategic plans to grow our brands recognition and business network, our OBM segment continued its robust performance and recorded a 40.8% growth in revenue to HK$60.7 million (1H2018: HK$43.1 million). Gross profit margin increased by 2.8 percentage points to 39.4% (1H2018: 36.6%), attributable to new products launch and product mix enhancement with stronger sales recorded in electronic equipment and device under the respiratory products category (e.g. the O_2FLO Respiratory Unit and the Hypnus™ PAP devices).

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

By product category

	For the six months ended 30 June (unaudited)				
	2019		2018		Change
	HK$'000	***% of revenue***	*HK$'000*	*% of revenue*	
Respiratory products	**54,843**	**90.3%**	38,638	89.6%	+41.9%
Orthopaedic and rehabilitation products	**5,868**	**9.7%**	4,476	10.4%	+31.1%
Total	**60,711**	**100.0%**	43,114	100.0%	+40.8%

While the PRC market continues to be the major market for our OBM segment, with sales grew by 34.1% to HK$32.0 million (1H2018: HK$23.9 million) and accounted for 52.7% of segment revenue, the international market experienced a significant growth of 49.5% in revenue, reaching HK$28.7 million (1H2018: HK$19.2 million). During the Period, sales to Europe jumped by 92.0% to HK$9.7 million (1H2018: HK$5.1 million) attributable to new customers as well as an increase in product offerings after receiving the CE (Conformité Européenne) mark approval in 2018. As the Inspired® O_2FLO Respiratory Unit, Respiratory Humidifier and Air Oxygen Blender obtained approval from Japan's Ministry of Health, Labour and Welfare in the second half of 2018 and early 2019, sales to the Japanese market increased by 101.4% during the Period.

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

By geography

	For the six months ended 30 June (unaudited)				
	2019		2018		Change
	HK$'000	***% of revenue***	*HK$'000*	*% of revenue*	
The PRC	**32,031**	**52.7%**	23,887	55.4%	+34.1%
Europe	**9,705**	**16.0%**	5,054	11.7%	+92.0%
The US	**2,952**	**4.9%**	1,888	4.4%	+56.4%
Japan	**2,658**	**4.4%**	1,320	3.1%	+101.4%
Hong Kong	**2,488**	**4.1%**	858	2.0%	+190.0%
Others (includes Israel, India, Australia and Canada)	**10,877**	**17.9%**	10,107	23.4%	+7.6%
Total	**60,711**	**100.0%**	43,114	100.0%	+40.8%

INVESTMENTS AND COLLABORATION

Following the introduction of a new series of smart wearable devices in 2018, 廣州柏頤信息科技有限公司 (translated as "Guangzhou 100ecare Technology Co. Ltd.", "**100ecare**") further introduced a smart GPS watch S7PRO in June 2019, with a strong focus on marketing the devices to elderly care services providers in the PRC, as well as expanding their e-commerce presence to solidify its customer base.

During the Period, Inovytec Medical Solutions Ltd. ("**Inovytec**") continued to market its three main products (the LUBO, the SALI and the Ventway Sparrow) in Europe and the US through engaging with government agencies, regional distributors and key opinion leaders with several clinical studies underway. Inovytec has also submitted the application for FDA (Food and Drug Administration of the US) approval of the Ventway Sparrow, the ultra-light weight turbine ventilator.

Retraction Limited ("**Retraction**") has completed the development of its new 5mm retractor (RT01). This device allows the surgeon to use industry standard 5mm trocars and hence broadens the application of REVEEL in upper GI (Gastrointestinal) surgery. The submission of the FDA 510(k) product registration is well in hand and the search for distribution in the US is being actively pursued. Sales of the current REVEEL retractor are satisfactory and the demand from the European market remains stable.

Avalon Photonics Holdings Limited ("**Avalon**") has initiated the NMPA product registration process of its 2nd generation LED-based wearable phototherapy device during the Period. The enhanced device with additional features can cater a wider range of use contexts.

During the Period, Fresca Medical, Inc. ("**Fresca**") has completed the manufacturing transfer at the Group's production facility and conducted a series of clinical pilot studies to prepare for future regulatory submission. At the end of June 2019, Fresca completed a pilot study on 5 subjects for a total of 10 sleep nights in a sleep laboratory to assess the APAP (automatic positive airway pressure) algorithm logic of the system, the safety profile and sleep quality of the subjects, the preliminary results were encouraging.

OUTLOOK

Given the increasing awareness on healthcare economics globally, the Group is expecting a robust development in areas such as cloud-based connected home care and preventative devices which can deliver medical efficiencies at a lower cost. Specifically, in the respiratory area, high-flow nasal cannula oxygen therapy is gaining acceptance and popularity for the treatment of acute and chronic respiratory failure, as it represents a cost-effective alternative to conventional oxygen therapy and non-invasive ventilation in terms of equipment and disposable costs and workflow efficiency.

In this regard, the Group is making consistent progress on business development and financial performance. Through our new high-flow oxygen therapy device and PAP machine for sleep apnea, the Group was able to capture the increase in demand, and is expecting to deliver organic revenue growth performance in the second half of 2019. The Group will also strive to achieve profit margin expansion amidst increasing production and labour cost in the PRC.

While the Group will continue to promote its "Inspired Medical" brand and pursue for the CE marking and NMPA registration of the O_2FLO Respiratory Unit and the O_2B Electronic Oxygen Blender, it has identified Japan as one of the key growth area, as it represents one of the largest medical device markets in the world. The Group intends to invest additional resources in regulatory affairs and marketing to increase our presence and reach in Japan. Lastly, the Group will also pay close attention to the latest product development of our investment in med-tech companies, as well as to pursue potential collaborations that allow access to new geographic markets and complementary technologies.

FINANCIAL REVIEW

REVENUE

Driven by higher sales in both OEM and OBM segments, the Group's total revenue increased by 8.5% to HK$246.5 million for 1H2019 (1H2018: HK$227.1 million). Revenue from the US market and the PRC market increased by 4.2% and 34.1%, respectively. The OEM segment and the OBM segment contributed 75.4% (1H2018: 81.0%) and 24.6% (1H2018: 19.0%) to the Group's total revenue, respectively.

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit rose by 15.0% to HK$83.7 million (1H2018: HK$72.8 million). Gross profit margin increased by 1.9 percentage points from 32.1% to 34.0%. This was primarily attributable to the depreciation of RMB and a strong sales growth from the OBM segment during the Period, which has more than mitigated the impact from rising labour and production costs.

OTHER INCOME

Other income during the Period mainly represented the subsidies of HK$2.5 million (1H2018: Nil) from "Guan-Rong Plan" of Dongguan Songshan Lake Science and Technology Industrial Park (the "**Songshan Lake**").

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by 24.8% to HK$15.6 million (1H2018: HK$12.5 million). The increase was primarily due to an increase in demand in premium delivery services from clients, and the start-up marketing cost for new products. Selling and distribution expenses as a percentage of revenue was 6.3% (1H2018: 5.5%).

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 18.7% to HK$49.6 million (1H2018: HK$41.8 million), primarily due to an increase in expensed research and development ("**R&D**") expenses related to the Group's OBM segment, the relocation of sales and R&D offices to the Songshan Lake and general salary adjustment for staff. Capitalised R&D expenses (including salaries and wages of R&D staff) during the Period was HK$2.8 million (1H2018: HK$8.1 million), while expensed R&D expenses (including salaries and wages of R&D staff) which included in administrative expenses was HK$11.5 million (1H2018: HK$9.3 million).

SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

The Group shared losses of associates for the Period amounted to HK$0.5 million (1H2018: losses of HK$0.9 million) and losses of joint ventures amounted to HK$0.7 million (1H2018: losses of HK$0.7 million), reflected mainly by the share of results of Retraction, 100ecare and Avalon.

INCOME TAX EXPENSE

Income tax expense decreased by 19.0% to HK$3.4 million (1H2018: HK$4.2 million) which was mainly attributable to the entitlements of preferential tax treatments and benefits in the PRC.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company increased by 6.2% to HK$13.7 million (1H2018: HK$12.9 million). The increase was mainly due to an overall increase in revenue, gross profit and other income, which was partially offset by higher selling and distribution expenses and administrative expenses.

PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group purchased additional automation machinery and equipment and expanded and upgraded the production areas as well as capacity. As at 30 June 2019, property, plant and equipment increased by 16.2% to HK$62.3 million (31 December 2018: HK$53.6 million).

RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

As at 30 June 2019, right-of-use assets and lease liabilities amounted to HK$25.0 million (31 December 2018: Nil) and HK$25.5 million (31 December 2018: Nil), respectively. The increase was primarily attributable to the adoption of new accounting standard effective from 1 January 2019.

INVENTORIES

Inventories as at 30 June 2019 increased by HK$18.7 million to HK$114.3 million (31 December 2018: HK$95.6 million). Management considers this inventory level to be adequate in relation to our projected sales.

HUMAN RESOURCES

As at 30 June 2019, the total number of full-time employees of the Group was 1,241 (31 December 2018: 1,103). The remuneration of employees was determined according to their experience, qualifications, result of operations of the Group and market condition. We offer senior management performance-based bonus schemes and share options to reward and retain a high caliber management team.

During the Period, staff costs including Directors' emoluments (excluding capitalised salaries and wages of R&D staff) amounted to HK$74.3 million (1H2018: HK$57.2 million), representing 30.1% of the Group's revenue (1H2018: 25.2%). The increase in staff costs was mainly due to the increase in number of employees, salary adjustment, and the increase in overtime wages.

LIQUIDITY AND FINANCIAL RESOURCES AND BORROWINGS

As at 30 June 2019, the bank and cash balances, net of bank loans, was HK$61.0 million (31 December 2018: HK$71.9 million).

As at 30 June 2019, total borrowings amounted to HK$16.3 million (31 December 2018: HK$17.2 million). 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 0.04 (31 December 2018: 0.05).

At 30 June 2019, the Group had unutilised bank facilities of HK$30.0 million.

CAPITAL EXPENDITURE AND COMMITMENTS

During the Period, total investment in property, plant and equipment was HK$16.5 million (1H2018: HK$11.2 million), in which 91.0% was used for production capacity expansion and the remaining balance was used for procurement of other fixed assets.

At 30 June 2019, the Group had contracted capital commitments of HK$11.9 million for the procurement of property, plant and equipment, which was mainly financed with internal resources.

CAPITAL STRUCTURE

At the date of this announcement, 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 2019, the Company considered that the significant investments were as follows:

1. The Group held 40% (31 December 2018: 40%) interest in Retraction with carrying amount of HK$7.7 million (31 December 2018: HK$7.9 million). During the Period, the Group shared a loss of HK$0.2 million in the consolidated statement of profit or loss.

2. At 30 June 2019, the fair value of the equity investment in Inovytec amounted to US$2.2 million (equivalent to HK$16.9 million) (31 December 2018: US$2.0 million (equivalent to HK$15.9 million)).

3. At 30 June 2019, the fair value of the equity investment in Fresca amounted to US$2.8 million (equivalent to HK$21.8 million) (31 December 2018: US$2.7 million (equivalent to HK$20.8 million)).

4. The Group held 10% (31 December 2018: 10%) interest in 100ecare with carrying amount of HK$9.5 million (31 December 2018: HK$9.5 million). During the Period, the Group shared a profit of HK$60,000 in the consolidated statement of profit or loss.

5. The Group held 20% (31 December 2018: 20%) interest in Avalon with carrying amount of HK$10.6 million (31 December 2018: HK$11.3 million). During the Period, the Group shared a loss of HK$0.7 million in the consolidated statement of profit or loss.

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 23 August 2019, Mr. Lai Hoi Ming has been appointed as a member of the risk management committee of the Company (the "**Risk Management Committee**"). Subsequent to the above appointment, the Risk Management Committee comprises of Mr. Koh Ming Fai (executive Director), Mr. Kwok Kam Ming (quality assurance manager), Ms. Hu Fang (sales and marketing manager), Mr. Zhang Changqing (sales and marketing manager) and Mr. Lai Hoi Ming (financial controller).

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

At 30 June 2019, 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 US dollars ("**USD**") given the export-oriented nature of the OEM segment. 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

At 30 June 2019, 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 2019 (six months ended 30 June 2018: 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. With effect from 13 June 2019 as a result of the resignation of Mr. Chan Ling Ming as an independent non-executive Director, Mr. Chan Ling Ming ceased to be a member of Audit Committee and Prof. Yung Kai Leung has been appointed as a member of the Audit Committee. 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 2019 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 2019 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 2019 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 2019.

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 2019 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, 23 August 2019

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.