

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Shanghai Kindly Medical Instruments Co., Ltd.*

上海康德萊醫療器械股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1501)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2020**

FINANCIAL HIGHLIGHTS	Six-month period ended June 30,		Change
	2020	2019	
	RMB'000	RMB'000	
Revenue	171,844	135,069	27.23%
Gross profit	113,822	82,971	37.18%
Profit for the period	64,701	46,352	39.59%
Earnings per share			
Basic and diluted (<i>in RMB</i>)	0.41	0.39	5.13%

* *For identification purposes only*

- The Group's revenue in the Reporting Period was approximately RMB171.84 million, representing an increase of approximately 27.23% or approximately RMB36.77 million as compared to approximately RMB135.07 million for the six-month period ended June 30, 2019, mainly due to the contribution from the manufacturing and sales of masks.
- During the Reporting Period, gross profit was approximately RMB113.82 million, as compared to approximately RMB82.97 million for the six-month period ended June 30, 2019. Gross profit margin increased from 61.43% to 66.24%, mainly due to the sales of masks with a higher profit margin.
- The Group's profit for the Reporting Period was approximately RMB64.70 million, representing an increase of approximately 39.59% as compared to approximately RMB46.35 million for the six-month period ended June 30, 2019.
- The Group's basic and diluted earnings per share in the Reporting Period was RMB0.41, as compared to RMB0.39 for the six-month period ended June 30, 2019.
- The Board resolved not to declare any interim dividend for the Reporting Period.

The board (the “**Board**”) of directors (the “**Directors**”) of Shanghai Kindly Medical Instruments Co., Ltd. (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”, “**we**”, “**our**” or “**us**”) for the six-month period ended 30 June 2020 (the “**Reporting Period**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 (Unaudited)

(Expressed in Renminbi (“**RMB**”))

	Note	Six-month period ended 30 June	
		2020 RMB’000	2019 RMB’000
Revenue	3	171,844	135,069
Cost of sales		(58,022)	(52,098)
Gross profit		113,822	82,971
Other income	4	24,818	6,800
Distribution costs		(12,757)	(10,059)
Administrative expenses		(19,082)	(11,303)
Research and development expenses		(30,221)	(12,650)
Impairment losses		(13)	(41)
Profit from operations		76,567	55,718
Finance costs	5(a)	(48)	(1,471)
Profit before taxation	5	76,519	54,247
Income tax	6	(11,818)	(7,895)
Profit for the period		64,701	46,352
Attributable to:			
Equity shareholders of the Company		67,393	47,266
Non-controlling interests		(2,692)	(914)
Profit for the period		64,701	46,352
Earnings per share (RMB)	7		
Basic and diluted (RMB)		0.41	0.39

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

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 (Unaudited)

(Expressed in RMB)

	Six-month period ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	64,701	46,352
Other comprehensive income for the period (after tax and reclassification adjustments)		
Items that will not be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiary	388	214
Other comprehensive income	388	214
Total comprehensive income for the period	65,089	46,566
Attributable to:		
Equity shareholders of the Company	67,781	47,480
Non-controlling interests	(2,692)	(914)
Total comprehensive income for the period	65,089	46,566

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020 (Unaudited)

(Expressed in RMB)

	Note	30 June 2020 RMB'000	31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment		127,369	114,573
Intangible assets		5,639	5,899
Right-of-use assets		43,317	44,621
Other non-current assets		10,190	7,978
Financial assets at fair value through profit or loss	11	1,000	–
Deferred tax assets		1,773	1,847
		<u>189,288</u>	<u>174,918</u>
Current assets			
Inventories		52,065	43,421
Trade and other receivables	8	16,355	14,939
Other current assets		15,297	7,117
Financial assets at fair value through profit or loss		16,314	21,402
Cash and cash equivalents		1,059,889	1,036,783
		<u>1,159,920</u>	<u>1,123,662</u>
Current liabilities			
Trade and other payables	9	47,500	42,588
Contract liabilities		11,048	9,681
Lease liabilities		415	206
Deferred income		548	494
Current taxation		9,120	6,234
		<u>68,631</u>	<u>59,203</u>
Net current assets		<u>1,091,289</u>	<u>1,064,459</u>
Total assets less current liabilities		<u>1,280,577</u>	<u>1,239,377</u>
Non-current liabilities			
Lease liabilities		1,505	1,620
Deferred income		3,679	3,442
Deferred tax liabilities		27	28
		<u>5,211</u>	<u>5,090</u>
NET ASSETS		<u>1,275,366</u>	<u>1,234,287</u>
CAPITAL AND RESERVES			
Share capital		166,000	166,000
Reserves		1,089,112	1,050,381
Total equity attributable to equity shareholders of the Company		<u>1,255,112</u>	<u>1,216,381</u>
Non-controlling interests		<u>20,254</u>	<u>17,906</u>
TOTAL EQUITY		<u>1,275,366</u>	<u>1,234,287</u>

NOTES

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). It has been reviewed by the audit committee of the Company and was authorised for issue on 18 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of the interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The interim financial report is unaudited, but has been reviewed by KPMG 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 financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements. The Company’s annual consolidated financial statements for the year ended 31 December 2019 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report date 19 March 2020.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKFRS 16, Covid-19-Related Rent Concessions

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified one reportable segment, the cardiovascular interventional business, which is primary engaged in sales, manufacture, research and development of cardiovascular interventional medical devices as well as related moulds, accessories and masks. Other segments, which are currently engaged in research and development of other interventional and implantable medical devices, such as neurological interventional medical devices and endocardial implantable medical devices, etc, are combined in all other segments.

(a) Disaggregation of revenue

- (i) Disaggregation of revenue from contracts with customers by major products is as follows:

	<u>Six-month period ended 30 June</u>	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
— Sales of interventional medical devices		
<i>Cardiovascular devices</i>	116,448	122,910
<i>Orthopaedics and other devices</i>	253	256
	<hr/>	<hr/>
Subtotal	116,701	123,166
— Sales of masks	43,676	—
— Sales of medical accessories	6,184	7,490
— Others	5,283	4,413
	<hr/>	<hr/>
	171,844	135,069
	<hr/> <hr/>	<hr/> <hr/>

During the six-month periods ended 30 June 2020 and 2019, the Group recognised its revenue from contract with customers at point in time.

- (ii) Disaggregation of revenue by geographical location of external customers is as follows:

	<u>Six-month period ended 30 June</u>	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Mainland China	102,647	86,549
Europe	20,918	19,006
The United States	6,163	5,884
Other countries and regions	42,116	23,630
	<hr/>	<hr/>
	171,844	135,069
	<hr/> <hr/>	<hr/> <hr/>

The geographical location of customers is based on the location at which the customers operate. All of the non-current assets of the Group are physically located in the People's Republic of China (the "PRC").

(b) Segment reporting

(i) Segment results

Information regarding the Group's reportable segments are provided to the Group's most senior executive management for the purpose of resource allocation and assessment of segment performance for the period is set out below:

	Six-month period ended 30 June 2020		
	Cardiovascular interventional business RMB'000	All others RMB'000	Total RMB'000
Revenue from external customers	165,263	6,581	171,844
Inter-segment revenue	1,609	5,163	6,272
Segment revenue	<u>166,872</u>	<u>11,744</u>	<u>178,616</u>
Segment net profit/(loss)	<u>72,118</u>	<u>(3,263)</u>	<u>68,855</u>

	Six-month period ended 30 June 2019		
	Cardiovascular Interventional business RMB'000	All others RMB'000	Total RMB'000
Revenue from external customers	128,923	6,146	135,069
Inter-segment revenue	1,757	3,135	4,892
Segment revenue	<u>130,680</u>	<u>9,281</u>	<u>139,961</u>
Segment net profit	<u>48,043</u>	<u>848</u>	<u>48,891</u>

(ii) Reconciliation of segment profit

	Six-month period ended 30 June	
	2020 RMB'000	2019 RMB'000
Revenue		
Segment revenue	178,616	139,961
Elimination of inter-segment revenue	<u>(6,772)</u>	<u>(4,892)</u>
Consolidated revenue	<u>171,844</u>	<u>135,069</u>
Profit		
Segment net profit	68,855	48,891
Elimination of inter-segment net profit	<u>(4,154)</u>	<u>(2,335)</u>
Consolidated net profit	<u>64,701</u>	<u>46,556</u>

4 OTHER INCOME

	Six-month period ended 30 June	
	2020	2019
	RMB'000	RMB'000
Government grants (<i>note</i>)	7,674	2,067
Interest income from bank deposits	15,304	1,002
Net realised and unrealised gains from fair value changes on wealth management products	347	3,807
Others	1,493	(76)
	<u>24,818</u>	<u>6,800</u>

Note: Government grants include subsidies received from government for encouragement of research and development projects and compensation on the capital expenditure of medical device production lines.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six-month period ended 30 June	
	2020	2019
	RMB'000	RMB'000
(a) Finance costs		
Interest on lease liabilities	<u>48</u>	<u>1,471</u>
(b) Other items		
Depreciation and amortisation		
— property, plant and equipment	8,134	4,924
— right-of-use assets	1,593	4,059
— intangible assets	291	136
Impairment loss on trade and other receivables	13	41
Research and development costs (other than depreciation and amortisation)	28,758	11,568

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Six-month period ended 30 June	
	2020 RMB'000	2019 RMB'000
Current tax — PRC corporate income tax (“CIT”)	11,745	7,914
Deferred tax	73	(19)
Total	<u>11,818</u>	<u>7,895</u>

PRC CIT

(i) Effective from 1 January 2008, under the PRC Corporate Income Tax Law, the PRC statutory income tax rate is 25%. The Group’s subsidiaries in the PRC are subject to PRC income tax at 25% unless otherwise specified.

(ii) High and New Technology Enterprise (“HNTTE”)

According to the PRC income tax law and its relevant regulations, entities that qualified as HNTTE are entitled to a preferential income tax rate of 15%. The Company and one of its subsidiaries are qualified as HNTTE and are subject to income tax at 15% for the three-year ending 31 December 2021.

The 15% preferential tax rate applicable to HNTTE is subject to renewal approval jointly by the relevant authorities, upon expiry of the three-year grant period, according to the then prevailing income tax regulations.

(iii) Small and Micro Enterprise (“SME”)

According to the PRC income tax law and its relevant regulations issued in 2019, entities that qualified as SME are entitled to a preferential income tax rate of 5% (taxable income less than RMB1,000,000) or 10% (taxable income range between RMB1,000,000 to RMB3,000,000). Certain subsidiaries in the PRC were qualified as SME and entitled to a preferential rate of 5% for the six-month periods ended 30 June 2020 and 2019.

(iv) According to the PRC income tax law and its relevant regulations, an additional 75% of qualified research and development expenses so incurred is allowed to be deducted from taxable income for the three-year ending 31 December 2020.

Hong Kong profit tax

The Company’s subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at 8.25% of the taxable profit less than HKD2,000,000 or 16.5% of the taxable profit exceeding HKD2,000,000. No provision for Hong Kong profits tax has been made as the subsidiary in Hong Kong has no assessable profits for the six-month periods ended 30 June 2020 and 2019.

7 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB67,393,000 (six-month period ended 30 June 2019: RMB47,266,000), and the weighted average number of shares of 166,000,000 (2019: 120,000,000) in issue during the interim period.

There were no potential dilutive ordinary shares during the interim period and therefore dilutive earnings per share are the same as the basic earnings per share.

8 TRADE AND OTHER RECEIVABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Receivables from third parties	12,847	11,507
Receivables from related parties	3,413	3,254
Less: losses allowance on trade receivables	(73)	(60)
	<hr/>	<hr/>
Trade receivables, net of loss allowance	16,187	14,701
Other receivables	168	238
	<hr/>	<hr/>
Trade and other receivables, net	16,355	14,939
	<hr/> <hr/>	<hr/> <hr/>

(a) Ageing analysis

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 3 months	15,936	13,598
3 to 6 months	49	1,103
6 to 9 months	202	–
	<hr/>	<hr/>
	16,187	14,701
	<hr/> <hr/>	<hr/> <hr/>

Trade receivables are generally due within 30 to 90 days from the date of billing. All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

9 TRADE AND OTHER PAYABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade payables	18,123	16,430
Payroll payables	13,350	14,754
Amounts due to related parties	186	277
Others	15,841	11,127
	<hr/>	<hr/>
Total trade and other payables	47,500	42,588
	<hr/> <hr/>	<hr/> <hr/>

All of the trade and other payables are expected to be settled within one year.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 3 months	15,499	16,116
3 to 6 months	1,287	152
6 months to 1 year	1,239	19
Over 1 year	98	143
	<hr/>	<hr/>
	18,123	16,430
	<hr/> <hr/>	<hr/> <hr/>

10 DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period.

	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, RMB0.175 per ordinary share (2019: RMB1.27 per ordinary share)	29,050	53,382
	<hr/> <hr/>	<hr/> <hr/>

Pursuant to the shareholders' approval of the Company held on 18 May 2020, a final cash dividend of RMB0.175 per share in respect of the year ended 31 December 2019 based on 166,000,000 ordinary shares totaling amount of RMB29,050,000 was declared and paid during the six-month period ended 30 June 2020.

11 INVESTMENT IN FUNDS

Ruixin Fund

According to the Company's announcements dated 19 March 2020 and 29 April 2020 and the circular dated 22 May 2020, the Company and Ningbo Huaige Health Investment Management Partnership (Limited Partnership)* (as the general partner and fund manager, Chinese name as 寧波懷格健康投資管理合夥企業(有限合夥), "**Ningbo Huaige Health**") conditionally entered into the Ruixin Subscription Memorandum (the "**Ruixin Subscription**") in relation to the establishment of, and investment in, Jingning Huaige Ruixin Venture Investment Partnership (Limited Partnership)* 景寧懷格瑞信創業投資合夥企業(有限合夥) (the "**Ruixin Fund**"). Under the Ruixin Subscription, the total contribution by the general partner and all the limited partners of the Ruixin Fund is no less than RMB300.00 million and no more than RMB400.00 million, and the capital contribution by the Company as a limited partner will be RMB50.00 million. The primary objective of the Ruixin Fund is investments in equity interest of entities in the medical devices, pharmaceutical, biologics, medical services and contract research organisation ("**CRO**") services industries mainly in the PRC and investments in other equity funds with focus of investing in the medical device and biomedical fields.

On 29 April 2020, all partners of the Ruixin Fund entered into a partnership agreement ("**Ruixin LPA**"). Pursuant to Ruixin LPA, the Company's capital contribution commitment was RMB50.00 million which shall be payable on or before 31 December 2021.

On 7 May 2020, the Ruixin Fund was registered in the PRC as a limited partnership.

On 23 June 2020, the Ruixin Subscription and the Ruixin LPA were approved by the shareholders of the Company and the Company paid the initial capital call of RMB1.00 million to the Ruixin Fund. As at 30 June 2020, the non-current financial asset at fair value through profit or loss represents the investment in Ruixin Fund.

On 24 July 2020, the Company paid capital call of RMB 24.00 million to the Ruixin Fund.

Int Fund

According to the Company's announcement dated 19 March 2020 and the circular dated 22 May 2020, the Company and Ningbo Huaige Health (as the fund manager) conditionally entered into the Int Subscription Memorandum (the "**Int Subscription**") in relation to the establishment of, and investment in, Shanghai Huaige Int Venture Investment Partnership (Limited Partnership)* (上海懷格瑛泰創業投資合夥企業(有限合夥))(the "**Int Fund**"). Under the Int Subscription, the total capital contribution by the general partner and all the limited partners of the Int Fund is not less than RMB110.00 million and not more than RMB200.00 million, and the capital contribution by the Company as a limited partner will be RMB50.00 million.

The primary objective of Int Fund is venture investments in, among others, equity interests, convertible loans and/or financial assets in relation to start-ups or early-stage businesses in the medical devices industry mainly in the PRC. The investment priorities of the Int Fund include start-ups or early-stage businesses principally engaged in the research and development of cardiovascular interventional devices, neuro interventional procedural medical devices and other interventional medical devices.

The Int Subscription was approved by the shareholder of the Company on 23 June 2020.

On 14 August 2020, all partners of the Int Fund entered into a partnership agreement ("**Int LPA**"), pursuant to which the Company's capital contribution commitment was RMB50.00 million which shall be payable on or before 31 December 2021. On 18 August 2020, the Int Fund was registered in the PRC as a limited partnership.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We are a leading Chinese cardiovascular interventional device manufacturer as well as one of the few medical device groups that cover the entire industry chain from design and development of mold and equipment, product injection, product assembly, product packaging to sterilisation in the PRC. Our major products are primarily used for cardiovascular surgeries, in particular percutaneous coronary intervention procedures.

The Group's revenue in the Reporting Period was approximately RMB171.84 million, representing an increase of approximately 27.23% or approximately RMB36.77 million as compared to approximately RMB135.07 million for the six-month period ended June 30, 2019 mainly due to the contribution from the manufacturing and sales of masks. During the Reporting Period, the revenue generated from sales of masks was approximately RMB 43.68 million, accounting for approximately 25.42% of the total revenue during the Reporting Period.

Comprehensive medical device registration certificates

During the Reporting Period, the Group has obtained 2 Shanghai Medical Products Administration registration certificates for Class II medical devices and 3 European CE certificates. As at June 30, 2020, we have an aggregate of 16 National Medical Products Administration of China registration certificates for Class III medical devices, 14 Shanghai Medical Products Administration registration certificates for Class II medical devices, 35 European CE certificates and 10 United States Food and Drug Administration approvals.

Strong research and development capabilities

The Company is a state-level high and new technology enterprise (國家級高新技術企業). Our research and development team consists of professionals who possess Doctorate degrees and Master's degrees and numerous talents who have over 10 years of experience in research and development of production, with adequate capabilities in the development of innovation products and sustainable improvement of research and development. As at June 30, 2020, we have 92 registered patents, 91 patents under application and 5 registered softwares.

Extensive distribution and sales network

We have an extensive distribution network and have developed and maintained stable relationships with our distributors. By the end of June 30, 2020, our PRC distributors cover 23 (December 31, 2019: 23) provinces, 4 (December 31, 2019: 4) directly-administered municipalities and 4 (December 31, 2019: 4) autonomous regions in the PRC, and covering 1,349 (December 31, 2019: 1,234) domestic hospitals in the PRC including 632 (December 31, 2019: 612) Tier III hospitals. In addition, our overseas customers cover 47 (December 31, 2019: 44) countries and regions.

ACTIVITIES REVIEW

Subsidiaries

In March 2020, we established a holding subsidiary in Shanghai, the PRC. As at June 30, 2020, the Group was comprised of 8 (December 31, 2019: 7) wholly-owned or holding subsidiaries engaging in the design and development of medical devices used in fields including peripheral intervention, neurological intervention, cardiovascular intervention or implantation, and the design and development of equipment and molds used for production of medical devices.

Subscription of partnership interests in the Int Fund and the Ruixin Fund

Reference is made to the announcements of the Company dated March 19, 2020 and April 29, 2020 and the circular of the Company dated May 22, 2020 in relation to (i) the subscription of limited partnership interests by the Company in Shanghai Huaige Int Venture Investment Partnership (Limited Partnership)* 上海懷格瑛泰創業投資合夥企業(有限合夥) (the “**Int Fund**”) in the amount of RMB50.00 million; and (ii) the subscription of limited partnership interests by the Company in Jingning Huaige Ruixin Venture Investment Partnership (Limited Partnership)* 景寧懷格瑞信創業投資合夥企業(有限合夥) (the “**Ruixin Fund**”) in the amount of RMB50.00 million (together, the “**Subscriptions**”). The Subscriptions have been approved by the shareholders of the Company (the “**Shareholders**”) on June 23, 2020.

The Ruixin Fund was registered in the PRC as a limited partnership with the objective of investments in equity interest of entities in the medical devices, pharmaceutical, biologics, medical services and Contract Research Organization services industries mainly in the PRC with a focus of investing in other equity funds in the medical device and biomedical fields.

As at the date of this announcement, the establishment of the Ruixin Fund has been completed. The Company paid RMB1.00 million of capital contribution on June 23, 2020 and RMB24.00 million of capital contribution on July 24, 2020. The remaining capital contribution of the Ruixin Fund shall be paid within twelve months after the initial instalment.

The primary objective of Int Fund is venture investment in, among others, equity interests, convertible loans and/or financial assets in relation to start-ups or early-stage businesses in the medical devices industry mainly in the PRC. The investment priorities of the Int Fund include start-ups or early-stage businesses principally engaged in the research and development of cardiovascular interventional devices, neuro interventional procedural medical devices and other interventional medical devices.

On August 14, 2020, all partners of the Int Fund entered into the Int LPA, pursuant to which the Company’s capital contribution commitment was RMB50.00 million which shall be payable on or before December 31, 2021. On August 18, 2020, the Int Fund was registered in the PRC as a limited partnership.

Risks faced by the Group

During the Reporting Period, the Group is also faced with the following industry-related risks and uncertainties which may have significant impact on our financial performance and future business development:

- **Price control in the PRC.** Our products' prices are subject to price control in the PRC, by which the government agencies and hospital set a price limit for each product and may have significant impact on our operations of business and financial performance.
- **Healthcare Reform in the PRC.** Pursuant to the Notice of “Publishing Opinions on Implementing ‘Two-Invoice System’ in Drug Procurement Among Public Medical Institutions (For Trial Implementation)” (《印發<關於在公立醫療機構藥品採購中推行「兩票制」的實施意見(試行)>的通知》) issued on December 26, 2016 and the Notice on Consolidating the Results in Eliminating the Mechanism of Replenishing Medical Costs with Drug Selling Profits and Further Deepening the Comprehensive Reform of Public Hospitals (《關於鞏固破除以藥補醫成果持續深化公立醫院綜合改革的通知》) issued on March 5, 2018, a “two-invoice” system is implemented to limit the distribution of pharmaceutical products to a single level of distributors for sale to public hospitals. The two-invoice system requires one invoice to be issued from pharmaceutical manufacturers to pharmaceutical distributors and the other invoice to be issued from pharmaceutical distributors to medical institutions, which has the effect of centralizing the procurement and sale of high value medical consumables, and may have certain impacts on our business operations and business performance. While some provinces in China have extended the two-invoice system to medical devices, the healthcare reform is still in progress and the influence of the two-invoice systems on our financial performance and future business development remains uncertain.

The Group will continue to closely monitor and actively adapt to the regulatory policies in the industry, in order to reduce impacts of regulatory changes to our financial performance and future business development to the extent possible.

OUTLOOK FOR THE SECOND HALF OF 2020

The outbreak of the COVID-19 (“**COVID-19**”) since the beginning of 2020 is a challenging situation faced by the society on a global basis. As a result, the Group's main business performance in the first half year, the progress of use of proceeds from the global offering of the Company (the “**Global Offering**”) and the progress of research and development pipeline are therefore affected to some extent. Although the global spread of COVID-19 has not yet been effectively contained, the production and life order in the PRC has been gradually restored. In the second half of 2020, we will (1) fully leverage on its brand recognition and sales distribution network to further expand its market shares, and strength and maintain our leading position in the interventional medical devices industry; and (2) further development the product pipeline, allocating more resources for research and development, further progress on the research and development, core product pipeline and obtaining approvals for new products.

FINANCIAL REVIEW

REVENUE

The Group's revenue in the Reporting Period was approximately RMB171.84 million, representing an increase of approximately 27.23% or approximately RMB36.77 million as compared to approximately RMB135.07 million for the six-month period ended June 30, 2019. The increase was mainly due to the contribution from the manufacturing and sales of masks.

With respect to revenue categorized by different products, the Group's revenue generated from sales of interventional medical devices in the Reporting Period was approximately RMB116.70 million (six-month period ended June 30, 2019: RMB123.17 million), representing a decrease of RMB6.47 million as compared to those of the six-month period ended June 30, 2019. The Group's revenue generated from sales of masks and medical accessories in the Reporting Period was approximately RMB43.68 million and RMB6.18 million (six-month period ended June 30, 2019: nil and RMB7.49 million) respectively. The masks business which launched in early 2020 to respond COVID-19 outbreak contributed 25.42% revenue of the Reporting Period.

Cost of Sales

The cost of sales in the Reporting Period was approximately RMB58.02 million, representing an increase of approximately 11.36% or approximately RMB5.92 million as compared to approximately RMB52.10 million for the six-month period ended June 30, 2019. It was due to the increase in revenue.

Gross Profit and Gross Profit Margin

During the Reporting Period, gross profit was approximately RMB113.82 million, as compared to approximately RMB82.97 million for the six-month period ended June 30, 2019. Gross profit margin increased from 61.43% for the six-month period ended June 30, 2019 to 66.24% for the six-month period ended June 30, 2020. The increase in gross profit margin was mainly contributed from the sales of masks with a higher profit margin given the COVID-19 outbreak.

Other Income

During the Reporting Period, other income was approximately RMB24.82 million, representing an increase of approximately 265.00% or approximately RMB18.02 million as compared to approximately RMB6.80 million for the six-month period ended June 30, 2019. The increase was mainly due to the increase in interest income arising from bank deposits after receiving the net proceeds from Global Offering in late 2019 as well as the increase in government grants.

Finance Costs

During the Reporting Period, the finance cost was approximately RMB0.05 million as compared to approximately RMB1.47 million for the six-month period ended June 30, 2019. The finance costs were interests arising from lease liabilities.

Distribution Costs

The distribution costs in the Reporting Period were approximately RMB12.76 million, increased by approximately 26.84% or approximately RMB2.7 million as compared to approximately RMB10.06 million for the six-month period ended June 30, 2019, which increased in line with revenue. It constituted 7.42% of the total revenue as compared to 7.45% for the six-month period ended June 30, 2019, which remained stable.

Administrative Expenses

The administrative expenses of the Group in the Reporting Period were approximately RMB19.08 million, as compared to approximately RMB11.30 million for the six-month period ended June 30, 2019. The rise was mainly due to the increase in professional services expenses after the Global Offering and the increase in payroll and other compensation of administrative staff as a result of the business expansion.

Research and Development Expenses

The research and development expenses of the Group in the Reporting Period were approximately RMB30.22 million, representing an increase of approximately 138.90% or approximately RMB17.57 million as compared to approximately RMB12.65 million for the six-month period ended June 30, 2019. The rise was primarily due to the Group's continued development and commercialisation of the existing and new pipeline products, including masks, during the Reporting Period.

Income Tax Expenses

The income tax expenses in the Reporting Period was approximately RMB11.82 million, representing an increase of approximately 49.62% or approximately RMB3.92 million as compared to approximately RMB7.90 million for the six-month period ended June 30, 2019. The effective income tax rate was 15.4% for the Reporting Period as compared to 14.5% for the six-month period ended June 30, 2019, which was primarily due to growth in business scale of certain subsidiary which did not enjoy SME preferential tax rate during the Reporting Period.

Profit for the period

The Group's profit for the Reporting Period was approximately RMB64.70 million, representing an increase of approximately 39.59% as compared to approximately RMB46.35 million for the six-month period ended June 30, 2019, which was due to the manufacturing and sales of masks with higher profit margin.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during the Reporting Period. As at June 30, 2020, the Group's cash and cash equivalents amounted to approximately RMB1,059.89 million (December 31, 2019: RMB1,036.78 million). For the six-month period ended June 30, 2020, net cash flow from operating activities of the Group amounted to approximately RMB46.90 million (six-month period ended June 30, 2019: RMB42.70 million).

The Group recorded total current assets of approximately RMB1,159.92 million as at June 30, 2020 (December 31, 2019: approximately RMB1,123.66 million) and total current liabilities of approximately RMB68.63 million as at June 30, 2020 (December 31, 2019: approximately RMB59.20 million). The current ratio (calculated by dividing the current assets by the current liabilities) of the Group was approximately 16.90 as at June 30, 2020 (December 31, 2019: approximately 18.98).

BORROWINGS AND GEARING RATIO

The Group has no bank borrowings or other borrowings as at June 30, 2020 and December 31, 2019. As such, the gearing ratio is not applicable.

CAPITAL STRUCTURE

Total equity attributable to equity shareholders of the Company amounted to approximately RMB1,255.11 million as at June 30, 2020 as compared to approximately RMB1,216.38 million as at December 31, 2019.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six-month period ended June 30, 2020.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

Upon completion of the Global Offering, the Company raised net proceeds of approximately RMB797.62 million (after deducting the listing fees and other expenses). As at the date of this announcement, the Company has utilized approximately RMB66.43 million of the net proceeds. As disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated October 28, 2019 and the announcement of the Company dated July 7, 2020, the details of intended application of net proceeds are set out as follows:

	Revised allocation of net proceeds <i>(RMB million)</i>	Utilized net proceeds up to the date of this announcement <i>(RMB million)</i>	Unutilized net proceeds as of the date of this announcement <i>(RMB million)</i>	Expected timeline of fully utilization of the unutilized net proceeds
Set up a research and development center and an additional facility in Jiading, Shanghai	271.99	1.43	270.56	December 2021
Purchase additional and replacement of existing production equipment and automate production lines	110.07	4.33	105.74	June 2022
Expand our distribution network and coverage, collaborate with local distributors and intensify our marketing efforts	69.39	–	69.39	December 2022
Fund potential strategic investments including acquisition, partnership and license-in	156.33	–	156.33	December 2021
General corporate purposes and fund our working capital	79.84	58.17	21.67	December 2020
Construction new factory project of Zhuhai Derui	110.00	2.50	107.50	December 2021
	<u>797.62</u>	<u>66.43</u>	<u>731.19</u>	
Total	<u>797.62</u>	<u>66.43</u>	<u>731.19</u>	

As at the date of this announcement, the unutilized net proceeds has been deposited in bank accounts maintained by the Company.

EMPLOYEE REMUNERATION AND RELATIONS

As at June 30, 2020, the Group had a total of 1,018 employees, comparing to 757 employees as at December 31, 2019. The total cost of employees for the Reporting Period amounted to approximately RMB49.77 million (six-month period ended June 30, 2019: approximately RMB39.95 million). The Group provides employees with competitive remuneration and benefits, and the Group’s remuneration policies are formulated according to the assessment of individual performance and are periodically reviewed. The Group provides training programs to employees, including new hire training for new employees and continuing technical training primarily for our research and development team to enhance their skill and knowledge.

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 during the Reporting Period.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except for the subscription of partnership interests funds disclosed in the section headed “Subscription of partnership interests in the Int Fund and the Ruixin Fund”, the Group has no significant investment, or plan authorized by the Board for other material investments or additions of capital assets during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group has no material acquisitions or disposal of subsidiaries, associates and joint ventures during the Reporting Period.

CONTINGENT LIABILITIES

As at June 30, 2020 and December 31, 2019, the Group did not have any material contingent liabilities.

FINANCIAL INSTRUMENTS

As at June 30, 2020 and December 31, 2019 the Group did not have any outstanding hedge contracts or financial derivative instruments.

CAPITAL EXPENDITURE

The capital expenditure of the Group for property, plant and equipment (the “PPE”), construction in progress, intangible assets, right-of-use assets and deposits for PPE amounted to approximately RMB23.94 million for the Reporting Period (six-month period ended June 30, 2019: approximately RMB24.37 million).

FOREIGN EXCHANGE RISK

During the Report Period, the Group's operations were primarily based in the PRC. Assets, liabilities and transactions in the PRC are denominated in RMB, while overseas assets and transactions are mainly denominated in US Dollars. There were currency fluctuations among US Dollars, Euro, RMB and Hong Kong Dollars during the Reporting 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 Reporting Period. The Group will continuously monitor its foreign exchange exposure and will consider hedging of foreign currency risk should the need arise.

CHARGE ON GROUP ASSETS

As at June 30, 2020, the Group did not have any charges on its assets.

CAPITAL COMMITMENT

The Group's outstanding capital commitments authorized but not contracted for at June 30, 2020 not provided for in the financial statements amounted to approximately RMB599.41 million (December 31, 2019: RMB418.77 million). The Group's outstanding capital commitment contracted for at June 30, 2020 not provided for in the financial statements amounted to approximately RMB49.46 million (December 31, 2019: nil).

MATERIAL EVENTS AFTER THE REPORTING PERIOD

On July 24, 2020, the Company paid capital call of RMB24.00 million to the Ruixin Fund according to the partnership agreement.

On August 14, 2020, all partners of the Int Fund entered into the Int LPA, pursuant to which the Company's capital contribution commitment was RMB50.00 million which shall be payable on or before December 31, 2021. On August 18, 2020, the Int Fund was registered in the PRC as a limited partnership.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its code of conduct for Directors' securities transactions. Having made specific enquiry with the Directors, all of the Directors confirmed that they have complied with the required standards as set out in the Model Code during the Reporting Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company has complied with all the code provisions set forth in the Corporate Governance Code contained in Appendix 14 of the Listing Rules, with the exception of code provision A.2.1 of the Corporate Governance Code that requires the roles of chairman and chief executive should be separate and should not be performed by the same individual. Dr. Liang Dongke is our chairman of the Board and the general manager (same as a chief executive) of the Company. Dr. Liang has extensive experience in the medical devices industry and have served in the Company since its establishment. He is in charge of overall management, business, strategic development and scientific research and development of the Group. The Board considers that vesting the roles of chairman and general manager in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the Board, the supervisors and our senior management of the Company, which comprises experienced and visionary individuals. The Board currently comprises two executive Directors (including Dr. Liang), three non-executive Directors and four independent non-executive Directors, and therefore has a strong independence element in its composition. The Board shall review the structure from time to time to ensure that the structure facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three members, namely, Mr. Hui Hung Kwan, Mr. Jian Xigao and Mr. Fang Shengshi. Mr. Hui and Mr. Jian are independent non-executive Directors and Mr. Fang is a non-executive Director. Mr. Hui is the chairman of the Audit Committee, who possesses suitable professional qualifications.

The Audit Committee has reviewed the Company's unaudited interim results for the Reporting Period and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The Audit Committee has also discussed the risk management, internal control and financial reporting matters.

INDEPENDENT REVIEW OF INTERIM FINANCIAL REPORT

KPMG, the Company's auditor, has reviewed the Company's unaudited interim financial report for the Reporting Period 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 Hong Kong Institute of Certified Public Accountants whose unmodified review report is included in the interim report to be sent to the Shareholders.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.kdl-int.com). The Group's 2020 interim report will be dispatched to the Shareholders and will be published on the aforementioned websites in due course.

APPRECIATION

Lastly, I would like to thank all the staff and the management team for their hard work during the Reporting Period. I would also like to express heartfelt gratitude to all of our users and business partners on behalf of the Group, and wish for their continuous support in the future. We will keep working closely with our shareholders and employees to steer the Group to turn to a new chapter in its development.

By order of the Board
Shanghai Kindly Medical Instruments Co., Ltd.*
上海康德萊醫療器械股份有限公司
Dr. Liang Dongke
Chairman

Shanghai, the PRC
August 18, 2020

As at the date of this announcement, the Board comprises Dr. Liang Dongke and Mr. Wang Cailiang as executive Directors; Mr. Zhang Weixin, Ms. Chen Hongqin and Mr. Fang Shengshi as non-executive Directors; and Mr. Dai Kerong, Mr. Jian Xigao, Dr. Ge Junbo and Mr. Hui Hung Kwan as independent non-executive Directors.

* *For identification purposes only*