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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 30 JUNE 2021**

FINANCIAL HIGHLIGHTS			
	Six-month period ended 30 June		
	2021	2020	Change
	RMB'000	RMB'000	
Revenue	180,613	171,844	5.10%
Gross profit	115,936	113,822	1.86%
Profit for the period	51,294	64,701	(20.72%)
Earnings per share			
Basic and diluted (<i>in RMB</i>)	0.30	0.41	(26.83%)

* For identification purposes only

- The Group's revenue in the Reporting Period was approximately RMB180.61 million, representing an increase of approximately 5.10% or approximately RMB8.77 million as compared to approximately RMB171.84 million for the six-month period ended 30 June 2020.
- During the Reporting Period, gross profit was approximately RMB115.94 million, as compared to approximately RMB113.82 million for the six-month period ended 30 June 2020. Gross profit margin decreased from 66.24% to 64.19%. The revenue generated from sales of masks which had a higher gross profit margin was approximately RMB43.68 million for the six-month period ended 30 June 2020, while the revenue generated from sales of masks for the Reporting Period was RMB0.35 million.
- The Group's profit for the Reporting Period was approximately RMB51.29 million, representing a decrease of approximately 20.72% as compared to approximately RMB64.70 million for the six-month period ended 30 June 2020. The decrease was mainly due to more research and development expenses occurred for the existing and new products in pipeline during the Reporting Period.
- The Group's basic and diluted earnings per share in the Reporting Period was RMB0.30, as compared to RMB0.41 for the six-month period ended 30 June 2020.
- 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**”) announces 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 2021 (the “**Reporting Period**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021 (Unaudited)

(Expressed in Renminbi (“**RMB**”))

	Note	Six-month period ended 30 June	
		2021 RMB’000 (unaudited)	2020 RMB’000 (unaudited)
Revenue	3	180,613	171,844
Cost of sales		(64,677)	(58,022)
Gross profit		115,936	113,822
Other income	4	23,453	24,818
Distribution costs		(13,419)	(12,757)
Administrative expenses		(20,700)	(19,082)
Research and development expenses		(45,061)	(30,221)
Impairment losses		(30)	(13)
Profit from operations		60,179	76,567
Finance costs	5(a)	(315)	(48)
Profit before taxation	5	59,864	76,519
Income tax	6	(8,570)	(11,818)
Profit for the period		51,294	64,701
Attributable to:			
Equity shareholders of the Company		50,605	67,393
Non-controlling interests		689	(2,692)
Profit for the period		51,294	64,701
Earnings per share (RMB)	7		
Basic and diluted (RMB)		0.30	0.41

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

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021 (Unaudited)

(Expressed in RMB)

	Six-month period ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the period	51,294	64,701
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	(211)	388
Other comprehensive income	(211)	388
Total comprehensive income for the period	51,083	65,089
Attributable to:		
Equity shareholders of the Company	50,394	67,781
Non-controlling interests	689	(2,692)
Total comprehensive income for the period	51,083	65,089

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021 (Expressed in RMB)

		30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		296,078	199,253
Right-of-use assets		109,524	100,917
Intangible assets		9,042	7,603
Other non-current assets		28,975	15,582
Deferred tax assets		620	2,153
Financial assets at fair value through profit or loss		72,825	49,060
		517,064	374,568
Current assets			
Inventories		83,620	55,206
Trade and other receivables	8	28,298	31,149
Other current assets		30,748	20,176
Financial assets at fair value through profit or loss		18,032	71,453
Cash and cash equivalents		719,724	870,132
		880,422	1,048,116
Current liabilities			
Trade and other payables	9	54,613	65,016
Contract liabilities		16,610	14,347
Lease liabilities		194	320
Deferred income		412	449
Current taxation		3,934	8,180
		75,763	88,312
Net current assets		804,659	959,804
Total assets less current liabilities		1,321,723	1,334,372
Non-current liabilities			
Lease liabilities		13,026	1,413
Deferred income		5,132	5,311
		18,158	6,724
NET ASSETS		1,303,565	1,327,648
CAPITAL AND RESERVES			
Share capital		166,000	166,000
Reserves		1,108,442	1,139,650
Total equity attributable to equity shareholders of the Company		1,274,442	1,305,650
Non-controlling interests		29,123	21,998
TOTAL EQUITY		1,303,565	1,327,648

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 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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 Shanghai Kindly Medical Instruments Co., Ltd. (the “**Company**”) and its subsidiaries (together, the “**Group**”) since the 2020 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 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 2020 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 2020 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 19 March 2021.

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 16, Covid-19-Related Rent Concessions beyond 30 June 2021
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform — phase 2

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 the 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 medical 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 endocardia 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:

	Six-month period ended 30 June	
	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
— Sales of interventional medical devices		
<i>Cardiovascular devices</i>	171,232	116,448
<i>Orthopaedics and other devices</i>	478	253
Subtotal	171,710	116,701
— Sales of medical masks	351	43,676
— Sales of medical accessories	4,920	6,184
— Moulds and others	3,632	5,283
	180,613	171,844

During the six-month period ended 30 June 2021 and 2020, 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:

	Six-month period ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China (the “PRC”)	145,333	102,647
Europe	11,979	20,918
The United States	4,529	6,163
Other countries and regions	18,772	42,116
	<u>180,613</u>	<u>171,844</u>

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 PRC.

(b) Segment reporting

(i) Segment results

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

	Six-month period ended 30 June 2021		
	Cardiovascular interventional business	All others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers	146,907	33,706	180,613
Inter-segment revenue	<u>3,244</u>	<u>5,411</u>	<u>8,655</u>
Segment revenue	<u>150,151</u>	<u>39,117</u>	<u>189,268</u>
Segment net profit	<u>49,850</u>	<u>2,298</u>	<u>52,148</u>

	Six-month period ended 30 June 2020		
	Cardiovascular interventional business <i>RMB'000</i>	All others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	165,263	6,581	171,844
Inter-segment revenue	<u>1,609</u>	<u>5,163</u>	<u>6,772</u>
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>
(ii) Reconciliation of segment profit			

	Six-month period ended 30 June	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue		
Segment revenue	189,268	178,616
Elimination of inter-segment revenue	<u>(8,655)</u>	<u>(6,772)</u>
Consolidated revenue	<u>180,613</u>	<u>171,844</u>
Profit		
Segment net profit	52,148	68,855
Elimination of inter-segment net profit	<u>(854)</u>	<u>(4,154)</u>
Consolidated net profit	<u>51,294</u>	<u>64,701</u>

4 OTHER INCOME

	Six-month period ended 30 June	
	2021	2020
	RMB'000	RMB'000
Government grants (<i>note</i>)	3,171	7,674
Interest income from bank deposits	5,923	15,304
Net realised and unrealised gains from fair value changes on financial assets at fair value through profit or loss	15,936	347
Others	(1,577)	1,493
	<u>23,453</u>	<u>24,818</u>

Note: Government grants mainly include subsidies received from government for encouragement of research and development projects and compensation on the capital expenditure of medical device production lines. As at the end of reporting period, there was no unfulfilled condition or other contingency attaching to the government grants that had been recognised by the Group.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six-month period ended 30 June	
	2021	2020
	RMB'000	RMB'000
(a) Finance costs		
Interest on lease liabilities	<u>315</u>	<u>48</u>
(b) Other items		
Depreciation and amortisation		
— property, plant and equipment	10,829	8,314
— right-of-use assets	2,824	1,593
— intangible assets	380	291
Impairment loss on trade and other receivables	30	13
Research and development costs (other than depreciation and amortisation)	43,159	28,758

6 INCOME TAX

	Six-month period ended 30 June	
	2021 RMB'000	2020 RMB'000
Current tax — the PRC corporate income tax (“CIT”)	7,037	11,745
Deferred tax	1,533	73
Total	8,570	11,818

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 (“HNTe”)

According to the PRC income tax law and its relevant regulations, entities that qualified as HNTe are entitled to a preferential income tax rate of 15%. The Company and certain subsidiaries are qualified as HNTe and are subject to income tax at the rate of 15% for the six-month period ended 30 June 2021 and 2020.

The 15% preferential tax rate applicable to HNTe 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 ranges 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 period ended 30 June 2021 and 2020.

- (iv) According to the PRC income tax law and its relevant regulations, an additional 100% (2020: 75%) of qualified research and development expenses so incurred is allowed to be deducted from taxable income for the three-year ending 31 December 2023.

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 period ended 30 June 2021 and 2020.

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 RMB50,605,000 (six-month period ended 30 June 2020: RMB67,393,000), and the weighted average number of shares of 166,000,000 (six-month period ended 30 June 2020: 166,000,000) 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 2021 RMB'000	At 31 December 2020 RMB'000
Receivables from third parties	16,780	20,448
Receivables from related parties	2,267	3,223
Less: losses allowance on trade receivables	(46)	(16)
	<hr/>	<hr/>
Trade receivables, net of loss allowance	19,001	23,655
Deposit for construction project	6,959	6,959
Interest receivable	691	–
Other receivables	1,647	535
	<hr/>	<hr/>
Trade and other receivables, net	<u>28,298</u>	<u>31,149</u>

(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 2021 RMB'000	At 31 December 2020 RMB'000
Within 3 months	16,696	22,698
3 to 6 months	1,685	957
6 to 9 months	620	–
	<hr/>	<hr/>
	<u>19,001</u>	<u>23,655</u>

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 2021 RMB'000	At 31 December 2020 RMB'000
Trade payables	19,444	15,857
Payroll payables	11,936	13,021
Construction payables	16,500	29,274
Amounts due to related parties	34	164
Others	6,699	6,700
	<u>54,613</u>	<u>65,016</u>
Total trade and other payables	<u>54,613</u>	<u>65,016</u>

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 2021 RMB'000	At 31 December 2020 RMB'000
Within 3 months	16,661	14,459
3 to 6 months	1,198	128
6 months to 1 year	431	519
Over 1 year	1,154	751
	<u>19,444</u>	<u>15,857</u>

10 DIVIDENDS

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

	Six months ended 30 June 2021 RMB'000	2020 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, RMB0.285 per ordinary share (2020: RMB0.175 per ordinary share)	<u>47,310</u>	<u>29,050</u>

Pursuant to the shareholders' approval of the Company on 17 May 2021, a final cash dividend of RMB0.285 per share in respect of the year ended 31 December 2020 based on 166,000,000 ordinary shares totaling amount of RMB47,310,000 was declared and paid during the six-month period ended 30 June 2021.

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 China, the government introduced reform policies to support the healthy and orderly development of the medical industry. The Central Committee of the Communist Party of China and the State Council issued “Opinions on Deepening the Reform of the Medical Security System”, calling for the incorporation of drugs, diagnosis and treatment items, and medical consumables with high clinical value and good economic evaluation into the scope of medical insurance payment, continued reform of centralized volume and full implementation of volume-based procurement of medical consumables, reflecting the trend of centralized purchasing and negotiation in the field of high value consumables, in which evidence of value in clinical and health economics will play an important role. In July 2019, the State Council issued the Reform Plan for Intelligent High-Value Medical Consumables (“**Plan**”), which mentioned the improvement of the methods of classification of centralized purchasing. Its aims to be explored classification of centralized purchasing in accordance with the principles of volume-based procurement, linking of price with volume, and promoting market competition. Since the promulgation of the Plan, various regions of China have implemented a pilot policy for volume-based procurement of consumables. Since November 2020, the National Medical Insurance Bureau has organized the centralized procurement of coronary stents, which indicates the official start of the centralized procurement of high-value consumables in China. This will accelerate the optimization of resource allocation and consolidation of the industry, from which the leading companies with scale advantages, advanced technology and leading innovations are expected to benefit.

The Group’s revenue in the Reporting Period was approximately RMB180.61 million, representing an increase of approximately 5.10% or approximately RMB8.77 million as compared to approximately RMB171.84 million for the six-month period ended 30 June 2020. During the Reporting Period, the revenue generated from sales of masks was approximately RMB0.35 million (six-month period ended 30 June 2020: RMB43.68 million).

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, 4 National Medical Products Administration of China registration certificates for Class III medical devices and 1 United States Food and Drug Administration approvals. As at 30 June 2021, we have an aggregate of 23 National Medical Products Administration of China registration certificates for Class III medical devices, 18 Shanghai Medical Products Administration registration certificates for Class II medical devices, 40 European CE certificates and 13 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 30 June 2021, we have 149 registered patents, 167 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 30 June 2021, our PRC distributors cover 23 (31 December 2020: 23) provinces, 4 (31 December 2020: 4) directly-administered municipalities and 4 (31 December 2020: 4) autonomous regions in the PRC, and covering 1,896 (31 December 2020: 1,436) domestic hospitals in the PRC including 817 (31 December 2020: 664) Tier III hospitals. In addition, we had 152 (31 December 2020: 143) overseas customers covering 51 (31 December 2020: 51) countries and regions.

ACTIVITIES REVIEW

Subsidiaries

As at 30 June 2021, the Group was comprised of 12 (31 December 2020: 8) 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.

Full Circulation of Certain Domestic Shares of the Company

Reference is made to the announcements of the Company dated 25 May 2021 and 16 June 2021 in relation to the application by the Company, upon receiving proposals from Shanghai Kindly Enterprise Development Group Co., Ltd.* (上海康德萊企業發展集團股份有限公司) and Ningbo Huaige Taiyi Equity Investment Partnership (Limited Partnership) (寧波懷格泰益股權投資合夥企業(有限合夥)) (collectively the “**Converting Shareholders**”), to the China Securities Regulatory Commission (中國證券監督管理委員會) (the “**CSRC**”) for conversion of a total of 58,213,392 Domestic Shares held by the Converting Shareholders to H Shares and the listing thereof on the Stock Exchange (the “**Proposed Conversion and Listing**”). The Company received the official acceptance letter from the CSRC on 16 June 2021, pursuant to which the CSRC had accepted the Company’s application for the Proposed Conversion and Listing. As at the date of this announcement, the details of implementation of the Proposed Conversion and Listing have not been finalized. The Company will make further announcements on the progress of the Proposed Conversion and Listing in compliance with the applicable requirements under the Listing Rules.

Equity Subscription of Shanghai Healing

Reference is made to the announcements of the Company dated 7 June 2021, 8 June 2021 and 29 July 2021 in relation to first capital increase and equity subscription of Shanghai Healing Medical Instruments Co. Ltd.* (上海翰凌醫療器械有限公司) (“**Shanghai Healing**”) by Ningbo Hansheng Enterprise Management Partnership (Limited Partnership)* (寧波翰昇企業管理合夥企業(有限合夥)) (the “**Share Incentive Platform**”) and Dr. Liang Dongke (梁棟科) (the “**First Equity Subscription**”) and the second capital increase and equity subscription of Shanghai Healing by Shanghai Huaige Int Start-up Investment Limited Partnership (L.P.)* (上海懷格瑛泰創業投資合夥企業(有限合夥)) (“**Huaige Int**”) and Mr. Ke Wei (柯偉) (the “**Second Equity Subscription**”).

As the First Equity Subscription and the Second Equity Subscription took place within a 12-month period with respect to the same subsidiary of the Company, the First Equity Subscription and the Second Equity Subscription shall be aggregated pursuant to Rule 14A.81 of the Listing Rules. As one or more of the applicable percentage ratios in respect of the assets of Shanghai Healing and the consideration of the First Equity Subscription and the Second Equity Subscription in aggregate exceed 0.1% are less than 5%, the First Equity Subscription and the Second Equity Subscription constitute connected transactions which are subject to the reporting, and announcement requirements but is exempt from independent Shareholders’ approval requirements under Chapter 14A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The funds will be paid in full by the Share Incentive Platform, Dr. Liang Dongke, Huaige Int and Mr. Ke Wei, and will be used as working capital of Shanghai Healing for the research and development of products related to heart valve and its pipeline products include transcatheter aortic valve replacement, expandable vascular sheath and self-localization valvuloplasty balloon catheter.

OUTLOOK FOR THE SECOND HALF OF 2021

In the second half of 2021, we remain reasonably optimistic about sustaining our core business despite the economic uncertainties owing to the COVID-19 (“COVID-19”). We will continue to (1) explore potential opportunities to develop our core and related business, and strengthen and maintain our leading position in the interventional medical devices industry; and (2) further develop the product pipeline, allocate more resources for research and development, further progress on the research and development, core product pipeline and obtain approvals for new products.

FINANCIAL REVIEW

REVENUE

The Group’s revenue in the Reporting Period was approximately RMB180.61 million, representing an increase of approximately 5.10% or approximately RMB8.77 million as compared to approximately RMB171.84 million for the six-month period ended 30 June 2020.

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 RMB171.71 million (six-month period ended 30 June 2020: RMB116.70 million), representing an increase of RMB55.01 million as compared to those of the six-month period ended 30 June 2020. The Group’s revenue generated from sales of masks and medical accessories in the Reporting Period was approximately RMB0.35 million and RMB4.92 million (six-month period ended 30 June 2020: RMB43.68 million and RMB6.18 million) respectively.

Cost of Sales

The cost of sales in the Reporting Period was approximately RMB64.68 million, representing an increase of approximately 11.48% or approximately RMB6.66 million as compared to approximately RMB58.02 million for the six-month period ended 30 June 2020.

Gross Profit and Gross Profit Margin

During the Reporting Period, gross profit was approximately RMB115.94 million, as compared to approximately RMB113.82 million for the six-month period ended 30 June 2020. Gross profit margin decreased from 66.24% for the six-month period ended 30 June 2020 to 64.19% for the six-month period ended 30 June 2021. The revenue generated from sales of masks which had a higher profit margin was approximately RMB43.68 million for the six-month period ended 30 June 2020, while the revenue generated from sales of masks for the Reporting Period was RMB0.35 million.

Other Income

During the Reporting Period, other income was approximately RMB23.45 million, representing a decrease of approximately 5.52% or approximately RMB1.37 million as compared to approximately RMB24.82 million for the six-month period ended 30 June 2020.

Finance Costs

During the Reporting Period, the finance cost was approximately RMB0.32 million as compared to approximately RMB0.05 million for the six-month period ended 30 June 2020. The finance costs were interests arising from lease liabilities.

Distribution Costs

The distribution costs in the Reporting Period were approximately RMB13.42 million, increased by approximately 5.17% or approximately RMB0.66 million as compared to approximately RMB12.76 million for the six-month period ended 30 June 2020, which increased in line with revenue. It constituted 7.43% of the total revenue as compared to 7.42% for the six-month period ended 30 June 2020, which remained stable.

Administrative Expenses

The administrative expenses of the Group in the Reporting Period were approximately RMB20.70 million, as compared to approximately RMB19.08 million for the six-month period ended 30 June 2020.

Research and Development Expenses

The research and development expenses of the Group in the Reporting Period were approximately RMB45.06 million, representing an increase of approximately 49.11% or approximately RMB14.84 million as compared to approximately RMB30.22 million for the six-month period ended 30 June 2020. The rise was primarily due to the Group's continued development and commercialisation of the existing and new pipeline products during the Reporting Period.

Income Tax Expenses

The income tax expenses in the Reporting Period was approximately RMB8.57 million, representing a decrease of approximately 27.50% or approximately RMB3.25 million as compared to approximately RMB11.82 million for the six-month period ended 30 June 2020. The effective income tax rate was 14.32% for the Reporting Period as compared to 15.44% for the six-month period ended 30 June 2020. According to the PRC income tax law and its relevant regulations, an additional 100% (six-month period ended 30 June 2020: 75%) of qualified research and development expenses so incurred is allowed to be deducted from taxable income during the Reporting Period.

Profit for the period

The Group's profit for the Reporting Period was approximately RMB51.29 million, representing a decrease of approximately 20.72% as compared to approximately RMB64.70 million for the six-month period ended 30 June 2020. The decrease was mainly due to more research and development expenses occurred for the existing and new products in pipeline during the Reporting Period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during the Reporting Period. As at 30 June 2021, the Group's cash and cash equivalents amounted to approximately RMB719.72 million (31 December 2020: RMB870.13 million). For the six-month period ended 30 June 2021, net cash flow from operating activities of the Group amounted to approximately RMB24.00 million (six-month period ended 30 June 2020: RMB46.90 million).

The Group recorded total current assets of approximately RMB880.42 million as at 30 June 2021 (31 December 2020: approximately RMB1,048.12 million) and total current liabilities of approximately RMB75.76 million as at 30 June 2021 (31 December 2020: approximately RMB88.31 million). The current ratio (calculated by dividing the current assets by the current liabilities) of the Group was approximately 11.62 as at 30 June 2021 (31 December 2020: approximately 11.87).

BORROWINGS AND GEARING RATIO

The Group has no bank borrowings or other borrowings as at 30 June 2021 and 31 December 2020. As such, the gearing ratio is not applicable.

CAPITAL STRUCTURE

Total equity attributable to equity shareholders of the Company amounted to approximately RMB1,274.44 million as at 30 June 2021 as compared to approximately RMB1,305.65 million as at 31 December 2020.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six-month period ended 30 June 2021.

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 30 June 2021, the Company has utilized approximately RMB283.39 million of the net proceeds. As disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 28 October 2019 and the announcements of the Company dated 7 July 2020 and 31 March 2021, the details of intended application of net proceeds are set out as follows:

	Revised allocation of net proceeds (RMB million)	Utilized net proceeds up to 30 June 2021 (RMB million)	Unutilized net proceeds up to 30 June 2021 (RMB million)	Expected timeline of full utilization of the unutilized net proceeds
Set up a research and development center and an additional facility in Jiading, Shanghai	271.99	119.59	152.40	December 2022
Purchase additional and replacement of existing production equipment and automate production lines	110.07	10.74	99.33	December 2022
Expand our distribution network and coverage, collaborate with local distributors and intensify our marketing efforts	69.39	2.98	66.41	December 2022
General corporate purposes and fund our working capital	79.84	79.84	–	Not applicable
Zhuhai Derui New Factory Project	110.00	63.60	46.40	December 2021
Construction of the Shandong INT Innovative Medical Instruments Industrial Park	156.33	6.64	149.69	December 2022
Total	<u>797.62</u>	<u>283.39</u>	<u>514.23</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 30 June 2021, the Group had a total of 1,100 employees, comparing to 967 employees as at 31 December 2020. The total cost of employees for the Reporting Period amounted to approximately RMB70.75 million (six-month period ended 30 June 2020: approximately RMB49.77 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

As at 30 June 2021 and 31 December 2020, the Group had below significant investments.

	At 30 June 2021					At 31 December 2020				
	Percentage	Cost of	Fair Value	Accumulated losses/(gain)	Dividend Received	Percentage	Cost of	Fair Value	Accumulated losses	Dividend Received
	of interests	investment				of interests	investment			
	%	RMB'000	RMB'000	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	RMB'000
Recognised as "financial assets at fair value through profit or loss"										
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")	15.83	37,500	48,048	(10,548)	-	15.83	25,000	24,340	660	-
Shanghai Huaige Int Start-up Investment Limited Partnership (L.P.)* (上海懷格瑞泰創業投資合夥企業(有限合夥))										
(the "Int Fund")	25.00	25,000	24,777	223	-	29.41	25,000	24,720	280	-
		62,500	72,825	(10,325)	-		50,000	49,060	940	-

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 services industries mainly in the PRC and investments in other equity funds with focus of investing in the medical device and biomedical fields. The Group has made additional investment of RMB12.50 million to Ruixin Fund for the six-month period ended 30 June 2021.

The primary objective of the 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.

The Group will make further capital contribution of RMB12.50 million and RMB25.00 million to Ruixin Fund and Int Fund, respectively, in 2021.

Save as disclosed above, the Group has no other significant investment in the six-month ended 30 June 2021.

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 30 June 2021 and 31 December 2020, the Group did not have any material contingent liabilities.

FINANCIAL INSTRUMENTS

As at 30 June 2021, the Group had entered into foreign currency forward contracts to reduce its exposure to fluctuation in foreign exchange rate, with a carrying amount of RMB32 thousand under financial assets at FVTPL (31 December 2020: RMB131 thousand). These foreign currency forward contracts are not hedge accounted.

The Group did not have any other outstanding hedge contracts or financial derivate 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 RMB141.35 million for the Reporting Period (six-month period ended 30 June 2020: approximately RMB23.94 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 30 June 2021, the Group did not have any charges on its assets.

CAPITAL COMMITMENT

The Group’s outstanding capital commitments authorized but not contracted for at 30 June 2021 not provided for in the financial statements amounted to approximately RMB299.37 million (31 December 2020: RMB230.85 million). The Group’s outstanding capital commitment contracted for at 30 June 2021 not provided for in the financial statements amounted to approximately RMB234.80 million (31 December 2020: RMB309.12 million).

MATERIAL EVENTS AFTER THE REPORTING PERIOD

Reference is made to the Company's announcement dated 29 July 2021 in relation to the capital increase agreement among the Company, Huaige Int, Mr. Ke Wei and the other existing shareholders of Shanghai Healing, pursuant to which, the share capital of Shanghai Healing will be increased from RMB58,150,000 to RMB61,210,526. Huaige Int and Mr. Ke Wei subscribed for a total of 5% enlarged equity interest of Shanghai Healing at a cash consideration of RMB50,000,000 in aggregate. The consideration was determined with reference to the then fair value of equity interests of Shanghai Healing as determined by an independent valuation firm.

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 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 2021 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
18 August 2021

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