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Vincent Medical Holdings Limited

永勝醫療控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1612)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

HIGHLIGHTS

- ✧ Revenue for the six months ended 30 June 2022 was HK\$280.7 million, representing a decrease of 24.3% as compared to HK\$370.7 million for the six months ended 30 June 2021.
- ✧ Revenue of the respiratory products segment decreased by 40.5%, mainly due to the slower-than-expected collaboration progress and normalised post-COVID market demand.
- ✧ Increase in product price and production efficiency outweighed by change in product mix and rising raw material and logistics cost, which impacted gross profit margin.
- ✧ Consolidated net loss of HK\$44.3 million, primarily due to the allowance for inventories of HK\$43.2 million. Effect of such non-cash item on the Group's overall cash position is minimal.
- ✧ Continued its long-term “device + disposable” growth strategy through technological innovation and collaborations with global med-tech conglomerates.
- ✧ In light of the solid financial position of the Group and in celebration of the Company's 25th anniversary, the Board has resolved to declare a special dividend (the “**Special Dividend**”) of HK2.5 cents per share (2021 interim dividend: HK2.0 cents per share) payable on or around Friday, 30 September 2022.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Vincent Medical Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2022 (“**1H2022**” or the “**Period**”), together with the comparative figures for the previous corresponding period (“**1H2021**”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

		Six months ended 30 June	
	<i>Note</i>	2022	2021
		HK\$’000	HK\$’000
		(unaudited)	(unaudited)
Revenue	4	280,731	370,704
Cost of sales		<u>(243,944)</u>	<u>(245,013)</u>
Gross profit		36,787	125,691
Other income, other gains and losses		3,244	4,665
Selling and distribution expenses		(14,965)	(18,670)
Administrative expenses		(50,388)	(42,014)
Research and development expenses		<u>(16,538)</u>	<u>(20,402)</u>
(Loss)/Profit from operations		(41,860)	49,270
Finance costs		(1,414)	(1,498)
Share of losses of associates		(374)	(1,656)
Share of profits/(losses) of joint ventures		<u>52</u>	<u>(474)</u>
(Loss)/Profit before tax		(43,596)	45,642
Income tax expense	5	<u>(658)</u>	<u>(5,609)</u>
(Loss)/Profit for the period	6	<u>(44,254)</u>	<u>40,033</u>
Attributable to:			
Owners of the Company		(44,363)	41,859
Non-controlling interests		109	(1,826)
		<u>(44,254)</u>	<u>40,033</u>
(Loss)/Earnings per share			
Basic	8	<u>(HK6.78 cents)</u>	<u>HK6.42 cents</u>
Diluted		<u>n/a</u>	<u>HK6.32 cents</u>

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

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
(Loss)/Profit for the period	<u>(44,254)</u>	<u>40,033</u>
Other comprehensive income:		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value changes of equity investments at fair value through other comprehensive income (“FVTOCI”)	<u>(918)</u>	<u>3,613</u>
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>(17,757)</u>	<u>3,483</u>
Other comprehensive income for the period, net of tax	<u>(18,675)</u>	<u>7,096</u>
Total comprehensive income for the period	<u><u>(62,929)</u></u>	<u><u>47,129</u></u>
Attributable to:		
Owners of the Company	<u>(62,129)</u>	48,982
Non-controlling interests	<u>(800)</u>	<u>(1,853)</u>
	<u><u>(62,929)</u></u>	<u><u>47,129</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2022

		30 June 2022	31 December 2021
	<i>Note</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		110,402	115,616
Right-of-use assets		29,342	7,464
Other intangible assets		9,261	11,954
Investments in associates		1,032	1,404
Investments in joint ventures		9,967	10,424
Equity investments at FVTOCI		42,714	43,632
Non-current deposits		10,584	14,906
Deferred tax assets		1,234	–
		214,536	205,400
Total non-current assets			
Current assets			
Inventories		195,682	243,161
Trade receivables	9	139,851	167,229
Contract assets		11,114	16,519
Prepayments, deposits and other receivables		31,896	40,679
Bank and cash balances		163,992	173,167
		542,535	640,755
Total current assets			
		757,071	846,155
TOTAL ASSETS			
EQUITY AND LIABILITIES			
Share capital	11	6,533	6,550
Reserves		513,296	591,811
		519,829	598,361
Equity attributable to owners of the Company		519,829	598,361
Non-controlling interests		1,272	2,072
		521,101	600,433
Total equity			

		30 June 2022	31 December 2021
	<i>Note</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
Non-current liabilities			
Lease liabilities		13,325	4,893
Deferred tax liabilities		6,949	8,021
		<hr/>	<hr/>
Total non-current liabilities		20,274	12,914
		<hr/>	<hr/>
Current liabilities			
Trade payables	10	43,466	65,266
Other payables and accruals		84,692	89,529
Lease liabilities		16,553	2,814
Borrowings		51,362	55,251
Current tax liabilities		19,623	19,948
		<hr/>	<hr/>
Total current liabilities		215,696	232,808
		<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES		757,071	846,155
		<hr/> <hr/>	<hr/> <hr/>
Net current assets		326,839	407,947
		<hr/> <hr/>	<hr/> <hr/>
Total assets less current liabilities		541,375	613,347
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

1. BASIS OF PREPARATION

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

These condensed consolidated financial statements should be read in conjunction with the 2021 annual financial statements. The accounting policies (including the critical judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2021.

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

The accounting policies applied in these condensed consolidated financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2021. In the Period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2022 but they do not have a material effect on the Group’s consolidated financial statements.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing these condensed consolidated interim financial statements.

3. SEGMENT INFORMATION

Information about reportable segment profit or loss:

	OBM <i>HK\$'000</i> (unaudited)	OEM <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
Six months ended 30 June 2022			
Revenue from external customers	93,084	187,647	280,731
Segment (loss)/profit	<u>(51,573)</u>	<u>17,867</u>	<u>(33,706)</u>
Six months ended 30 June 2021			
Revenue from external customers	160,131	210,573	370,704
Segment profit	<u>21,856</u>	<u>31,048</u>	<u>52,904</u>

Reconciliation of reportable segment profit or loss:

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (unaudited)
Total profit or loss of reportable segments	(33,706)	52,904
Interest income	144	160
Interest expenses	(1,414)	(1,498)
Share-based payments	(1,301)	(179)
Share of losses of associates	(374)	(1,656)
Share of profits/(losses) of joint ventures	52	(474)
Unallocated corporate income	1,969	2,593
Unallocated corporate expenses	<u>(8,966)</u>	<u>(6,208)</u>
Consolidated (loss)/profit before tax	<u>(43,596)</u>	<u>45,642</u>

Revenue from major customers:

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (unaudited)
OEM segment		
Customer A	98,667	107,294
Customer B	<u>33,010</u>	<u>42,911</u>

4. REVENUE

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

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

	Six months ended 30 June (unaudited)					
	OBM		OEM		Total	
	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By product category						
Respiratory products	87,955	154,895	34,088	50,196	122,043	205,091
Imaging disposable products	–	–	92,555	100,248	92,555	100,248
Orthopaedic and rehabilitation products	5,129	5,236	30,039	32,353	35,168	37,589
Other products	–	–	30,965	27,776	30,965	27,776
	<u>93,084</u>	<u>160,131</u>	<u>187,647</u>	<u>210,573</u>	<u>280,731</u>	<u>370,704</u>
By geographical market						
The United States (the "US")	1,974	3,684	153,656	173,236	155,630	176,920
The People's Republic of China (the "PRC")	38,630	61,469	–	–	38,630	61,469
Japan	20,568	7,779	6,330	9,822	26,898	17,601
Costa Rica	–	–	8,542	4,230	8,542	4,230
The Netherlands	–	627	7,735	15,052	7,735	15,679
India	2,771	13,752	–	–	2,771	13,752
Turkey	2,570	10,767	–	–	2,570	10,767
Thailand	111	12,396	–	–	111	12,396
Others	26,460	49,657	11,384	8,233	37,844	57,890
	<u>93,084</u>	<u>160,131</u>	<u>187,647</u>	<u>210,573</u>	<u>280,731</u>	<u>370,704</u>
By timing of revenue recognition						
Products transferred at a point in time	93,084	160,131	95,092	110,325	188,176	270,456
Products transferred over time	–	–	92,555	100,248	92,555	100,248
	<u>93,084</u>	<u>160,131</u>	<u>187,647</u>	<u>210,573</u>	<u>280,731</u>	<u>370,704</u>

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

	30 June 2022	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Receivables, which included in “trade receivables”	139,851	167,229
Contract assets	11,114	16,519
	<u><u>139,851</u></u>	<u><u>167,229</u></u>

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

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Current tax - Hong Kong Profits Tax		
Provision for the period	251	4,397
Current tax - the PRC		
Provision for the period	66	1,332
Current tax - Others		
Provision for the period	1,425	–
Under-provision in prior years	959	–
	<u><u>2,384</u></u>	–
Deferred tax	<u><u>(2,043)</u></u>	<u><u>(120)</u></u>
	<u><u>658</u></u>	<u><u>5,609</u></u>

Under the two-tiered profits tax regime, the first HK\$2.0 million of profits of the qualifying group entity established in Hong Kong will be taxed at 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. The profits of the group entities not qualifying for the two-tiered profits tax rate regime will continue to be taxed at a rate of 16.5% (six months ended 30 June 2021: 16.5%).

PRC Corporate Income Tax has been provided at tax rates ranging from 15% to 25% for the six months ended 30 June 2022 (six months ended 30 June 2021: 15% to 25%).

Tax charge on profits assessable elsewhere have been calculated at the rates prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

6. (LOSS)/PROFIT FOR THE PERIOD

The Group's (loss)/profit for the Period is arrived at after (crediting)/charging:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Allowance for inventories (included in cost of inventories sold) (Note)	43,187	–
Amortisation	1,758	3,079
Cost of inventories sold	243,944	245,013
Depreciation of property, plant and equipment	10,503	10,231
Depreciation of right-of-use assets	8,799	7,179
Directors' emoluments	3,528	3,337
Equity-settled share-based payments	1,301	179
Exchange loss/(gain), net (included in other gains and losses)	1,615	(77)
Staff costs including directors' emoluments	96,759	106,640
Gain on disposal of other intangible assets (included in other gains and losses)	(621)	–
Write off of property, plant and equipment (included in other gains and losses)	86	190
	<u>86</u>	<u>190</u>

Note:

In 2020 and early 2021, the Group experienced a substantial surge in demand of the Group's respiratory products due to the COVID-19 outbreak. As a result, the Group had increased the inventory level for some highly-tailored raw materials to cater for the then growing demand. During the Period, the performance of the Group's respiratory products segment fell short of the Group's earlier forecasts and the relevant inventories had been moving much slower than expected. Taking into account the market uncertainties, the residual value of the inventories and the expected performance of the Group's respiratory products segment, an allowance for slow-moving and/or obsolete inventories of approximately HK\$43,187,000 was made during the Period.

7. DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: HK2.0 cents per share).

The Board has resolved to declare the Special Dividend of HK2.5 cents per share.

The final dividend of HK2.5 cents per share amounting to approximately HK\$16,353,000 for the year ended 31 December 2021 has been approved and paid on 24 June 2022.

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share is based on the following:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss)/Earnings		
(Loss)/Profit attributable to owners of the Company, used in the basic and diluted (loss)/earnings per share calculation	<u>(44,363)</u>	<u>41,859</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	654,153	652,263
Effect of dilutive potential ordinary shares arising from share options issued by the Company (<i>Note</i>)	<u>n/a</u>	<u>9,620</u>
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	<u>n/a</u>	<u>661,883</u>

Note:

The effect of all potential ordinary shares are anti-dilutive for the six months ended 30 June 2022.

9. TRADE RECEIVABLES

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

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

	30 June 2022 HK\$'000 (unaudited)	31 December 2021 HK\$'000 (audited)
0 to 30 days	46,284	47,636
31 to 60 days	37,695	41,207
61 to 90 days	30,597	27,732
Over 90 days	25,275	50,654
	<u>139,851</u>	<u>167,229</u>

10. TRADE PAYABLES

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

	30 June 2022 HK\$'000 (unaudited)	31 December 2021 HK\$'000 (audited)
0 to 30 days	25,680	52,162
31 to 60 days	5,946	7,887
Over 60 days	11,840	5,217
	<u>43,466</u>	<u>65,266</u>

11. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares		
Authorised		
At 1 January 2021, 31 December 2021 and 30 June 2022	10,000,000	100,000
Issued and fully paid		
At 1 January 2021 (audited)	650,598	6,506
Shares issued under share option schemes	5,812	58
Cancellation of shares	(1,402)	(14)
At 31 December 2021 (audited)	655,008	6,550
Shares issued under a share option scheme (<i>Note (i)</i>)	264	2
Cancellation of shares (<i>Note (ii)</i>)	(1,936)	(19)
At 30 June 2022 (unaudited)	653,336	6,533

Notes:

- (i) During the six months ended 30 June 2022, 264,000 shares were issued under a share option scheme at a subscription price of HK\$0.80 per share for a total cash consideration of approximately HK\$211,000.
- (ii) During the year ended 31 December 2021, the Company repurchased 1,592,000 shares at approximately HK\$1,620,000, of which 1,402,000 shares were cancelled before 31 December 2021. The remaining 190,000 shares at approximately HK\$197,000 were cancelled on 26 January 2022. During the six months ended 30 June 2022, the Company repurchased 1,746,000 shares at approximately HK\$1,562,000 (including expenses), which were cancelled before the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

The COVID-19 pandemic continued to bring both business opportunities and uncertainties to the Group. During the Period, the rising geopolitical risk and the resurgence of COVID-19 have posted challenges to our production. Macro uncertainties have led to unpredictable raw material supply, whereas the subsequent lockdowns in the PRC have led to lowered sales of respiratory and anaesthesia products in the mainland and temporary delay in product registrations and thus market penetration.

Nonetheless, while the rapid developments of COVID-19 continued to test the Group's resilience, Vincent Medical continued with its value proposition of putting "Patients First" by developing and providing its device and disposables to those in need. Our collaborations with global med-tech groups continued to gain steady progress. During the Period, our primary focus was on product localisation, i.e. revising all aspects of the devices so that it meets the cultural, regulatory and usage standards of the major markets under the collaboration, as well as complying with the standards and requirements of our partners. We are confident that these collaborations will generate sustainable product demand, allowing the Group to capture greater market share through co-developed solutions with our partners.

The Group also made progress in the product registration for its devices and disposables in various Latin American countries with maiden sales to Nicaragua and Mexico recorded during the Period.

RESPIRATORY PRODUCTS SEGMENT

	Six months ended 30 June (unaudited)		Change
	2022 <i>HK'000</i>	2021 <i>HK'000</i>	
O2FLO	3,250	30,786	-89.4%
O2FLO disposables	2,878	26,308	-89.1%
VHB Humidifier	8,539	11,828	-27.8%
VHB Humidifier disposables	27,884	31,846	-12.4%
Other respiratory products	45,404	54,127	-16.1%
OEM respiratory products	34,088	50,196	-32.1%
Total	122,043	205,091	-40.5%

As the current COVID strains show less mortality, coupled with a higher global vaccination rate, there was a significant reduction in the number of patients that require critical care. In addition, with hospital critical care spending also shown a downward-trend. As a result, the revenue of the Group's respiratory products segment decreased by 40.5% to HK\$122.0 million (1H2021: HK\$205.1 million). Segment gross margin also decreased from 39.3% to 33.0% (excluding the effect of allowance for inventories).

In particular, sales of inspired™ O2FLO high flow respiratory humidifier (the "O2FLO") and VHB series humidifiers (the "VHB Humidifier") has dropped by 89.4% and 27.8% to HK\$3.3 million and HK\$8.5 million, respectively. Sales of the respective dedicated disposables also dropped from HK\$26.3 million and HK\$31.8 million to HK\$2.9 million and HK\$27.9 million, respectively.

Taking into account of market uncertainties and in accordance with the Group's accounting policies, the Group reported an inventory allowance of HK\$43.2 million during the Period on a prudent basis. Despite its rather significant impact on profit, the provision is non-cash in nature and the Group expects the raw materials will be used as demand for respiratory care devices prevail.

Other respiratory products

Other respiratory products include respiratory filters, respiratory and anaesthesia circuits and other disposables. As the demand for such products continued to normalise, its revenue has declined by 16.1% to HK\$45.4 million (1H2021: HK\$54.1 million).

OEM respiratory products

For the Period, sales of OEM respiratory products decreased by 32.1% to HK\$34.1 million (1H2021: HK\$50.2 million). This was the result of normalised demand, following the decrease in ad-hoc COVID orders.

IMAGING DISPOSABLE PRODUCTS SEGMENT

The Group continued to manufacture and sell imaging disposable products on an OEM basis to one of the world's leading solutions providers of diagnostic imaging. During the Period, revenue of the imaging disposable products segment was HK\$92.6 million, representing a decrease of 7.6% (1H2021: HK\$100.2 million). The decrease was primarily due to supply chain disruption and shipment delay during the Period. Yet, segment gross margin strengthened from 27.9% to 31.3%.

ORTHOPAEDIC AND REHABILITATION PRODUCTS SEGMENT

	Six months ended 30 June		Change
	(unaudited)		
	2022	2021	
	HK'000	HK'000	
OBM orthopaedic and rehabilitation products	5,129	5,236	-2.0%
OEM orthopaedic and rehabilitation products	30,039	32,353	-7.2%
	<u> </u>	<u> </u>	
Total	<u>35,168</u>	<u>37,589</u>	-6.4%

During the Period, with the suspension of non-emergency medical services in some countries, sales of orthopaedic and rehabilitation products segment dropped from HK\$37.6 million to HK\$35.2 million, representing a decrease of 6.4%. Due to the decline in production volume and hence production efficiency, gross profit margin for the segment dropped from 30.9% to 24.0% (excluding the effect of allowance for inventories).

OTHER PRODUCTS

Other products include infusion regulators, moulds, surgical disposables, patient warming blankets and plastic disposable products. Revenue from other products increased by 11.5% from HK\$27.8 million to HK\$31.0 million.

INVESTMENTS AND COLLABORATION

Inovytec Medical Solutions Limited (“**Inovytec**”) continued to expand the market reach for its critical medical solutions. Its family of transport and emergency ventilators were launched in the US during the Period. Following the decline in COVID-19 demand, the Group expects the total addressable market of portable ventilators will grow by approximately 60% in the next five years, and therefore remains optimistic over Inovytec’s long-term business prospects.

Fresca Medical Inc. (“**Fresca**”) has been facing severe challenges to the survival of the business since 2020 with operational and financial performance fall short of plans. Despite various measures undertaken toward recovery, it is determined that there is no longer any benefits in continuing the business. Hence, the board of Fresca resolved to dissolve and liquidate the company, and the dissolution procedure was completed in April 2022. Since the Group has already recognised a full impairment loss on Fresca in the previous financial year, the dissolution of Fresca does not have any financial impact to the Group during the Period.

OUTLOOK

Albeit the short-term challenges, the Group remains confident in the sustainability and long-term development of its business. Even though the demand for respiratory products was weakened during the Period, we continue to see greater awareness and adoption of high-flow oxygen therapy. With our inspired™ O2FLO (for home use) being included in Japan's national health insurance reimbursement scheme since May 2022, our growing installed base would not only demonstrate our competitiveness and market recognition, its gaining brand profile would also attract new user adoption, laying a solid foundation for future disposables sales.

We will continue to deeply collaborate with industry-leading players, so that we can develop a comprehensive solution that can provide more values to patients. Leveraging their extensive distribution network and product know-how, the collaborations would allow us to breakthrough entry barriers in overseas markets and strategically prepare ourselves to capture opportunities at the present and in a post-COVID world.

All in all, the Group believes that the long-term market demand for its products remain solid, and the operating environment is expected to improve after the transition year of 2022.

FINANCIAL REVIEW

REVENUE

Total revenue for the Period amounted to HK\$280.7 million (1H2021: HK\$370.7 million), representing a decrease of 24.3%. The decrease was primarily due to the 40.5% drop in revenue from the respiratory products segment, as demand for respiratory products has returned to pre-pandemic levels.

In terms of geographical market, the US and the PRC each accounted for 55.4% (1H2021: 47.7%) and 13.8% (1H2021: 16.6%) of the Group's total revenue, respectively. Sales to Japan increased by 52.8% from HK\$17.6 million to HK\$26.9 million and accounted for 9.6% of 1H2022 revenue (1H2021: 4.7%), attributable to the higher penetration of inspired™ devices in hospital chains.

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit decreased by 70.7% to HK\$36.8 million (1H2021: HK\$125.7 million). If excluding the allowance of inventories of HK\$43.2 million, gross profit for the Period amounted to HK\$80.0 million. The decrease was mainly attributable to the decrease in sales and production volume of the Group's respiratory products. Gross profit margin declined from 33.9% to 13.1% (28.5%, if excluding allowance for inventories), primarily due to the change in product mix and the Group's fixed production overhead and direct cost. The COVID-19 prevention and control measures in the PRC and other countries, together with the shortage of global logistic capacity as well as the drastic increase in logistic costs, have also put further pressure to the Group's gross profit margin. These factors have more than offset the positive impact from product price increase and cost efficiency improvement on the production side.

OTHER INCOME

Other income mainly comprises government subsidies and rental support for tenants at Song Shan Lake Technology Park. During the Period, other income decreased from HK\$4.8 million to HK\$4.3 million.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses decreased by 19.8% to HK\$15.0 million (1H2021: HK\$18.7 million). As a percentage of revenue, such expenses slightly increased to 5.3% (1H2021: 5.0%).

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 20.0% to HK\$50.4 million (1H2021: HK\$42.0 million), accounting for 17.9% of total revenue (1H2021: 11.3%). The increase was primarily due to the additional management and administrative costs incurred for new expansion projects in the OEM business segment.

RESEARCH AND DEVELOPMENT EXPENSES

During the Period, the Group continued to invest in its research and development capabilities. Research and development costs for the Period amounted to HK\$16.5 million (1H2021: HK\$20.4 million), corresponding to 5.9% (1H2021: 5.5%) of the Group's revenue.

INCOME TAX EXPENSE

During the Period, the Group recorded income tax expense of HK\$0.7 million (1H2021: HK\$5.6 million), which was attributable to the lower income and the recognition of deferred tax.

LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

As a result of the foregoing, the Group recorded a loss attributable to owners of the Company of HK\$44.4 million (1H2021: profit attributable to owners of the Company of HK\$41.9 million).

PROPERTY, PLANT AND EQUIPMENT

The Group incurred capital expenditure of HK\$4.6 million (1H2021: HK\$9.2 million) during the Period, which mainly included the purchase of additional machineries, tooling and equipment. As at 30 June 2022, property, plant and equipment was HK\$110.4 million (31 December 2021: HK\$115.6 million).

RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

As at 30 June 2022, right-of-use assets and lease liabilities amounted to HK\$29.3 million (31 December 2021: HK\$7.5 million) and HK\$29.9 million (31 December 2021: HK\$7.7 million), respectively. The increase was primarily attributable to the renewal of tenancy agreement of the Group's facilities in Dongguan, the PRC.

INVENTORIES

Inventories as at 30 June 2022 was HK\$195.7 million (31 December 2021: HK\$243.2 million). The decrease was mainly attributable to the substantial increase in allowance for slow-moving and/or obsolete inventories.

In 2020 and early 2021, the Group experienced a substantial surge in demand of the Group's respiratory products due to the COVID-19 outbreak. As a result, the Group had increased the inventory level for some highly-tailored raw materials to cater for the then growing demand. During the Period, the performance of the Group's respiratory products segment fell short of the Group's earlier forecasts and the relevant inventories had been moving much slower than expected. Taking into account the market uncertainties, the residual value of the inventories and the expected performance of the Group's respiratory products segment, an allowance for slow-moving and/or obsolete inventories of HK\$43.2 million was made during the Period.

TRADE RECEIVABLES

Trade receivables as at 30 June 2022 was HK\$139.9 million (31 December 2021: HK\$167.2 million). The Group is comfortable with the quality of the receivables, and will continue to exercise due care in managing its credit exposure.

LIQUIDITY AND FINANCIAL RESOURCES AND BORROWINGS

Bank and cash balances as at 30 June 2022 was HK\$164.0 million (31 December 2021: HK\$173.2 million). This was a result of the net cash inflow from operating activities of HK\$26.4 million, net cash outflow from investing activities of HK\$4.5 million, net cash outflow from financing activities of HK\$29.5 million, and the negative effect of foreign exchange rate changes of HK\$1.6 million. Most of the bank and cash balances were denominated in HK dollars, US dollars (“**USD**”) and Renminbi (“**RMB**”).

As at 30 June 2022, total borrowings amounted to HK\$51.4 million (31 December 2021: HK\$55.3 million). The net gearing ratio, which was calculated based on the amount of total borrowings divided by the total equity attributable to owners of the Company, was 0.10 (31 December 2021: 0.09). As at 30 June 2022, the Group had unutilised bank facilities of HK\$53.5 million.

HUMAN RESOURCES

As at 30 June 2022, the Group’s total number of full-time employees was 1,248 (31 December 2021: 1,281). The remuneration of employees was determined according to the job nature, relevant experience and qualifications, result of operations of the Group and market condition. We offered senior management performance-based bonus and share options to reward and retain a high calibre management team. We also adopted commission and incentive plans to motivate and reward our sales and marketing team.

During the Period, staff costs including Directors’ emoluments amounted to HK\$96.8 million (1H2021: HK\$106.6 million), representing 34.5% (1H2021: 28.8%) of the Group’s revenue.

CAPITAL STRUCTURE

As at 30 June 2022, the issued share capital of the Company was approximately HK\$6.5 million (31 December 2021: approximately HK\$6.6 million), comprising 653,336,332 shares of the Company (the “**Shares**”) (31 December 2021: 655,008,332 Shares) of nominal value of HK\$0.01 per Share. The difference was attributable to (i) the Shares issued under the pre-IPO share option scheme adopted on 17 June 2016 by the Company; and (ii) the Shares repurchased on the Stock Exchange and were cancelled before the end of the reporting period.

SIGNIFICANT INVESTMENT

As at 30 June 2022, the Company considered that the following equity investment at FVTOCI is significant in nature:

Name of company	Principal business	Approximate percentage of shareholding	Total investment	Fair value of the equity investment		Assets ratio defined under the Listing Rules	
				30 June 2022 (unaudited)	31 December 2021 (audited)	30 June 2022 (unaudited)	31 December 2021 (audited)
Inovytec	An Israeli company that develops medical devices with a focus on routine and emergency respiratory and cardiac failures.	13.68%	US\$3.0 million (equivalent to HK\$23.4 million)	US\$3.0 million (equivalent to HK\$23.8 million)	US\$3.1 million (equivalent to HK\$23.8 million)	3.1%	2.8%

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

MATERIAL ACQUISITIONS AND DISPOSALS

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

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period up to the date of this announcement.

CHARGES ON THE GROUP’S ASSETS

As at 30 June 2022, none of the assets of the Group were pledged.

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have other contingent liabilities.

SPECIAL DIVIDEND

The Board is pleased to announce that in light of the solid financial position of the Group and in celebration of the Company's 25th anniversary, it has resolved to declare the Special Dividend of HK2.5 cents per Share to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on Tuesday, 13 September 2022, being the record date for ascertaining the Shareholders' entitlement to the Special Dividend. The Special Dividend will be paid to the Shareholders on or around Friday, 30 September 2022.

The register of members of the Company will be closed from Thursday, 8 September 2022 to Tuesday, 13 September 2022, both days inclusive, during which period no transfer of the Shares will be registered. In order to establish entitlements to the Special Dividend, the Shareholders must lodge all transfer forms accompanied by the relevant share certificates with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harbour Road, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 7 September 2022.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") RESPONSIBILITY

The Group is committed to the long-term sustainability of its businesses and the communities in which it conducts business, and attaches great importance on reducing energy consumption. The Group is also continually improving its business practices and employee training in such best practices. It has adopted a proactive approach to ESG responsibility and has established a working group chaired by an executive Director and comprising representatives from key departments of the Company to spearhead the ESG initiatives and activities of the Group and to enhance the Group's ESG efforts.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the Corporate Governance Code (the “**CG Code**”) as contained in Appendix 14 to the Listing Rules as its own code of corporate governance. The corporate governance principles of the Company emphasise a quality Board, sound internal controls and risk management, and transparency and accountability to all Shareholders. In the opinion of the Directors, the Company has complied with all the applicable code provision as set out in the CG Code throughout the Period and up to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

The Group's unaudited consolidated interim results for the six months ended 30 June 2022 have been reviewed by the Audit Committee.

RSM Hong Kong, the Company's auditor, has reviewed the unaudited consolidated interim results of the Group for the six months ended 30 June 2022 in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. The auditor's independent review report will be included in the Company's interim report for the six months ended 30 June 2022 to the Shareholders.

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

During the Period, the Company repurchased a total of 1,746,000 Shares on the Stock Exchange at an aggregate consideration of HK\$1,555,820 (before expenses). All the above repurchased Shares were subsequently cancelled during the Period. Details of the Shares repurchased during the Period are as follows:

Month	Number of Shares purchased	Price paid per Share		Aggregate consideration (before expenses)
		Highest HK\$	Lowest HK\$	HK\$
January 2022	972,000	1.03	0.94	964,400
April 2022	304,000	0.79	0.76	236,220
May 2022	470,000	0.76	0.75	355,200
	<u>1,746,000</u>			<u>1,555,820</u>

The above Share repurchases were made with a view to enhancing the earnings per Share of the Company.

Saved for the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Period.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

The interim report of the Company for the six months ended 30 June 2022 containing all the relevant information required by the Listing Rules and the relevant laws and regulations will be dispatched to the Shareholders and available on above websites in due course.

APPRECIATION

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

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

Hong Kong, 23 August 2022

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