



GOLDEN MEDITECH HOLDINGS LIMITED
金衛醫療集團有限公司

(Incorporated in the Cayman Islands with Limited Liability)
(Stock Code: 801.HK)

INTERIM REPORT 2019 / 20



A high-speed photograph of a water splash, creating a circular, shell-like structure of clear water. The splash is centered on the page, with numerous small droplets and ripples radiating outwards. The background is a soft, out-of-focus green with light-colored, leaf-like shapes scattered throughout. The text is centered within the water splash.

**ENHANCING
SHAREHOLDERS'
VALUE**

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CORPORATE PROFILE

Golden Meditech Holdings Limited (the “Company” or “Golden Meditech”; 801.HK), together with its subsidiaries (collectively referred to as the “Group”), is a leading integrated healthcare enterprise in Mainland China.

Golden Meditech is recognised as a first-mover in Mainland China’s healthcare industry. By turning our industry insight into strategies, we have successfully identified opportunities in the market which allow us to establish dominant positions in each of the businesses we operate in. Our strengths in innovation, healthcare expertise, rigorous demand on quality, proven strategies and ability to capture emerging market opportunities have enabled us to unleash the potential of each business unit and effectively accelerated our business growth.

THE HEALTHCARE SERVICES SEGMENT

The Group currently owns three top-quality hospitals in Beijing and Shanghai. Beijing Qinghe Hospital is a general hospital with various faculties, specialised in haematology treatments. Beijing Sunbow Obstetrics & Gynecology Hospital is a world-class obstetrics and gynecology hospital, providing obstetrics, gynecology and pediatric medical services at international standards. Leveraging on its well-known brand and sound reputation, Shanghai East International Medical Center provides premium healthcare services to the affluent people in Shanghai and the surrounding neighbourhoods.

GM-Medicare Management (China) Company Limited, a subsidiary of the Group, is a leading information technology solution provider in healthcare insurance sector in Mainland China. It provides operation and information technology solutions to insurance companies and healthcare institutions.

Equipped with world-class advanced technology and equipment, Shanghai GM LifeBank Co., Ltd., a subsidiary of the Group, provides cells and tissues storage services as well as the technological development, service, consultation and transfer related to the cell biology fields in Mainland China.

Shanghai GM Diagnosis Co., Ltd., a subsidiary of the Group, obtained a Practicing Licence for Medical Institution (醫療機構執業許可證) issued by the Shanghai Municipal Health Commission. It principally engages in the provision of high-end clinical molecular genetic testing and molecular pathology testing services, and has built a CAP (the College of American Pathologists) accredited third-party medical laboratory at international standards.

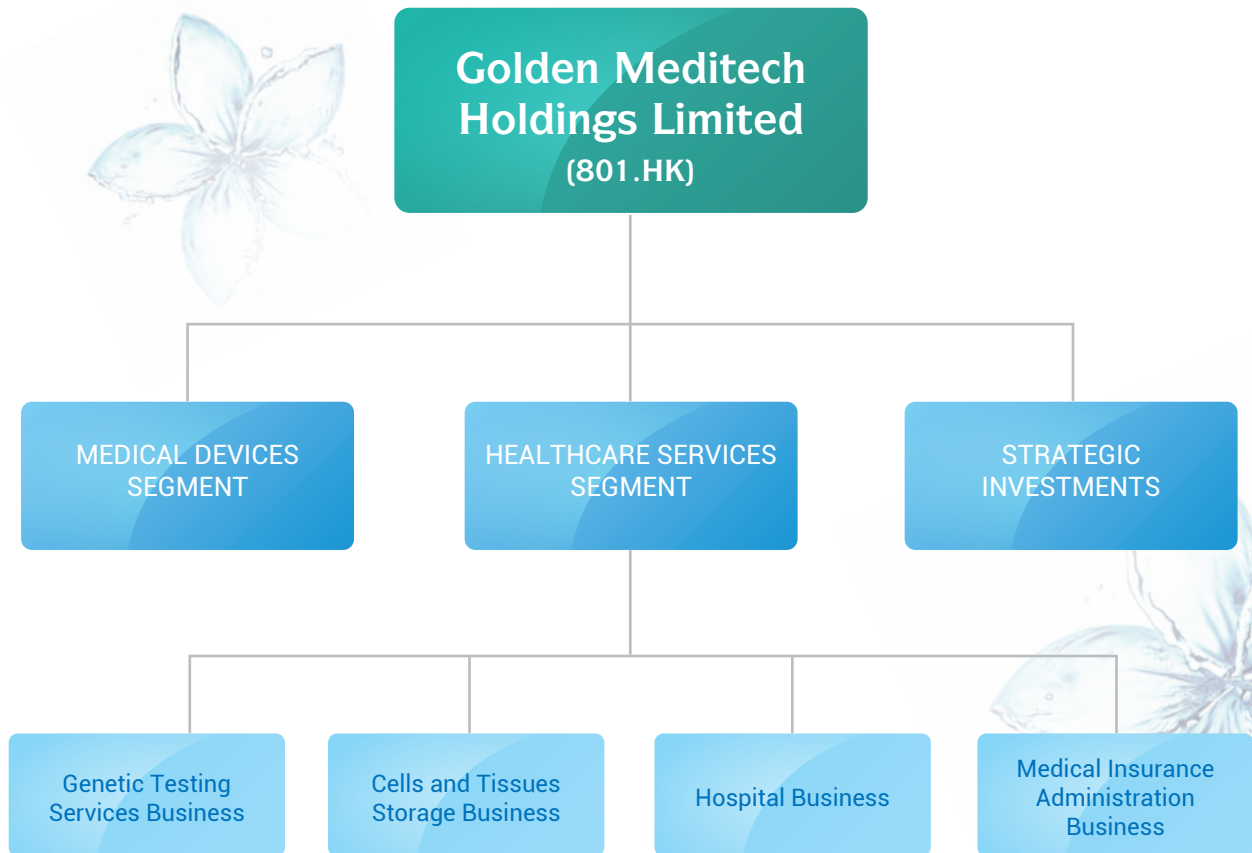
THE MEDICAL DEVICES SEGMENT

The Group is the first-mover in the development, manufacture, sales and distribution of blood-related medical devices in Mainland China. Beijing Jingjing Medical Equipment Co., Ltd., a subsidiary of the Group, manufactures products that are specialised in blood recovery, purification and treatment. Its flagship product Autologous Blood Recovery System was the first device of its kind that obtained approval from the China Food and Drug Administration.

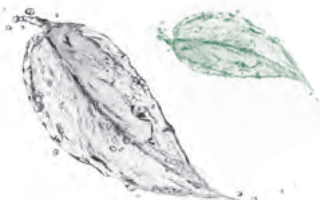
VISION AND MISSION

The Group is committed to achieving long-term sustainable growth through unremittingly cultivating our healthcare services and medical devices operations. We are investing in the healthcare industry with prominent market potentials, limited competition, and high investment returns in order to continuously enhance our shareholders’ value. The Group is striving to maintain our leading position in Mainland China’s integrated healthcare industry, creating a balanced portfolio and enable each business operation to be a leader in its respective market. We adhere closely to the relevant policy of the government through accelerating the consolidation of the business structure. We endeavour to benchmark ourselves alongside the global industry leaders in both quality and standards.

BUSINESS STRUCTURE



The group is committed to achieving long-term sustainable growth through unremittingly cultivating our healthcare services and medical devices operations.





MANAGEMENT DISCUSSION AND ANALYSIS

The management is pleased to present the interim results of Golden Meditech Holdings Limited (the “Company” or “Golden Meditech”, together with its subsidiaries, collectively referred to as the “Group”) for the six months ended 30 September 2019 (the “Reporting Period”). During the Reporting Period, the overall business operations of the Group remained stable, of which the results of the healthcare services segment showed fluctuations.

The progressions of all kinds of industries are affected to a certain extent by the current challenging situations in the global and Chinese economies. However, people are demanding a healthy and quality life as a result of the incremental residents’ income and the upgrading of consumption structure, therefore, creating plenty of opportunities in China’s great healthcare market. The State Council of the People’s Republic of China publishes the “Opinions on the Implementation of Healthy China Initiatives” (《關於實施健康中國行動的意見》) whereby the primary focus on healthcare has been shifted from treating illnesses to enhancing people’s health, and improving the healthy lifestyle. According to statistics from Qianzhan Industry Research Institute, the total great healthcare market spending in China reached RMB7.01 trillion in 2018 and is expected to reach RMB14.09 trillion in 2023. China’s great healthcare sector is still in its early stage of development and enormous potential remains to be fully tapped.

Golden Meditech takes healthcare service business as its strategic focus by proactively promoting the developments of its hospital business, the medical insurance administration business as well as the cells and tissues storage and genetic testing businesses. The Group consolidates the development of medical devices business by expanding its sales channels. Moreover, the Group focuses on innovations and actively develops strategic products in overseas market. This enables the Group to enhancing its research and development capabilities as well as creating technical barriers, so as to achieve sustainable growth.

BUSINESS REVIEW

Golden Meditech is an integrated healthcare enterprise. Its main operations include the healthcare services segment and the medical devices segment. The healthcare services segment currently consists of hospital business, medical insurance administration business, cells and tissues storage business and genetic testing services business. The medical devices segment currently consists of the manufacturing of medical devices and the sale of medical device consumables. In addition, the Group also ventures into precision medicine and auxiliary businesses.

Healthcare Services Segment

Hospital Business

Beijing Qinghe Hospital (“Qinghe Hospital”) specialises in haematology and provides a broad range of medical disciplines. It offers 500 beds, of which 48 beds are haematology wards. Qinghe Hospital owns advanced technologies in the areas of laboratory tests, treatment and diagnosis, and possesses cutting-edge technology in various hematopoietic stem cells transplantation. Additionally, equipped with domestic and international advanced diagnostic and treatment equipment, Qinghe Hospital offers over ten disciplines which provide professional and precise healthcare services to its neighbourhoods.



MANAGEMENT DISCUSSION AND ANALYSIS

Beijing Sunbow Obstetrics & Gynecology Hospital (“Sunbow O&G Hospital”) offers 99 beds and provides international standard obstetrics, gynecology and pediatric medical services. Equipped with advanced medical equipment, Sunbow O&G Hospital hires experienced professional medical talents from famous hospitals. It brings safe and assured medical treatment experience to the expectant mothers and patients through standardised consulting procedures, personalised private doctor tracking system, psychological counselling and other personalised services. In addition, Sunbow O&G Hospital has further upgraded and improved its services at the postnatal health care center, bringing comprehensive high-end medical services to the expectant mothers. Through continuously enhancing the operations and refining medical services, Sunbow O&G Hospital has steadily improved its business and income.

Riding on its renowned international hospital brand, Shanghai East International Medical Center (“SEIMC”) provides premium healthcare services in Shanghai and its surrounding neighbourhoods. SEIMC owns a team of experienced Chinese and foreign medical experts and offers quality medical services to both local and foreign customers. SEIMC has relocated to a new and bigger site in order to better meet the demands of high-end healthcare services market, and expects to increase its income in the future.

In June 2019, the National Health Commission and other authorities jointly issued opinions on promoting the sustainable development of private healthcare enterprises. They specifically mentioned that various aspects of the planning restrictions should be relaxed in order to encourage the establishment of private medical institutions such as obstetrics, gynecology and pediatrics hospitals. The Group seizes the opportunity and invests in its hospitals in a timely and modest manner, aiming to further develop its hospital businesses and improving operational efficiency and scale.

Cells and Tissues Storage Business

Shanghai GM LifeBank Co., Ltd. (“GM LifeBank”) is engaged in the collection, processing, storage and clinical application of cells and tissues. Armed with liquid nitrogen cryopreservation technology and advanced secured storage system, GM LifeBank provides cells and tissues storage services to the general public, scientific research and other institutions by banking a variety of tissue-derived mesenchymal stem cells, immunocytes and adipose tissues.

Genetic Testing Services Business

Shanghai GM Diagnosis Co., Ltd. (“GM Diagnosis”) obtained a Practising Licence for Medical Institution (醫療機構執業許可證) issued by Shanghai Municipal Health Commission. It is principally engaged in the provision of high-end clinical molecular genetic testing and molecular pathology testing services. These professional testing services include, but not limited to, the diagnosis of genetic diseases of newborn babies, early diagnosis of tumor, guidance in personalised medicine, therapeutic evaluation and prognosis estimation. Leveraging on its first class equipment, advanced technology and competent management, GM Diagnosis has built a CAP (the College of American Pathologists) accredited third-party medical laboratory at international standards.



MANAGEMENT DISCUSSION AND ANALYSIS

Medical Insurance Administration Business

GM-Medicare Management (China) Co., Ltd. (“GM-Medicare”) is a leading information technology solution provider in the healthcare insurance sector in China. It provides operational and information technology solutions to insurance companies and healthcare service institutions. GM-Medicare is the first professional third-party administrator (“TPA”) which assisted the governmental healthcare insurance agencies in realising off-site real-time review process and bill settlement. By accumulating vast experience in TPA technology over the years, GM-Medicare has self-developed a smart platform as well as a reliable cloud data processing center. GM-Medicare has further enhanced its operational performance by adding new customers as well as enlarging the underwriting groups of its existing customers.

Medical Devices Segment

The Group is primarily engaged in the development, manufacture, sales and distribution of blood-related medical devices in Mainland China. Beijing Jingjing Medical Equipment Co., Ltd. (“Jingjing”), a leading medical device manufacturer in China, provides domestically developed products specialised in blood recovery, purification and treatment.

Strategic Investments

Chinese Herbal Medicines Business

The Group owns a good manufacturing practice (“GMP”) approved production facility over a site area of 58,000 square meters located in Shanghai Qingpu District.

Cell Therapy Business

The Group partnered with the University of Texas at MD Anderson Cancer Center and an independent strategic investor to set up Cellenkos, Inc. (“Cellenkos”), a 20.2% associate of the Group. Cellenkos aims to develop cord blood derived T-regulatory cellular therapies in treating autoimmune diseases as well as extending the therapies into Asian markets. Cellenkos owns a stand-alone manufacturing facility in Houston that meets GMP standards.

Cellenkos has proceeded to phase I clinical trial of its lead product CK0801 for treating patients with bone marrow failure syndrome as well as Guillain-Barré syndrome. Cellenkos plans to further develop cord blood derived T-regulatory cellular products for clinical application to other diseases such as haematologic and demyelinating diseases.

Precision Medicine Business

Golden Meditech Javadi Precision Medicine Limited (“GM Javadi”), a 40.0% joint venture of the Group, is jointly established by the Group, Dr. Nader Javadi (a pioneer in precision medicine in the United States of America (“U.S.A.”)) and an independent strategic investor. GM Javadi owns a renowned day clinic in the U.S.A. that focuses on the combined treatments of chemotherapy, immunotherapy and targeted therapy for various cancers. It is believed that the promotion of the cooperation in precision medicine business will bring considerable benefits to the Group in the future.



MANAGEMENT DISCUSSION AND ANALYSIS

Other Investments

ASA Asset Management Co., Ltd. ("ASA")

ASA, a 50.0% joint venture of the Group, is principally engaged in the provision of real estate asset management, investment consultancy and property arrangement services (including trust agreement and financial instrument services) and owns permits in wealth management in Japan. ASA manages offices, residences, commercial facilities and healthcare premises.

In August 2018, Golden Meditech K.K. ("GM K.K."), an indirect wholly-owned subsidiary of the Company, and Magnum Opus International Holdings Limited ("Magnum Opus"), a wholly-owned company of the Company's major shareholder Mr. Kam Yuen, conditionally agreed to provide ASA with a shareholder loan in an aggregate principal amount of JPY2,400,000,000 at the interest rate of 5% per annum for a term of five years (the "ASA Shareholders Loan"). Each of GM K.K. and Magnum Opus provided JPY1,200,000,000.

Subsequently, the Group carried out an internal restructuring in relation to the ASA Shareholder Loan during the period of February and March 2019 for the purpose of tax planning and minimising its tax burden in Japan. Upon completion of the restructuring, GM K.K. agreed to assign all of the benefits and rights in its share of the ASA Shareholders Loan to GM Investment Company Limited ("GM Investment"), a wholly-owned subsidiary of the Company. The effective interests held by the Group in ASA as well as the ASA Shareholder Loan remained the same before and after the restructuring (please refer to the Company's announcements dated 13 August 2018 and 29 March 2019).

ASA was renamed as KINKA Asset Management Co., Ltd. on 18 November 2019.

Life Corporation Limited ("LFC")

LFC, a 50.23% associate of the Group, is principally engaged in the provision of multi-religion funeral services and columbarium services in Singapore. Life Corporation Services (S) Pte. Ltd. ("LCS"), a wholly-owned subsidiary of LFC, is currently constructing an automated columbarium in Singapore that is expected to be completed in mid-2020. In June 2019, LFC's shareholders approved the capital reduction of LFC by a demerger (the "Demerger") (in species) distribution of all the issued shares in LCS on a pro rata basis to all existing shareholders of LFC. Upon completion of the Demerger, the Group directly holds 50.23% equity interests in LCS.

In August 2019, GM Investment agreed to subscribe for the convertible note issued by LCS in the principal amount of SGD5,800,000 at the interest rate of 11% per annum compounded annually for a term of three years. The management is of the view that the subscription of the convertible note will assist LCS in completing the construction of the automated columbarium. The operation of the columbarium business is expected to generate revenue and positive cash flows to LCS, thus, bring better returns to the Group.

Team up with Hong Kong Baptist University ("HKBU") to Conduct Cell Therapy Research

In April 2019, the Company collaborated with the Department of Biology of HKBU to conduct an in-depth research in the area of cell therapy, particularly treating neurodegenerative diseases with stem cells. Accordingly, the Company will provide HK\$15,000,000 over five years to HKBU in support of developing the new cell therapies. It is expected that the research results and patents will benefit patients not only in the Greater China Region but also the world.

MANAGEMENT DISCUSSION AND ANALYSIS

Impairment Provision

In November 2016, GM Investment entered into a conditional settlement agreement with Sanpower Group Limited* (三胞集團有限公司) ("Sanpower"). Pursuant to the agreement, Sanpower agreed to pay to GM Investment US\$300,000,000 (equivalent to approximately HK\$2,340,000,000) by five instalments within 36 months. The abovementioned settlement agreement was approved by the Company's shareholders on 16 January 2017. In view of the further downgrading of Sanpower's credit rating in the first half of 2019, the management has decided to set aside a non-cash impairment provision of HK\$378,843,000 against the outstanding receivables due from Sanpower during the year ended 31 March 2019 (please refer to the Company's announcements dated 14 November 2016, 16 January 2017 and 3 June 2019). Non-cash impairment provision made in the corresponding period last year was HK\$92,882,000. The Group will closely monitor the latest developments of Sanpower.

Key Financial Performance Indicators

During the Reporting Period, the Group recorded revenue of HK\$157,249,000, representing a slight decrease of 4.1% as compared to the same period last year. The decrease was primarily attributable to the fluctuations in the healthcare services segment.

Healthcare Services Segment

| | Six months ended 30 September | |
|--|-------------------------------|--------------------|
| | 2019 (HK\$'000) | 2018 (HK\$'000) |
| Revenue from hospital business | 72,201 | 75,612 |
| Among which: | | |
| SEIMC | 25,640 | 27,553 |
| Qinghe Hospital | 25,698 | 35,710 |
| Sunbow O&G Hospital | 20,863 | 12,349 |
| Revenue from cells and tissues storage and genetic testing services businesses | 154 | 5,324 |
| Revenue from medical insurance administration business | 3,020 | 2,663 |
| Selling, marketing and administrative expenses | (102,510) | (104,048) |
| Loss before interest, tax, depreciation and amortisation | (40,370) | (26,220) |
| Operating loss | (80,380) | (65,578) |
| Loss after tax | (84,527) | (68,041) |

During the Reporting Period, revenue from the healthcare services segment fell by 9.8% to HK\$75,375,000 as compared to the corresponding period last year, accounting for 47.9% of the Group's revenue. The decline was primarily due to the fluctuations in revenue from the hospital, cells and tissues storage and genetic testing services businesses. Revenue generated from hospital business fell slightly by 4.5% to HK\$72,201,000 as compared to the same period last year, accounting for 95.8% of the healthcare services revenue. Revenue generated from medical insurance administration business increased by 13.4% to HK\$3,020,000 as compared to the corresponding period last year, accounting for 4.0% of the healthcare services revenue. The cells and tissues storage and genetic testing businesses recorded revenue of HK\$154,000, accounting for 0.2% of the healthcare services revenue.



MANAGEMENT DISCUSSION AND ANALYSIS

Hospital Business

During the Reporting Period, Sunbow O&G Hospital recorded revenue of HK\$20,863,000, representing a significant increase of 68.9% as compared to the same period last year. The increase was mainly attributable to the growing demand of expectant mothers for quality healthcare services. Qinghe Hospital's rental income reduced by 28.0% to HK\$25,698,000 as compared to the corresponding period last year. The decline was mainly due to a decrease in utility income. SEIMC has carried on with its relocation and expansion work, leading to a drop of 6.9% in revenue to HK\$25,640,000 as compared to the corresponding period last year. SEIMC moved into the new site in the second half of 2019 and is expected to enhance its operation as well as revenue in the future.

Cells and Tissues Storage and Genetic Testing Services Businesses

The cells and tissues storage and genetic testing businesses recorded a revenue of HK\$154,000 during the Reporting Period due to the laboratory improvement work.

Medical Insurance Administration Business

Medical insurance administration business recorded revenue of HK\$3,020,000 during the Reporting Period, representing an increase of 13.4% as compared to the corresponding period last year. The increase was mainly attributable to the addition of new customers, the increase of existing customers' underwriting groups as compared to the same period last year and the growth of WeChat online claims business. The Group will further leverage its advantage in areas of smart platform and cloud data, so as to expanding its large insurance company customers and enhancing its business performance.

During the Reporting Period, selling, marketing and administrative expenses from the healthcare services segment dropped by 1.5% to HK\$102,510,000 as compared to the corresponding period last year, largely due to management cost saving initiatives.

Operating loss from healthcare services segment increased by 22.6% to HK\$80,380,000 as compared to the same period last year. The increase was mainly due to a decline in healthcare services revenue as well as an increase in operating costs of Sunbow O&G Hospital.

MANAGEMENT DISCUSSION AND ANALYSIS

Medical Devices Segment

| | Six months ended 30 September | |
|---|-------------------------------|--------------------|
| | 2019 (HK\$'000) | 2018 (HK\$'000) |
| Revenue from medical devices | 1,771 | 1,440 |
| Revenue from medical device consumables | 52,237 | 49,970 |
| Revenue from distribution of third parties medical device and consumables | 24,307 | 26,350 |
| Selling, marketing and administrative expenses | (46,408) | (43,253) |
| (Loss)/profit before interest, tax, depreciation and amortisation | (122) | 10,470 |
| Operating (loss)/profit | (6,601) | 6,483 |
| (Loss)/profit after tax | (6,100) | 4,047 |

During the Reporting Period, revenue from the medical devices segment increased slightly by 0.7% to HK\$78,315,000 as compared to the corresponding period last year, accounting for 49.8% of the Group's revenue. The increase was mainly attributable to the increase in sales volume of medical device consumables.

During the Reporting Period, selling, marketing and administrative expenses from the medical devices segment increased by 7.3% to HK\$46,408,000 as compared to the same period last year, largely due to the increase in staff costs and the expansion of new sales channels.

Operating loss from medical devices segment amounted to HK\$6,601,000 during the Reporting Period, as compared to an operating profit of HK\$6,483,000 in the corresponding period last year. The fluctuation was primarily due to the decrease in interest income from bank deposits, increased production cost of medical device consumables as well as the increase in the abovementioned selling, marketing and administrative expenses.

Strategic Investments

| | Six months ended 30 September | |
|---|-------------------------------|--------------------|
| | 2019 (HK\$'000) | 2018 (HK\$'000) |
| Revenue from Chinese herbal medicines business | 3,559 | 2,554 |
| Selling, marketing and administrative expenses | (13,789) | (11,656) |
| Profit/(loss) before interest, tax, depreciation and amortisation | 3,062 | (384) |
| Operating loss | (8,398) | (10,445) |
| Share of net loss from Cellenkos, LFC and LCS, GM Javadi, ASA and Seragaki Okinawa Joint Venture Limited ("Seragaki") | (15,047) | (9,003) |
| Changes in fair value of Cellenkos warrant | — | (1,598) |
| Loss after tax | (21,789) | (19,305) |



MANAGEMENT DISCUSSION AND ANALYSIS

The Group's strategic investments include the Chinese herbal medicines business, investments in associates and joint ventures.

During the Reporting Period, revenue from Chinese herbal medicines business grew by 39.4% to HK\$3,559,000 as compared to the corresponding period last year, primarily attributable to the increase in certain regional sales volume. Benefiting from the increase in revenue from the Chinese herbal medicines business as well as the increase in loan interest income from associates and joint ventures, the operating loss of strategic investments fell by 19.6% to HK\$8,398,000 when compared to that of the same period last year.

Loss attributable to the Group from Cellenkos, LFC and LCS, GM Javadi, ASA and Seragaki were HK\$4,800,000, HK\$2,341,000, HK\$2,882,000, HK\$612,000 and HK\$4,412,000 during the Reporting Period, respectively. The strategic investments in these associates and joint ventures are at their preliminary development stage and are believed will contribute to the Group's future development in the great healthcare sector.

Future Development

Looking to the future and seizing the window of opportunity in the healthcare sector, the Group will further enhance its competitiveness of its healthcare services segment. The Group will proactively promote its high-end healthcare services business, so as to continue to improve its operating performance as well as profitability. Also, it will further consolidate its medical devices segment. The Group will take key steps toward exploring high-quality investment projects that fit into the Group's strategy and developing innovative products, with a view to laying favourable groundwork for the Group's sustainable development in the healthcare sector.

* *English name is for identification purpose only.*



MANAGEMENT DISCUSSION AND ANALYSIS

GROUP FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group recorded revenue of HK\$157,249,000, representing a decrease of 4.1% year-on-year. Fluctuation was mainly attributable to the 9.8% drop in healthcare services segment revenue, which was caused by the improvement work of genetic testing laboratories that resulted in a significant decline in revenue from genetic testing services business during the Reporting Period. The increase in revenue from Sunbow O&G Hospital was driven by sustained organic growth of its Obstetrics & Gynecology department, which was off-set by the decline in utility income of Qinghe Hospital. During the Reporting Period, no material fluctuation was noted for medical devices segment revenue.

Gross Profit Margin

The Group's gross profit margin decreased by 10.0 percentage point year-on-year to 38.1%. Fluctuation was mainly caused by the increased operating costs of Sunbow O&G Hospital and the increased production cost of medical device consumables. During the Reporting Period, the healthcare services segment and the medical devices segment reported gross profit margins of 29.9% and 50.0%, respectively, as compared to 45.6% and 55.8% in the corresponding period last year.

Other Net Income

During the Reporting Period, the Group recorded other net income of HK\$176,029,000, representing an increase of 90.6% year-on-year. The increase was mainly attributable to (i) the increase in bank interest income from HK\$10,718,000 in the corresponding period last year to HK\$35,979,000, which included interest income from pledged deposit of HK\$30,913,000 received on the maturity date, (ii) the increase in interest income from other receivables related to the settlement agreement with Sanpower from HK\$42,356,000 in the corresponding period last year to HK\$95,482,000, and (iii) the increase in unrealised exchange gain recorded on the Group's Renminbi ("RMB")-denominated bank loans from HK\$33,026,000 in the corresponding period last year to HK\$40,693,000, as RMB depreciated during the Reporting Period.

Selling, Marketing and Administrative Expenses

The Group maintained its marketing and business development initiatives in each of its business segment. Selling, marketing and administrative expenses during the Reporting Period totaled HK\$203,194,000, representing a slight decrease of 0.5% year-on-year, no material fluctuation was noted.

Impairment Loss on Other Receivables

In November 2016, GM Investment and Sanpower entered into a conditional settlement agreement. Pursuant to which, Sanpower agreed to pay a settlement sum of US\$300,000,000 (equivalent to approximately HK\$2,340,000,000) to GM Investment by five instalments within 36 months.



MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of FY2018/2019, it had come to the attention of the Group's management that Sanpower was facing credit crunch and it might not be able to punctually settle the fourth and fifth instalments (the respective due dates of which being 14 February 2019 and 14 November 2019) pursuant to the settlement agreement. Accordingly, the management set aside a non-cash provision of HK\$92,882,000 against the outstanding receivables due from Sanpower in the corresponding period last year.

Profit/(Loss) from Operations

The Group recorded an operating profit of HK\$32,780,000 for the Reporting Period. Excluding the abovementioned interest income from other receivables, unrealised exchange gain on the Group's RMB-denominated bank loans, and the impairment loss on other receivables for the corresponding period last year, the adjusted operating loss was HK\$103,395,000 (six months ended 30 September 2018: adjusted operating loss of HK\$108,333,000). The decrease in revenue and gross profit margin was off-set by the interest income from pledged deposit.

Changes in Fair Value of Financial Instruments at Fair Value through Profit or Loss

During the Reporting Period, the Group recorded fair value loss on other financial assets of HK\$16,610,000.

Finance Costs

During the Reporting Period, finance costs decreased by 2.8% year-on-year to HK\$28,284,000, no material fluctuation was noted.

Income Tax Expense

The Group's total income tax expense amounted to HK\$2,499,000, representing a decrease of 17.9% year-on-year. Fluctuation was mainly attributable to the decrease in operating profit from the medical devices segment.

Loss Attributable to Equity Shareholders of the Company

Loss attributable to equity shareholders of the Company was HK\$16,254,000 for the Reporting Period. Excluding the abovementioned interest income from other receivables, unrealised exchange gain on the Group's RMB-denominated bank loans, and the impairment loss on other receivables for the corresponding period last year, adjusted loss attributable to equity shareholders of the Company was HK\$152,429,000. This represented an increase of 10.7% when compared to the adjusted loss attributable to equity shareholders of the Company of HK\$137,647,000 in the corresponding period last year. The increase in adjusted loss attributable to equity shareholders of the Company was largely attributable to the fair value loss recorded on other financial assets during the Reporting Period.

Current Assets and Total Assets

As at 30 September 2019, the Group's total current assets and total assets were HK\$3,493,273,000 and HK\$6,933,726,000 (31 March 2019: HK\$3,923,246,000 and HK\$7,360,347,000), respectively.



MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 30 September 2019, the Group's cash and bank deposits amounted to HK\$3,300,337,000 (31 March 2019: HK\$3,740,971,000) and total interest-bearing debts stood at HK\$918,290,000 (31 March 2019: HK\$915,425,000). Of which, the bank borrowings of HK\$856,672,000 (31 March 2019: HK\$894,889,000) were secured by the Group's interests in a leasehold land located in the PRC with a carrying amount of HK\$541,179,000 (31 March 2019: HK\$583,303,000) and bank deposits of HK\$604,064,000 (31 March 2019: HK\$643,275,000).

Excluding those borrowings pledged by bank deposits, the Group's net interest-bearing debts as at 30 September 2019 were HK\$391,107,000 (31 March 2019: HK\$371,413,000). As at 30 September 2019, the Group's net cash and bank deposits were HK\$2,696,273,000 (31 March 2019: HK\$3,097,696,000).

Debt Ratio

As at 30 September 2019, based on the total interest-bearing debts divided by total equity, the Group's debt ratio was 22.2% (31 March 2019: 20.7%). Excluding the abovementioned borrowings pledged by bank deposits, the Group's adjusted debt ratio as at 30 September 2019 was 9.4% (31 March 2019: 8.4%). From a long-term perspective, the management is committed to maintain an optimal and stable level of debt ratio, in order to achieve maximum capital efficiency.

Details of Pledged Assets

As at 30 September 2019, the Group had pledged certain assets as collaterals for bank borrowings as follows:

- (i) bank loans of HK\$527,183,000 (31 March 2019: HK\$544,012,000) were secured by the bank deposits of HK\$604,064,000 (31 March 2019: HK\$643,275,000); and
- (ii) bank loan of HK\$329,489,000 (31 March 2019: HK\$350,877,000) was secured by interests in a leasehold land, with a carrying amount of HK\$541,179,000 (31 March 2019: HK\$583,303,000).

Employees

The Group employed 1,030 full-time staff in Hong Kong and in Mainland China (30 September 2018: 956). During the Reporting Period, total staff costs (including directors' remuneration, the Mandatory Provident Fund and equity settled share-based payment expenses) amounted to HK\$73,996,000 (six months ended 30 September 2018: HK\$72,539,000).

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 September 2019 – unaudited
(Expressed in Hong Kong dollars)

| | Note | Six months ended 30 September 2019 \$'000 | 2018 (Note) \$'000 |
|--|------|--|--------------------------|
| Revenue | 4 | 157,249 | 163,913 |
| Cost of sales | | (97,304) | (85,059) |
| Gross profit | | 59,945 | 78,854 |
| Other net income | 5 | 176,029 | 92,342 |
| Selling and marketing expenses | | (29,113) | (25,554) |
| Administrative expenses | | (174,081) | (178,593) |
| Impairment loss on other receivables | | – | (92,882) |
| Profit/(loss) from operations | | 32,780 | (125,833) |
| Finance costs | 6(a) | (28,284) | (29,106) |
| Changes in fair value of financial instruments at fair value through profit or loss | 6(c) | (16,610) | (1,538) |
| Share of losses of associates | | (7,141) | (7,285) |
| Share of losses of joint ventures | | (7,906) | (1,718) |
| Loss before taxation | 6 | (27,161) | (165,480) |
| Income tax expense | 7 | (2,499) | (3,045) |
| Loss for the period | | (29,660) | (168,525) |
| Attributable to: | | | |
| Equity shareholders of the Company | | (16,254) | (155,147) |
| Non-controlling interests | | (13,406) | (13,378) |
| Loss for the period | | (29,660) | (168,525) |
| Basic and diluted loss per share (in cents) | 8 | (0.56) | (5.32) |

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Please refer to note 3 for details.

The notes on pages 21 to 51 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2019 – unaudited
(Expressed in Hong Kong dollars)

| | Six months ended | |
|---|----------------------|----------------|
| | 30 September 2019 | 2018 (Note) |
| | \$'000 | \$'000 |
| Loss for the period | (29,660) | (168,525) |
| Other comprehensive income for the period (after tax and reclassification adjustments) | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of financial statements to presentation currency | (261,227) | (453,922) |
| Share of other comprehensive income of associates and joint ventures | 2,425 | (789) |
| Other comprehensive income for the period | (258,802) | (454,711) |
| Total comprehensive income for the period | (288,462) | (623,236) |
| Attributable to: | | |
| Equity shareholders of the Company | (279,033) | (613,893) |
| Non-controlling interests | (9,429) | (9,343) |
| Total comprehensive income for the period | (288,462) | (623,236) |

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Please refer to note 3 for details.

The notes on pages 21 to 51 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 September 2019 – unaudited
(Expressed in Hong Kong dollars)

| | Note | At 30 September 2019 \$'000 | At 31 March 2019 (Note) \$'000 |
|--|------|--------------------------------------|--|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 2,499,711 | 1,145,884 |
| Interests in leasehold land held for own use | 9 | — | 1,445,512 |
| | | 2,499,711 | 2,591,396 |
| Goodwill | | 164,956 | 173,119 |
| Interests in associates | | 67,836 | 49,230 |
| Interests in joint ventures | | 205,133 | 199,498 |
| Other financial assets | | 22,443 | 38,921 |
| Other receivables | 10 | 467,441 | 371,959 |
| Deferred tax assets | | 12,933 | 12,978 |
| | | 3,440,453 | 3,437,101 |
| Current assets | | | |
| Inventories | 11 | 25,662 | 23,927 |
| Trade and other receivables | 12 | 167,274 | 158,348 |
| Pledged and time deposits | 13 | 615,047 | 672,515 |
| Cash and cash equivalents | | 2,685,290 | 3,068,456 |
| | | 3,493,273 | 3,923,246 |
| Current liabilities | | | |
| Trade and other payables | 14 | 1,673,020 | 1,791,992 |
| Contract liabilities | | 13,058 | 22,263 |
| Interest-bearing borrowings | 15 | 329,489 | 894,889 |
| Lease liabilities | | 19,759 | 2,924 |
| Income tax payables | | 59,307 | 62,267 |
| | | 2,094,633 | 2,774,335 |
| Net current assets | | 1,398,640 | 1,148,911 |
| Total assets less current liabilities | | 4,839,093 | 4,586,012 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 September 2019 – unaudited
(Expressed in Hong Kong dollars)

| | Note | At 30 September 2019 \$'000 | At 31 March 2019 (Note) \$'000 |
|--|-------|--------------------------------------|--|
| Non-current liabilities | | | |
| Interest-bearing borrowings | 15 | 527,183 | – |
| Lease liabilities | | 41,859 | 17,612 |
| Deferred tax liabilities | | 125,630 | 135,495 |
| Other non-current liabilities | | 368 | 390 |
| | | 695,040 | 153,497 |
| NET ASSETS | | 4,144,053 | 4,432,515 |
| CAPITAL AND RESERVES | | | |
| Share capital | 16(a) | 583,386 | 583,386 |
| Reserves | | 3,519,078 | 3,798,111 |
| Total equity attributable to equity shareholders of the Company | | 4,102,464 | 4,381,497 |
| Non-controlling interests | | 41,589 | 51,018 |
| TOTAL EQUITY | | 4,144,053 | 4,432,515 |

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Please refer to note 3 for details.

The notes on pages 21 to 51 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2019 – unaudited
(Expressed in Hong Kong dollars)

| | Attributable to equity shareholders of the Company | | | | | | | | | | | |
|---|--|-------------------------|------------------------------|--------------------------|----------------------------|---------------------------|-------------|--------------------------|-----------------------------|-----------------|-------------------------------------|------------------------|
| | Share capital \$'000 | Share premium \$'000 | Capital | | | | | Other reserves \$'000 | Retained earnings \$'000 | Total \$'000 | Non-controlling interests \$'000 | Total equity \$'000 |
| | | | redemption reserve \$'000 | Merger reserve \$'000 | Exchange reserve \$'000 | Surplus reserve \$'000 | | | | | | |
| Balance at 1 April 2019 (Note) | 583,386 | 2,368,990 | 21,521 | 54,193 | 24,220 | 99,466 | (1,563,283) | 2,793,004 | 4,381,497 | 51,018 | 4,432,515 | |
| Loss for the period | - | - | - | - | - | - | - | (16,254) | (16,254) | (13,406) | (29,660) | |
| Other comprehensive income for the period | - | - | - | - | (262,779) | - | - | - | (262,779) | 3,977 | (258,802) | |
| Total comprehensive income for the period | - | - | - | - | (262,779) | - | - | (16,254) | (279,033) | (9,429) | (288,462) | |
| Transfer to surplus reserve | - | - | - | - | - | 7 | - | (7) | - | - | - | |
| Balance at 30 September 2019 | 583,386 | 2,368,990 | 21,521 | 54,193 | (238,559) | 99,473 | (1,563,283) | 2,776,743 | 4,102,464 | 41,589 | 4,144,053 | |
| Balance at 1 April 2018 | 583,386 | 2,368,990 | 21,521 | 54,193 | 362,444 | 99,129 | (1,563,283) | 3,468,785 | 5,395,165 | 78,380 | 5,473,545 | |
| Loss for the period | - | - | - | - | - | - | - | (155,147) | (155,147) | (13,378) | (168,525) | |
| Other comprehensive income for the period | - | - | - | - | (458,746) | - | - | - | (458,746) | 4,035 | (454,711) | |
| Total comprehensive income for the period | - | - | - | - | (458,746) | - | - | (155,147) | (613,893) | (9,343) | (623,236) | |
| Dividends to holders of non-controlling interests | - | - | - | - | - | - | - | - | - | (2,506) | (2,506) | |
| Balance at 30 September 2018 | 583,386 | 2,368,990 | 21,521 | 54,193 | (96,302) | 99,129 | (1,563,283) | 3,313,638 | 4,781,272 | 66,531 | 4,847,803 | |

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Please refer to note 3 for details.

The notes on pages 21 to 51 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 September 2019 – unaudited
(Expressed in Hong Kong dollars)

| | Six months ended | |
|---|-------------------------|---------------|
| | 30 September | |
| | 2019 | 2018 |
| | \$'000 | (Note) |
| | | \$'000 |
| Operating activities | | |
| Cash used in operations | (130,667) | (119,127) |
| Income tax paid | (2,584) | (2,322) |
| Net cash used in operating activities | (133,251) | (121,449) |
| Investing activities | | |
| Proceeds from sale of property, plant and equipment | 49 | 87 |
| Payments for purchase of property, plant and equipment | (25,819) | (20,503) |
| Proceeds from sale of other financial assets | - | 1,950 |
| Payments for purchase of other financial assets | (134) | - |
| Payments for investment in associates | (7,800) | - |
| Loan and advances to joint ventures | (5,461) | (93,149) |
| Net payments for loans to associates | (16,706) | (12,690) |
| Proceeds received from a third party under the Fortress Settlement Agreements | - | 429,000 |
| Refund of an investment deposit and interests from a third party | - | 365,782 |
| Interest income from bank deposits | 35,979 | 10,718 |
| Other net cash flows generated from investing activities | 18,257 | 5,653 |
| Net cash (used in)/generated from investing activities | (1,635) | 686,848 |
| Financing activities | | |
| Proceeds from new interest-bearing borrowings | 546,488 | - |
| Repayments of interest-bearing borrowings | (546,000) | (232,000) |
| Proceeds from investment deposits from a third party | - | 117,689 |
| Partial refund of investment deposits to a third party | (44,196) | - |
| Payments for dividends to holders of non-controlling interests | - | (2,506) |
| Uplift deposits pledged for interest-bearing borrowings | - | 273,640 |
| Capital element of leases rentals paid | (9,191) | (2,168) |
| Interest element of leases rentals paid | (2,123) | (843) |
| Other net cash flows used in financing activities | (21,140) | (27,177) |
| Net cash (used in)/generated from financing activities | (76,162) | 126,635 |
| Net (decrease)/increase in cash and cash equivalents | (211,048) | 692,034 |
| Cash and cash equivalents at 1 April | 3,068,456 | 2,795,654 |
| Effect of foreign exchanges rates changes | (172,118) | (280,269) |
| Cash and cash equivalents at 30 September | 2,685,290 | 3,207,419 |

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Please refer to note 3 for details.

The notes on pages 21 to 51 form part of this interim financial report.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BACKGROUND

Golden Meditech Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 3 September 2001 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. Listing of the Company’s shares on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) commenced on 28 December 2001. On 16 June 2009, the listing of the Company’s shares was transferred from the GEM to the Main Board of the Stock Exchange.

The Company and its subsidiaries are collectively referred to as the “Group”.

2 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, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 27 November 2019.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 March 2019, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 31 March 2020. Details of changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, 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 31 March 2019. 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 financial information relating to the year ended 31 March 2019 that is included in this interim financial report as comparative information does not constitute the Group’s 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 March 2019 are available from the website of the Stock Exchange. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 June 2019.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the 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.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES (continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) *Lessee accounting*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 9.

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES (continued)

(a) Changes in the accounting policies (continued)

(ii) *Lessee accounting (continued)*

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) *Lessor accounting*

The Group leases out certain area of its buildings as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES (continued)

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 April 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.62%.

To ease the transition to HKFRS 16, the group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 March 2019 as an alternative to performing an impairment review.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES (continued)

(c) Transitional impact (continued)

The following table reconciles the operating lease commitments as disclosed in note 18(b) as at 31 March 2019 to the opening balance of lease liabilities recognised as at 1 April 2019:

| | \$'000 |
|--|---------|
| Operating lease commitments at 31 March 2019 | 59,568 |
| Less: commitments relating to leases exempt from capitalisation: | |
| – short-term leases and other leases with remaining lease term ending on or before 31 March 2020 | (2,120) |
| – Leases of low-value assets | (74) |
| | 57,374 |
| Less: total future interest expenses | (4,785) |
| | |
| Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019 | 52,589 |
| Add: finance lease liabilities recognised as at 31 March 2019 | 20,536 |
| | |
| Total lease liabilities recognised at 1 April 2019 | 73,125 |

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 March 2019.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and presents lease liabilities separately in the consolidated statement of financial position.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES (continued)

(c) Transitional impact (continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

| | Carrying amounts at 31 March 2019 \$'000 | Capitalisation of operating lease contracts \$'000 | Carrying amounts at 1 April 2019 \$'000 |
|---|---|---|--|
| Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16: | | | |
| Property, plant and equipment | 1,145,884 | 1,499,129 | 2,645,013 |
| Interests in leasehold land held for own use | 1,445,512 | (1,445,512) | — |
| Non-current assets | 3,437,101 | 53,617 | 3,490,718 |
| Trade and other receivables | 158,348 | (1,028) | 157,320 |
| Current assets | 3,923,246 | (1,028) | 3,922,218 |
| Lease liabilities (current) | 2,924 | 15,964 | 18,888 |
| Current liabilities | 2,774,335 | 15,964 | 2,790,299 |
| Net current assets | 1,148,911 | (16,992) | 1,131,919 |
| Total assets less current liabilities | 4,586,012 | 36,625 | 4,622,637 |
| Lease liabilities (non-current) | 17,612 | 36,625 | 54,237 |
| Non-current liabilities | 153,497 | 36,625 | 190,122 |
| Net assets | 4,432,515 | — | 4,432,515 |

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

| | At 30 September 2019 \$'000 | At 1 April 2019 \$'000 |
|--|--------------------------------------|---------------------------------|
| Included in "Property, plant and equipment": | | |
| Other properties leased for own use, carried at depreciated cost | 43,557 | 53,617 |
| Machinery, carried at depreciated cost | 14,521 | 16,307 |
| Interests in leasehold land held for own use, carried at depreciated cost | 1,388,936 | 1,445,512 |
| | 1,447,014 | 1,515,436 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES (continued)

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

| | At 30 September 2019 | | At 1 April 2019 | |
|---|---|---|---|---|
| | Present value of the minimum lease payments \$'000 | Total minimum lease payments \$'000 | Present value of the minimum lease payments \$'000 | Total minimum lease payments \$'000 |
| Within one year | 19,759 | 21,905 | 18,888 | 21,447 |
| After one year but within two years | 20,410 | 21,782 | 20,722 | 22,543 |
| After two years but within five years | 15,370 | 17,701 | 25,402 | 28,004 |
| After five years | 6,079 | 10,983 | 8,113 | 14,620 |
| | 41,859 | 50,466 | 54,237 | 65,167 |
| Less: total future interest expenses | 61,618 | 72,371 (10,753) | 73,125 | 86,614 (13,489) |
| Present value of lease liabilities | | 61,618 | | 73,125 |

(e) Impact on the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 April 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated income statement, as compared to the results if HKAS 17 had been applied during the period.

In the consolidated cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated cash flow statement.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES (continued)

(e) Impact on the financial results and cash flows of the Group (continued)

The following tables give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial results and cash flows for the six months ended 30 September 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply for the six months ended 30 September 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

| | Six months ended 30 September | | | | 2018 | |
|--|-------------------------------------|---|--|---|-----------|---|
| | 2019 | | | Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B+C) | | Compared to amounts reported for 2018 under HKAS 17 |
| | Amounts reported under HKFRS 16 (A) | HKFRS 16 depreciation and interest expenses (B) | Estimated amounts related to operating leases as if under HKAS 17 (Note 1) (C) | | | |
| | | | \$'000 | | | |
| Financial results impacted by the adoption of HKFRS 16: | | | | | | |
| Profit/(loss) from operations | 32,780 | 8,977 | (9,615) | 32,142 | (125,833) | |
| Finance costs | (28,284) | 1,379 | - | (26,905) | (29,106) | |
| Loss before taxation | (27,161) | 10,356 | (9,615) | (26,420) | (165,480) | |
| Loss for the period | (29,660) | 10,356 | (9,615) | (28,919) | (168,525) | |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES (continued)

(e) Impact on the financial results and cash flows of the Group (continued)

| | Six months ended 30 September | | | 2018 |
|--|---|---|--|--|
| | 2019 | | Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) | |
| Line items in the condensed consolidated cash flow statement impacted by the adoption of HKFRS 16: | Estimated amounts related to operating leases as if under HKAS 17 (Notes 1 & 2) (B) | Amounts reported under HKFRS 16 (A) | | Compared to amounts reported for 2018 under HKAS 17 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash used in operations | (130,667) | (8,482) | (139,149) | (119,127) |
| Net cash used in operating activities | (133,251) | (8,482) | (141,733) | (121,449) |
| Capital element of lease rentals paid | (9,191) | 7,103 | (2,088) | (2,168) |
| Interest element of lease rentals paid | (2,123) | 1,379 | (744) | (843) |
| Net cash (used in)/generated from financing activities | (76,162) | 8,482 | (67,680) | 126,635 |

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied during the six months ended 30 September 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied during the six months ended 30 September 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing activities to operating activities in order to compute hypothetical amounts of net cash used in operating activities and net cash used in financing activities as if HKAS 17 still applied.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING

The Company acts as an investment holding company and the Group is principally engaged in five main operating segments, including (i) the manufacture and sale of medical devices and related medical accessories; (ii) the provision of hospital management service and hospital operation; (iii) the provision of medical insurance administration service; (iv) the research and development, manufacture and sale of Chinese herbal medicines; and (v) the provision of cells and tissues storage and genetic testing services. No operating segments have been aggregated to form the following reportable segments.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

| | Six months ended 30 September | |
|---|-------------------------------|----------------|
| | 2019 \$'000 | 2018 \$'000 |
| Revenue from contracts with customers within the scope of HKFRS 15 | | |
| Disaggregate by major products or service lines | | |
| – Sale of medical devices and medical device accessories | 78,315 | 77,760 |
| – Hospital operation | 46,503 | 39,902 |
| – Medical insurance administration service income | 3,020 | 2,663 |
| – Sale of Chinese herbal medicines | 3,559 | 2,554 |
| – Cells and tissues storage and genetic testing services income | 154 | 5,324 |
| Revenue from other sources | | |
| – Hospital rental income | 25,698 | 35,710 |
| | 157,249 | 163,913 |

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 4(b). The Group's revenue derived from activities outside the People's Republic of China (the "PRC") is immaterial. Therefore, disaggregation of revenue from contracts with customers by geographical location of customers is not provided.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting

The Group manages its business by divisions, which are organised by business lines (products and services). The Group has presented the following reportable segments 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 resources allocation and performance assessment. No operating segments have been aggregated to form the following reportable segments.

- Medical devices segment: the development, manufacture and sale of medical devices, including medical devices and medical accessories.
- Hospital business segment: the provision of hospital management service and hospital operation in the PRC.
- Medical insurance administration segment: the provision of medical insurance administration service in the PRC.
- Chinese herbal medicines segment: the research and development, manufacture and sale of Chinese herbal medicines.
- Cells and tissues storage and genetic testing services segment: the provision of cells and tissues storage service and genetic testing service.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following basis:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Reportable segment (loss)/profit includes (loss)/profit from operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the six months ended 30 September 2019 and 2018 is set out below:

| | Medical devices | | Hospital business | | Medical insurance administration | | Chinese herbal medicines | | Cells and tissues storage and genetic testing services | | Total | |
|--|-----------------|----------------|-------------------|----------------|----------------------------------|----------------|--------------------------|----------------|--|----------------|----------------|----------------|
| | 2019 \$'000 | 2018 \$'000 | 2019 \$'000 | 2018 \$'000 | 2019 \$'000 | 2018 \$'000 | 2019 \$'000 | 2018 \$'000 | 2019 \$'000 | 2018 \$'000 | 2019 \$'000 | 2018 \$'000 |
| For the six months ended 30 September | | | | | | | | | | | | |
| Disaggregated by timing of revenue recognition | | | | | | | | | | | | |
| Point in time | 78,315 | 77,760 | 29,258 | 39,902 | 3,020 | 2,663 | 3,559 | 2,554 | 154 | 5,324 | 114,306 | 128,203 |
| Over-time | - | - | 42,943 | 35,710 | - | - | - | - | - | - | 42,943 | 35,710 |
| Reportable segment revenue | 78,315 | 77,760 | 72,201 | 75,612 | 3,020 | 2,663 | 3,559 | 2,554 | 154 | 5,324 | 157,249 | 163,913 |
| Reportable segment (loss)/profit | (6,601) | 6,483 | (60,543) | (49,787) | (12,680) | (12,978) | (15,009) | (13,629) | (7,157) | (2,813) | (101,990) | (72,724) |

The Group's revenue and operating (loss)/profit derived from activities outside the PRC are immaterial. Therefore, no geographical information is provided.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(ii) Reconciliations of reportable segment profit or loss

| | Six months ended 30 September | |
|---|-------------------------------|----------------|
| | 2019 \$'000 | 2018 \$'000 |
| Reportable segment loss | (101,990) | (72,724) |
| Interest income from other receivables | 95,482 | 42,356 |
| Interest income from loans to associates and joint ventures | 6,611 | 3,184 |
| Finance costs | (28,284) | (29,106) |
| Changes in fair value of financial instruments at fair value through profit or loss | (16,610) | (1,538) |
| Share of losses of associates | (7,141) | (7,285) |
| Share of losses of joint ventures | (7,906) | (1,718) |
| Impairment loss on other receivables | – | (92,882) |
| Exchange gain on interest-bearing borrowings | 40,693 | 33,026 |
| Unallocated head office and corporate expenses | (8,016) | (38,793) |
| Consolidated loss before taxation | (27,161) | (165,480) |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OTHER NET INCOME

Other net income comprises:

| | Note | Six months ended 30 September | |
|--|------|-------------------------------|----------------|
| | | 2019 \$'000 | 2018 \$'000 |
| Interest income from bank deposits | | 35,979 | 10,718 |
| Interest income from other receivables | | 95,482 | 42,356 |
| Interest income from an investment deposit | | – | 642 |
| Interest income from loans to associates and joint ventures | | 6,611 | 3,184 |
| VAT refunds | (i) | 96 | 65 |
| Net exchange gain | | 35,005 | 32,957 |
| Net (loss)/gain on disposal of property, plant and equipment | | (188) | 37 |
| Others | | 3,044 | 2,383 |
| | | 176,029 | 92,342 |

- (i) Pursuant to the relevant government policies and approval documents from the local government authorities, one of the Group's PRC subsidiaries is entitled to VAT refund which is calculated at approximately 10% (six months ended 30 September 2018: 13%) of sale of software products embedded in the medical devices.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

| | Six months ended 30 September | |
|--|-------------------------------|------------------|
| | 2019 | 2018 |
| | \$'000 | (Note) \$'000 |
| (a) Finance costs | | |
| Interests on interest-bearing borrowings wholly repayable within five years | 26,161 | 28,263 |
| Interests on lease liabilities | 2,123 | 843 |
| | 28,284 | 29,106 |
| (b) Staff costs | | |
| Salaries, wages and other benefits | 63,897 | 62,455 |
| Contributions to defined contribution retirement plans | 10,099 | 10,084 |
| | 73,996 | 72,539 |
| (c) Other items | | |
| Amortisation of land lease premium | – | 18,696 |
| Depreciation of other property, plant and equipment | 36,207 | 35,183 |
| Depreciation of right-of-use assets | 28,112 | – |
| Reversal of impairment loss on trade receivables | (428) | (122) |
| Impairment loss on other receivables | – | 92,882 |
| Changes in fair value of financial instruments at fair value through profit or loss: | | |
| – other financial assets | 16,610 | (60) |
| – warrant issued by an associate | – | 1,598 |
| | 16,610 | 1,538 |
| Research and development costs (other than depreciation and amortisation costs) | 4,800 | 5,620 |

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Please refer to note 3 for details.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX

Income tax in the consolidated income statement comprises:

| | Six months ended 30 September | |
|--------------|-------------------------------|----------------|
| | 2019 \$'000 | 2018 \$'000 |
| Current tax | 4,469 | 5,965 |
| Deferred tax | (1,970) | (2,920) |
| | 2,499 | 3,045 |

The Group's subsidiaries in the PRC are subject to the PRC Corporate Income Tax.

On 16 March 2007, the PRC government enacted the new Corporate Income Tax Law ("CIT Law"), which unified the income tax rate to 25% for all companies registered and incorporated in the PRC. Accordingly, except for Beijing Jingjing Medical Equipment Co., Ltd. ("Jingjing"), all other PRC subsidiaries of the Group are subject to income tax at 25% for the six months ended 30 September 2019 and 2018.

According to the CIT Law and its relevant regulations, entities that qualified as high and new technology enterprise ("HNTE") are entitled to a preferential income tax rate of 15%.

Jingjing obtained the latest renewed certificates of HNTE in October 2017, and is subject to income tax at 15% for the calendar years from 2017 to 2019. Income tax expense of Jingjing for the six months ended 30 September 2019 and 2018 were calculated based on an income tax rate of 15%.

The CIT Law and its relevant regulations also impose a withholding tax at 10% on the foreign investors with respect to dividend distributions made out of the PRC entities from earnings accumulated from 1 January 2008, unless the foreign investors meet certain requirements specified in the relevant tax regulations in the PRC and accordingly are entitled to a preferential rate of 5%.

Taxation for other entities of the Group is charged at their respective appropriate income tax rates ruling in the relevant countries.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

8 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on consolidated loss attributable to equity shareholders of the Company of \$16,254,000 (2018: \$155,147,000) and weighted average of 2,916,932,000 shares (2018: 2,916,932,000 shares) in issue during the period, calculated as follows:

(i) Weighted average number of ordinary shares (basic)

| | Six months ended 30 September | |
|---|-------------------------------|-----------------------|
| | 2019 | 2018 |
| | Number of shares '000 | Number of shares '000 |
| Issued ordinary shares at beginning and end of period | 2,916,932 | 2,916,932 |
| Weighted average number of ordinary shares | 2,916,932 | 2,916,932 |

(ii) Consolidated loss attributable to ordinary equity shareholders of the Company

| | Six months ended 30 September | |
|--|-------------------------------|-----------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Loss attributable to equity shareholders | (16,254) | (155,147) |

(iii) Basic loss per share

| | Six months ended 30 September | |
|---------------------------------|-------------------------------|--------|
| | 2019 | 2018 |
| Basic loss per share (in cents) | (0.56) | (5.32) |

(b) Diluted loss per share

The calculations of diluted loss per share for the six months ended 30 September 2019 and 2018 were same as that of basic loss per share, did not include the potential effects of warrant issued by an associate during the periods as they have an anti-dilutive effect on the basic loss per share amount for the respective periods.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

9 PROPERTY, PLANT AND EQUIPMENT

As discussed in note 3, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 April 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. In addition, the depreciated carrying amount of the finance leased assets which were previously included in property, plant and equipment is also identified as right-of-use assets. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 3.

The movements in property, plant and equipment and interests in leasehold land held for own use for the period/year ended 30 September 2019 and 31 March 2019 are set out as follows:

| | Other property, plant and equipment \$'000 | Right-of-use assets \$'000 | Interests in leasehold land held for own use \$'000 | Total \$'000 |
|---|--|----------------------------------|---|------------------|
| As at 1 April 2019 | 1,145,884 | – | 1,445,512 | 2,591,396 |
| Impact on initial application of HKFRS 16 | (16,307) | 1,515,436 | (1,445,512) | 53,617 |
| Adjusted balance as at 1 April 2019 | 1,129,577 | 1,515,436 | – | 2,645,013 |
| Exchange adjustments | (66,208) | (40,310) | – | (106,518) |
| Additions | 25,772 | – | – | 25,772 |
| Disposals | (237) | – | – | (237) |
| Depreciation for the period | (36,207) | (28,112) | – | (64,319) |
| As at 30 September 2019 | 1,052,697 | 1,447,014 | – | 2,499,711 |

| | Property, plant and equipment \$'000 | Interests in leasehold land held for own use \$'000 | Total \$'000 |
|--|---|---|-----------------|
| As at 1 April 2018 | 1,258,234 | 1,526,912 | 2,785,146 |
| Exchange adjustments | (78,011) | (45,161) | (123,172) |
| Additions | 41,635 | – | 41,635 |
| Disposals | (2,948) | – | (2,948) |
| Depreciation/amortisation for the year | (73,026) | (36,239) | (109,265) |
| As at 31 March 2019 | 1,145,884 | 1,445,512 | 2,591,396 |



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

10 INVESTMENT IN FORTRESS GROUP LIMITED

On 22 March 2014, GM Investment Company Limited (“GM Investment”), a wholly-owned subsidiary of the Company, entered into a conditional sales and purchase agreement with Sanpower Group Limited* (Chinese name as 三胞集團有限公司) (“Sanpower”) (the “Fortress SPA”) to sell its entire interest in Fortress Group Limited (“Fortress”), a former associate of the Group, representing approximately 27.9% of the issued share capital of Fortress, for a consideration of approximately US\$101,264,000 (equivalent to approximately \$789,859,000) (the “Fortress Disposal”).

Completion of the Fortress SPA is conditional upon, among other things, the satisfaction of certain conditions, including but not limited to the completion of the agreement in relation to the disposal of a controlling shareholding interest in Fortress (the “PAG Agreement”) entered into by PAG Asia I LP (“PAG”), a controlling shareholder of Fortress, and Sanpower.

Upon completion of the Fortress Disposal, the Group will not hold any interest in Fortress and Fortress will cease to be an associate of the Group. Accordingly, the Group reclassified its investment in an associate as “non-current assets classified as held for sale” and transferred exchange reserve related to the interest in an associate to “amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets classified as held for sale” as at 31 March 2014.

Further details of the Fortress Disposal are set out in the Company’s circular dated 12 May 2014.

In July 2014, the Group was informed that the PAG Agreement had not been completed and therefore, Fortress SPA would not proceed as contemplated. The Group was not informed of the reasons why the PAG Agreement is not completed.

Thereafter, the Group was informed that a dispute had arisen between two of the shareholders of Fortress. The Group agreed to proceed with the sale of Fortress’ 100% equity interest in Funtalk China Holdings Limited (“Funtalk”, the only operating entity under Fortress) to Sanpower.

In June 2015, GM Investment received a notice from a senior security holder of Fortress of its intention to exercise the put option, pursuant to a shareholder agreement entered into by GM Investment and the other shareholders of Fortress on 25 August 2011, to repurchase outstanding senior obligation of Fortress. However, as confirmed from the notice, no further claim against GM Investment if GM Investment decides to forfeit and transfer its entire equity interest in Fortress to the said senior security holder of Fortress.

Based on the information available, the Group made an impairment provision of \$759,934,000 on its “non-current assets classified as held for sale” as at 31 March 2015.

* *The English name is for identification purpose only.*

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

10 INVESTMENT IN FORTRESS GROUP LIMITED (continued)

Since the receipt of the notice from the senior security holder of Fortress, the Company has taken actions to safeguard its interest, including seeking legal advice and negotiating with relevant parties to reach settlement agreements in order to maximise the recovery of its interest in Fortress. As at 31 March 2016, no definite agreements have been reached.

On 3 November 2016, GM Investment, PAG and its assignee PAGAC Fortress Holding I Limited ("PAGAC") and Fortress entered into a conditional settlement agreement (the "PAG Settlement Agreement"). Pursuant to the PAG Settlement Agreement, Fortress authorises GM Investment to receive an unsettled sum in relation to its sale of 100% equity interest in Funtalk to Sanpower of not less than approximately US\$250,000,000 (equivalent to approximately \$1,950,000,000) from Sanpower (the "Fortress Unsettled Sum"). Accordingly, GM Investment agrees to pay a settlement sum of US\$180,000,000 (equivalent to approximately \$1,404,000,000) (the "PAG Settlement Sum") to PAGAC by instalments within 18 months. PAG will release and waive all of its claims against GM Investment upon receipt of the PAG Settlement Sum.

On 14 November 2016, GM Investment and Sanpower entered into a conditional settlement agreement (the "Sanpower Settlement Agreement"). Pursuant to which, Sanpower agrees to pay a settlement sum of US\$300,000,000 (equivalent to approximately \$2,340,000,000) (the "Sanpower Settlement Sum") to GM Investment by instalments within 36 months as a full and final settlement for the Fortress Unsettled Sum. The first three instalments will be paid in cash, while the remaining two instalments can either be settled by cash or in kind by Sanpower's investment in securities listed on the Shanghai Stock Exchange, at sole discretion of GM Investment. The obligation of Sanpower to pay the Sanpower Settlement Sum under the Sanpower Settlement Agreement is guaranteed by Mr. Yuan Yafei ("Mr. Yuan"), the controlling shareholder of Sanpower. Upon receipt of the Sanpower Settlement Sum, GM Investment will release and waive all of its claims against Sanpower, including the claims regarding the Fortress Unsettled Sum and the Fortress SPA.

The PAG Settlement Agreement and the Sanpower Settlement Agreement (together as the "Fortress Settlement Agreements") were approved by shareholders at the extraordinary general meeting of the Company held on 16 January 2017.

Further details of the Fortress Settlement Agreements are set out in the Company's announcements dated 3 November 2016, 14 November 2016 and 1 March 2017, respectively, and Company's circular dated 23 December 2016.

Upon the execution of the Fortress Settlement Agreements, a financial liability, namely "amounts due to PAGAC" and a financial asset, namely "amounts due from Sanpower", being the present value of the PAG Settlement Sum and the Sanpower Settlement Sum had been recognised. The difference between the present values of the PAG Settlement Sum and the Sanpower Settlement Sum, being approximately US\$94,170,000 (equivalent to approximately \$734,525,000) at initial recognition had been recognised in the consolidated income statement for the year ended 31 March 2017 under the caption "reversal of impairment loss on investment in Fortress Group Limited".

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(Expressed in Hong Kong dollars unless otherwise indicated)

10 INVESTMENT IN FORTRESS GROUP LIMITED (continued)

During the year ended 31 March 2019, it was drawn to the management attention that Sanpower was facing credit crunch, and received unanimous support from creditors to resolve its current difficulties. In March 2019, the Group issued a demand letter to each of Sanpower and Mr. Yuan, the guarantor of Sanpower under the settlement agreement, demanding the settlement of the fourth instalment by 31 March 2019. As at the date of this report, the Group has not received any response from Sanpower nor Mr. Yuan. The Group expects the remaining two instalments due from Sanpower will be settled in October 2020 and July 2021, respectively. Accordingly, the Group recognised an expected credit loss against the receivables due from Sanpower of \$378,843,000 during the year ended 31 March 2019.

The amount due to PAGAC of \$429,000,000 was due in July 2018 and has yet to be paid to PAGAC as at 30 September 2019.

The movements of amounts due from Sanpower and amounts due to PAGAC are set out as follows:

| | At 30 September 2019 | | At 31 March 2019 | |
|---------------------------------|---|---|---|---|
| | Amounts due from Sanpower \$'000 | Amounts due to PAGAC (note 14) \$'000 | Amounts due from Sanpower \$'000 | Amounts due to PAGAC (note 14) \$'000 |
| At beginning of the period/year | 371,959 | (429,000) | 1,093,324 | (429,000) |
| Interest income | 95,482 | - | 86,478 | - |
| Impairment loss | - | - | (378,843) | - |
| Settlements | - | - | (429,000) | - |
| At end of the period/year | 467,441 | (429,000) | 371,959 | (429,000) |
| Representing: | | | | |
| Current | - | (429,000) | - | (429,000) |
| Non-current | 467,441 | - | 371,959 | - |
| | 467,441 | (429,000) | 371,959 | (429,000) |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INVENTORIES

Inventories comprise:

| | At 30 September 2019 \$'000 | At 31 March 2019 \$'000 |
|------------------|--------------------------------------|----------------------------------|
| Raw materials | 6,280 | 5,273 |
| Work in progress | 10,060 | 13,730 |
| Finished goods | 9,322 | 4,924 |
| | 25,662 | 23,927 |

12 TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise:

| | At 30 September 2019 \$'000 | At 31 March 2019 \$'000 |
|------------------------------------|--------------------------------------|----------------------------------|
| Trade receivables | 43,713 | 48,787 |
| Less: Allowance for doubtful debts | (3,024) | (3,329) |
| | 40,689 | 45,458 |
| Prepayments and deposits | 6,284 | 7,236 |
| Investment deposit (i) | 7,260 | 7,080 |
| Other receivables | 113,041 | 96,162 |
| Income tax recoverable | - | 2,412 |
| | 167,274 | 158,348 |

- (i) As at 30 September 2019, investment deposit represented a refundable deposit for the Group's proposed acquisition of a property located in Japan amounting to JPY100,000,000 (equivalent to approximately \$7,260,000) (31 March 2019: JPY100,000,000 (equivalent to approximately \$7,080,000)).

All current trade and other receivables are expected to be recovered within one year.

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(Expressed in Hong Kong dollars unless otherwise indicated)

12 TRADE AND OTHER RECEIVABLES (continued)

Details of the ageing analysis of trade receivables (net of allowance for doubtful debts) that are neither individually nor collectively considered to be impaired are as follows:

| | At 30 September 2019 \$'000 | At 31 March 2019 \$'000 |
|---|--------------------------------------|----------------------------------|
| Neither past due nor impaired | 34,591 | 29,305 |
| Past due (net of allowance for doubtful debts) | | |
| Within six months | 5,179 | 13,025 |
| Between seven and twelve months | 919 | 3,128 |
| Over one year | – | – |
| | 6,098 | 16,153 |
| | 40,689 | 45,458 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

13 PLEDGED AND TIME DEPOSITS

Pledged and time deposits comprise:

| | Note | At 30 September 2019 \$'000 | At 31 March 2019 \$'000 |
|--|------|--------------------------------------|----------------------------------|
| Time deposits with original maturities over three months | | 10,983 | 29,240 |
| Pledged deposits | (i) | 604,064 | 643,275 |
| | | 615,047 | 672,515 |

(i) The balance represents bank deposits of \$604,064,000 (31 March 2019: \$643,275,000) which were pledged for interest-bearing borrowings (note 15).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

14 TRADE AND OTHER PAYABLES

Trade and other payables comprise:

| | Note | At 30 September 2019 \$'000 | At 31 March 2019 \$'000 |
|---|------|--------------------------------------|----------------------------------|
| Trade payables | | 13,716 | 9,643 |
| Construction costs payables | | 5,707 | 6,078 |
| Amounts due to PAGAC | 10 | 429,000 | 429,000 |
| Investment deposits | (i) | 197,930 | 257,325 |
| Withholding tax in relation to the disposal of subsidiaries | | 633,059 | 674,152 |
| Other payables and accrued expenses | | 393,608 | 415,794 |
| | | 1,673,020 | 1,791,992 |

- (i) The balance represented investment deposits of RMB180,215,000 (equivalent to approximately \$197,930,000) (31 March 2019: RMB220,013,000 (equivalent to approximately \$257,325,000)) received from a third party for participating in a proposed acquisition in healthcare business.

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

The Group is normally granted credit periods of one to three months by its suppliers. Details of the ageing analysis of trade payables are as follows:

| | At 30 September 2019 \$'000 | At 31 March 2019 \$'000 |
|--------------------------------------|--------------------------------------|----------------------------------|
| Due within three months or on demand | 13,716 | 9,643 |

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(Expressed in Hong Kong dollars unless otherwise indicated)

15 INTEREST-BEARING BORROWINGS

At the end of the reporting periods, interest-bearing borrowings were repayable as follows:

| | At 30 September 2019 \$'000 | At 31 March 2019 \$'000 |
|--------------------------------------|--------------------------------------|----------------------------------|
| Within one year or on demand | 329,489 | 894,889 |
| After one year but within five years | 527,183 | – |
| | 856,672 | 894,889 |

As at 30 September 2019, the bank loan of \$329,489,000 (31 March 2019: \$350,877,000) was secured by interests in leasehold land located in the PRC with an aggregate carrying amount of \$541,179,000 (31 March 2019: \$583,303,000) and bank loans of \$527,183,000 (31 March 2019: \$544,012,000) were secured by bank deposits of \$604,064,000 (31 March 2019: \$643,275,000) (note 13).

16 CAPITAL AND DIVIDENDS

(a) Share capital

| | At 30 September 2019 | | At 31 March 2019 | |
|---|-----------------------------|------------------|-----------------------------|------------------|
| | Number of shares '000 | Amount \$'000 | Number of shares '000 | Amount \$'000 |
| Authorised: | | | | |
| Ordinary shares of par value of \$0.20 each | 5,000,000 | 1,000,000 | 5,000,000 | 1,000,000 |
| Issued and fully paid: | | | | |
| At beginning of the period/year | 2,916,932 | 583,386 | 2,916,932 | 583,386 |
| At end of the period/year | 2,916,932 | 583,386 | 2,916,932 | 583,386 |

The holders of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per Share at shareholder's meetings of the Company. All shares rank equally with regard to the Company's residual assets.

(b) Dividends

The directors do not recommend the payment of a dividend in respect of the six months ended 30 September 2019 (six months ended 30 September 2018: \$nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

17 FAIR VALUES OF FINANCIALS INSTRUMENTS

(a) Financial instruments measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- i. Level 1 valuations: Fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- ii. Level 2 valuations: Fair values measured using only Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- iii. Level 3 valuations: Fair values measured using significant unobservable inputs

| | Fair value at 30 September | Fair value measurements as at 30 September 2019 categorised into | | |
|------------------------------|-------------------------------|---|-------------------|-------------------|
| | 2019 \$'000 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
| Assets: | | | | |
| Other financial assets | | | | |
| – fund investments | 22,311 | – | – | 22,311 |
| – unlisted equity securities | 132 | – | – | 132 |

| | Fair value at 31 March | Fair value measurements as at 31 March 2019 categorised into | | |
|------------------------------|---------------------------|---|-------------------|-------------------|
| | 2019 \$'000 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
| Assets: | | | | |
| Other financial assets | | | | |
| – fund investments | 29,560 | – | – | 29,560 |
| – unlisted equity securities | 9,361 | – | – | 9,361 |

During the period/year ended 30 September 2019 and 31 March 2019, there was no transfer between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

17 FAIR VALUES OF FINANCIALS INSTRUMENTS (continued)

(a) Financial instruments measured at fair value (continued)

(ii) Information about Level 3 fair value measurement

The estimates of the fair values of the fund investments and unlisted equity securities were measured with reference to the net recoverable amount and recent transaction price, respectively.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

| | \$'000 |
|--|-----------------|
| As 1 April 2019 | 38,921 |
| Exchange adjustments | (2) |
| Additions | 134 |
| Changes in fair value of financial assets at fair value through profit or loss | (16,610) |
| As 30 September 2019 | 22,443 |

(b) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 September 2019 and 31 March 2019.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

18 COMMITMENTS

- (a) Capital commitments for the acquisition of property, plant and equipment outstanding at the end of the reporting periods not provided for in the financial statements were as follows:

| | At 30 September 2019 \$'000 | At 31 March 2019 \$'000 |
|----------------|--|----------------------------------|
| Contracted for | 12,002 | 12,781 |

- (b) At 31 March 2019, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | At 31 March 2019 \$'000 |
|--------------------------------------|----------------------------------|
| Within one year | 21,746 |
| After one year but within five years | 37,822 |
| | 59,568 |

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to these leases (see note 3). From 1 April 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 3.

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the leases upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

19 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

| | Six months ended 30 September | |
|---|-------------------------------|----------------|
| | 2019 \$'000 | 2018 \$'000 |
| Directors' fee | 230 | 360 |
| Salaries, allowances and benefits in kind | 2,593 | 3,154 |
| Discretionary bonuses | – | (500) |
| Retirement scheme contributions | 1,355 | 1,719 |
| | 4,178 | 4,733 |

(b) Financing arrangements with associates and joint ventures

- (i) As at 30 September 2019, the Group provided financing to a subsidiary of Golden Meditech Javadi Precision Medicine Limited ("GM Javadi"), a joint venture of the Group, with an aggregate amount of \$95,386,000 (31 March 2019: \$89,926,000), which included (x) a loan with a principal amount of US\$8,229,000 (equivalent to approximately \$64,186,000) (31 March 2019: US\$8,229,000 (equivalent to approximately \$64,186,000)) due in January 2022 at the United States prime rate; and (y) advances to GM Javadi of US\$4,000,000 (equivalent to approximately \$31,200,000) (31 March 2019: US\$3,300,000 (equivalent to approximately \$25,740,000)) with no planned settlement schedule.

During the six months ended 30 September 2019, interest income from the loan to the subsidiary of GM Javadi was \$2,534,000 (six months ended 30 September 2018: \$1,980,000).

- (ii) On 6 November 2017, GM Investment, a wholly-owned subsidiary of the Company, entered into a loan facility agreement (the "LCS Loan Facility Agreement") with Life Corporation Services (S) Pte. Ltd. ("LCS"), an associate of the Group, pursuant to which, GM Investment granted to LCS a revolving credit facility for a period of 3 years at 9% per annum. As at 30 September 2019, LCS has aggregately drawn-down SGD5,000,000 (equivalent to approximately \$28,361,000) (31 March 2019: SGD5,800,000 (equivalent to approximately \$33,585,000)).

During the six months ended 30 September 2019, interest income from the loan to LCS was \$1,560,000 (six months ended 30 September 2018: \$654,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

19 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Financing arrangements with associates and joint ventures (continued)

- (iii) On 13 August 2018, Golden Meditech K.K. ("GM K.K."), an indirect wholly-owned subsidiary of the Company, and Magnum Opus International Holdings Limited ("Magnum Opus") entered into a shareholders loan agreement (the "KINKA Shareholders Loan Agreement") with KINKA Asset Management Co., Ltd. ("KINKA", formerly known as ASA Asset Management Co., Ltd.), a joint venture of the Group. Pursuant to the KINKA Shareholders Loan Agreement, GM K.K. and Magnum Opus conditionally agreed to provide a loan in an aggregate principal amount of JPY2,400,000,000 (the "KINKA Shareholder Loan"), for a period of 5 years at 5% per annum, of which JPY1,200,000,000 to be provided by each of GM K.K. and Magnum Opus in proportion to their equity interests in KINKA.

On 29 March 2019, GM Investment and GM K.K. entered into a deed of loan assignment, pursuant to which, GM K.K. agreed to assign all of the benefits and rights in its share of the KINKA Shareholders Loan to GM Investment. In addition, Seragaki Okinawa Joint Venture Limited ("SOJV") and KINKA entered into a sale and purchase agreement, pursuant to which, SOJV agreed to acquire from KINKA, and KINKA agreed to sell to SOJV the entire equity interest in GM Okinawa Seragaki Godo Kaisha (the then wholly-owned subsidiary of KINKA) in consideration of SOJV assuming all the obligations of the KINKA Shareholders Loan owed by KINKA and procuring a release and discharge by GM Investment and Magnum Opus, respectively, of KINKA from the KINKA Shareholders Loan.

As at 30 September 2019, carrying amount of the loan to SOJV was JPY1,200,000,000 (equivalent to approximately \$87,120,000) (31 March 2019: JPY1,200,000,000 (equivalent to approximately \$84,960,000)). During the six months ended 30 September 2019, interest income from the loan to SOJV was \$2,173,000. During the six months ended 30 September 2018, interest income from the loan to KINKA was \$550,000.

- (iv) On 6 August 2019, GM Investment agreed to subscribe for the convertible note issued by LCS (the "LCS Convertible Note"), in the principal amount of SGD5,800,000 at the interest rate of 11% per annum compounded annually for a term of 3 years. LCS Convertible Note is convertible into new LCS shares at the conversion price, being the net assets value per LCS share at each conversion date. During the six months ended 30 September 2019, GM Investment has subscribed for SGD3,800,000 LCS Convertible Note, of which SGD800,000 was used to settle part of the outstanding loan borrowed by LCS under the LCS Loan Facility Agreement.

As at 30 September 2019, the carrying amount of the LCS Convertible Note was SGD3,800,000 (equivalent to approximately \$21,555,000). During the six months ended 30 September 2019, interest income from the LCS Convertible Note was \$344,000.

20 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

In October 2019, the Group entered into new loan agreements to extend the due date of the bank loan of an aggregated carrying amount of \$329,489,000 to September and October 2020. Under new loan agreements, the interests in leasehold land originally pledged for such loan has been released and the Group pledged additional bank deposits of \$345,140,000 as new collateral.



DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2019, none of the directors (the "Directors") or the chief executives of Golden Meditech Holdings Limited (the "Company", and together with its subsidiaries, the "Group") or their respective associates had any interests or short positions in the shares or, in respect of equity derivatives, underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (i) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SHARE OPTION SCHEME

On 27 September 2017 (the "Adoption Date"), the shareholders of the Company approved the adoption of a share option scheme (the "2017 Share Option Scheme") to enable the Company to grant share options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the development and the growth of the Group. The 2017 Share Option Scheme shall be valid and effective for a period of 10 years from the Adoption Date. As at the date of this report, no share options were granted under the 2017 Share Option Scheme.

The major terms of the 2017 Share Option Scheme are as follows:

1. The purpose of the 2017 Share Option Scheme is to recognise and acknowledge the contributions of the eligible participants to the Group by granting options to them as incentives or rewards.
2. The eligible participants of the 2017 Share Option Scheme are:
 - (a) any employee (whether full-time or part-time) or director (including executive director, non-executive director and independent non-executive director) of any member of the Group or any entity in which any member of the Group holds any equity interest (the "Invested Entity");
 - (b) any advisor, consultant, professional, agent, contractor, customer, provider of goods and/or services, business or joint-venture partner of any member of the Group or any Invested Entity whom the board of Directors (the "Board") in its sole discretion considers eligible for the 2017 Share Option Scheme on the basis of his or her contribution to the Group or the Invested Entity (as the case may be); and
 - (c) any person whom the Board in its sole discretion considers has contributed or will contribute to the Group or to the Invested Entity (as the case may be).

SHARE OPTION SCHEME (continued)

3. The overall limit on the number of shares of the Company (the "Shares") which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2017 Share Option Scheme and any other schemes of the Company at any time must not exceed 30% of the Shares in issue from time to time. Subject to the aforesaid limit, the maximum number of Shares in respect of which options may be granted under the 2017 Share Option Scheme and under any other schemes of the Group must not in aggregate exceed 10% of the total number of Shares in issue as at the Adoption Date. The total number of Shares available for issue under the 2017 Share Option Scheme was 296,613,970 Shares, representing approximately 10.17% of the issued Shares as at the date of this report.
4. The total number of Shares issued and which fall to be issued upon exercise of the options granted under the 2017 Share Option Scheme and other schemes (including both exercised and outstanding options) to each eligible participant in any period of 12 consecutive months up to and including the date of grant of the options shall not exceed 1% of the Shares in issue as at the date of grant of the options.

In addition, the number of Shares in respect of which options may be granted to any eligible participant (who is a substantial shareholder or an Independent Non-Executive Director of the Company, or any of their respective associates (within the meaning as ascribed under the Listing Rules)) in any 12-month period is not permitted to exceed 0.1% of the total number of Shares in issue and HK\$5,000,000 in an aggregate value, based on the closing price of the Shares at the date of each grant, unless approved by the shareholders of the Company.

5. The exercise period of any option granted under the 2017 Share Option Scheme must not be more than 10 years from the date of grant.
6. HK\$1.00 is payable by an eligible participant on acceptance of an offer of the grant of an option (the "Offer").
7. The exercise price shall be determined by the Board and shall be at least the highest of (i) the nominal value of the Shares; (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of Offer, which must be a business day; and (iii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of Offer.
8. Subject to earlier termination by the Company in a general meeting, the 2017 Share Option Scheme shall be valid and effective for a period commencing from the Adoption Date and expiring at 5:00 p.m. on the business day preceding the tenth anniversary of such date.
9. The Board may at its discretion, when making an Offer, impose any conditions, restrictions or limitations in relation thereto as it may think fit, including but not limited to the achievement of any performance target and/or any minimum period for which an option must be held before it can be exercised. Subject to the aforesaid, an eligible participant to whom any option is granted is not required to achieve any performance target before an option can be exercised.

DISCLOSURE OF INTERESTS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme described above, at no time during the period was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors or chief executives of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or in respect of equity derivatives, underlying shares in, or debentures of, the Company or any other body corporate and no Directors or chief executives or their respective spouses or their children under eighteen years of age had been granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2019, the interests and short positions of the shareholders (not being Directors or the chief executives of the Company) in the Shares and underlying Shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

(a) Long positions of substantial shareholders

| Name | Capacity and nature of interest | No. of issued Shares | Approximate percentage of the Company's issued share capital |
|--|------------------------------------|------------------------------|--|
| Bio Garden Inc. ("Bio Garden") ⁽¹⁾⁽⁵⁾ | Beneficial owner | 1,148,237,526 ⁽⁴⁾ | 39.36% |
| Mr. KAM Yuen ("Mr. Kam") ⁽²⁾ | Founder of trusts | 1,148,237,526 ⁽⁴⁾ | 39.36% |
| | Interest of controlled corporation | 968,774,034 | 33.21% |
| Golden Fountain Investments Limited ("Golden Fountain") ⁽³⁾ | Interest of controlled corporation | 1,148,237,526 ⁽⁴⁾ | 39.36% |
| Alpadis Trust (HK) Limited ("Alpadis Trust") ⁽³⁾ | Trustee | 1,148,237,526 ⁽⁴⁾ | 39.36% |
| Alpadis Group Holding SA ("Alpadis Group") ⁽³⁾ | Interest of controlled corporation | 1,148,237,526 ⁽⁴⁾ | 39.36% |
| Mr. ESSEIVA Alain ⁽³⁾ | Interest of controlled corporation | 1,148,237,526 ⁽⁴⁾ | 39.36% |

DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(b) Long positions of other persons who are required to disclose their interests

| Name | Capacity and nature of interest | No. of issued Shares | Approximate percentage of the Company's issued share capital |
|--|------------------------------------|----------------------|--|
| Qin Wall Investment Holdings Limited ("Qin Wall") ⁽⁵⁾⁽⁶⁾ | Securities interest in shares | 1,078,774,034 | 36.98% |
| Huarong Real Estate Co., Ltd. ("Huarong Real Estate") ⁽⁵⁾⁽⁶⁾ | Securities interest in shares | 1,078,774,034 | 36.98% |
| China Huarong International Holdings Limited ("China Huarong International") ⁽⁵⁾⁽⁶⁾ | Securities interest in shares | 1,078,774,034 | 36.98% |
| China Huarong Asset Management Co., Ltd. ("China Huarong Asset") ⁽⁵⁾⁽⁶⁾ | Securities interest in shares | 1,078,774,034 | 36.98% |
| Magnum Opus 3 International Holdings Limited ("Magnum 3") ⁽⁵⁾⁽⁷⁾ | Beneficial owner | 968,774,034 | 33.21% |
| Ms. LIU Yang ⁽⁸⁾ | Interest of controlled corporation | 320,342,529 | 10.98% |
| Atlantis Capital Holdings Limited ⁽⁸⁾ | Interest of controlled corporation | 320,342,529 | 10.98% |
| Atlantis Investment Management Limited ("Atlantis") ⁽⁸⁾ | Beneficial owner | 320,342,529 | 10.98% |
| Riverwood Asset Management (Cayman) Ltd. ("Riverwood") ⁽⁸⁾ | Investment manager | 233,568,325 | 8.01% |



DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(b) Long positions of other persons who are required to disclose their interests (continued)

Notes:

- (1) Bio Garden is an investment holding company incorporated in the British Virgin Islands ("BVI"). It was wholly-owned by certain discretionary trust of which Mr. Kam was the founder. Mr. Kam is also the sole director of Bio Garden.
- (2) Mr. Kam was deemed under the SFO to have an interest in (i) 1,148,237,526 Shares which Bio Garden was interested in (the "Bio Garden Shares") by virtue of his being the founder of certain discretionary trusts which owned the entire issued share capital of Bio Garden and (ii) 968,774,034 Shares which Magnum 3 was interested in by virtue of him owning 100% voting ordinary shares of Magnum 3.
- (3) Bio Garden was owned as to 18% by each of Gold Rich Investment Limited ("Gold Rich") and Gold View Investment Limited ("Gold View") and as to 64% by Golden Fountain. Alpadis Trust is the trustee of a discretionary trust as referred to in (1) above, which owns 100% shareholding interests in each of Gold Rich, Gold View and Golden Fountain. Alpadis Group directly and indirectly owned 100% interests in Alpadis Trust. Mr. ESSEIVA Alain has 44.90% interest in Alpadis Group. Accordingly, each of Golden Fountain, Alpadis Trust, Alpadis Group and Mr. ESSEIVA Alain were deemed, under the SFO, to have an interest in the Bio Garden Shares.
- (4) These interests represent the same block of Shares.
- (5) 968,774,034 Shares and 110,000,000 Shares owned by Magnum 3 and Bio Garden (as chargors) respectively have been charged to Qin Wall under the deeds of share charge dated 10 May 2018 and 18 July 2018, respectively.
- (6) Qin Wall is a limited liability company incorporated in BVI, which was wholly-owned by China Huarong International. China Huarong International was owned as to 88.10% and 11.90% by Huarong Real Estate and Huarong Zhiyuan Investment & Management Co., Ltd. ("Huarong Zhiyuan"). Both Huarong Real Estate and Huarong Zhiyuan were wholly-owned by China Huarong Asset.
- (7) Magnum 3 is an investment holding company incorporated in BVI, which (i) is 100% owned as to its voting ordinary shares by Mr. Kam and (ii) has issued non-voting convertible and non-convertible preferred shares to Qin Wall. Mr. Kam is also one of the directors of Magnum 3.
- (8) Atlantis is a limited liability company incorporated in Hong Kong, which was wholly-owned by Atlantis Capital Holdings Limited. Ms. LIU Yang has 100% indirect interest in Atlantis Capital Holdings Limited and she is a controller who held a 100% direct interest in Riverwood.

Save as disclosed above, as at 30 September 2019, the Directors are not aware of any other person (other than Directors or the chief executives of the Company) or corporation having an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under Divisions 2 and 3 of part XV of the SFO or as recorded in the register required to be kept under section 336 of the SFO.



CORPORATE GOVERNANCE AND OTHER INFORMATION

REPORT ON CORPORATE GOVERNANCE

Throughout the six months ended 30 September 2019, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

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

During the six months ended 30 September 2019, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with, or they were not aware of any non-compliance with the required standards of dealings during the six months ended 30 September 2019.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflicts of interest with the Group.

CHANGE IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

The change in the information of the Directors and chief executives of the Company since the publication of the annual report of the Company for the year ended 31 March 2019 required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

| Name of Director | Details of Change |
|-------------------|---|
| Mr. POON Tsz Hang | Appointed as a company secretary of MS Concept Limited ("MS Concept") (stock code: 8447), a company listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange, an authorised representative of MS Concept under 5.24 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange and the authorised representative of MS Concept under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) on 1 August 2019. |



CORPORATE GOVERNANCE AND OTHER INFORMATION

RISK MANAGEMENT

The risk assessment and control systems have been evaluated by the Board and management at least annually or earlier if significant changes occur that introduce new risks or significantly alter the level of current risks. Management is committed to ensure that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

The Board has reviewed and improved the Group's risk management and internal control systems, taking into account the prevailing regulatory requirements, the Group's business development, interests of shareholders, and technological advances.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference. The primary duties of the audit committee are to review the Company's annual report and interim report, the Group's financial control, internal control and risk management systems and to provide advice and comments thereon to the Board.

The audit committee comprises three independent non-executive Directors, namely Mr. POON Tsz Hang (chairman of the audit committee), Mr. GAO Yue and Mr. Daniel FOA.

The audit committee, together with the management team of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed accounting issues, internal control and financial reporting matters with the Directors, including a review of the unaudited interim report for the six months ended 30 September 2019.

By order of the Board

FENG Wen

Chairman

HONG KONG, 27 November 2019



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. FENG Wen (*Chairman*)
Mr. LEONG Kim Chuan (*Chief Executive*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. GAO Yue
Mr. POON Tsz Hang
Mr. Daniel FOA

REGISTERED OFFICE

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P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

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No. 11 Wan Yuan Street
Beijing Economic Technological Development Area
Beijing, 100176 China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

48/F, Bank of China Tower
1 Garden Road
Central, Hong Kong

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 801

QUALIFIED ACCOUNTANT

Mr. LEONG Kim Chuan, *ACCA*

COMPANY SECRETARY

Ms. LAM Cheuk Man, *ACIS, ACS*

COMPLIANCE OFFICER

Mr. LEONG Kim Chuan

AUDIT COMMITTEE MEMBERS

Mr. POON Tsz Hang (*Chairman*)
Mr. GAO Yue
Mr. Daniel FOA

REMUNERATION COMMITTEE MEMBERS

Mr. Daniel FOA (*Chairman*)
Mr. GAO Yue
Mr. POON Tsz Hang

NOMINATION COMMITTEE MEMBERS

Mr. GAO Yue (*Chairman*)
Mr. POON Tsz Hang
Mr. Daniel FOA

AUTHORISED REPRESENTATIVES

Mr. FENG Wen
Mr. LEONG Kim Chuan

LEGAL ADVISERS TO THE COMPANY

as to Hong Kong law
MinterEllison LLP

AUDITORS

KPMG

COMPLIANCE ADVISER

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Room 1612, 16/F., West Tower
Shuk Tak Centre
168-200 Connaught Road
Central, Hong Kong



CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Estera Trust (Cayman) Limited
(Formerly known as "Appleby Trust (Cayman) Ltd")

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Computershare Hong Kong Investor Services Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
Shanghai Huarui Bank
Sumitomo Mitsui Banking Corporation

INVESTOR RELATIONS OFFICER

Ms. Joanna Rui, Investor Relations Manager
Email: ir@goldenmeditech.com

WEBSITE

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