PW MEDTECH GROUP LIMITED
普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1358)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2020

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended June 30, 2020 amounted to approximately RMB101.5 million, representing a decrease of 41.1% from approximately RMB172.3 million for the corresponding period in 2019.
- Gross profit for the six months ended June 30, 2020 amounted to approximately RMB59.5 million, representing a decrease of 44.2% from approximately RMB106.6 million for the corresponding period in 2019.
- Profit for the period for the six months ended June 30, 2020 amounted to approximately RMB141.2 million, representing an increase of 135.8% from approximately RMB59.9 million for the corresponding period in 2019.
- Profit attributable to owners of the Company for the six months ended June 30, 2020 amounted to approximately RMB141.2 million, representing an increase of 135.8% from approximately RMB59.9 million for the corresponding period in 2019.

In this announcement, "we", "us" and "our" refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board (the "**Board**") of directors (the "**Directors**") of PW Medtech Group Limited (the "**Company**" and, together with its subsidiaries, collectively the "**Group**") is pleased to announce the unaudited condensed consolidated interim financial results of the Group for the six months ended June 30, 2020 (the "**Relevant Period**"), together with the comparative figures for the corresponding period in 2019 or other date/period as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2020

		Unaudited	
		Six months ended June 30,	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
Revenue	*6(b)*	**101,536**	172,309
Cost of sales		**(42,023)**	(65,731)
Gross profit		**59,513**	106,578
Other gains/(losses)	*7*	**116,511**	(1,898)
Fair value (loss)/gain on investment properties	*15*	**(13,987)**	540
Selling and marketing expenses		**(46,522)**	(50,226)
General and administrative expenses		**(33,111)**	(30,798)
Provision for impairment loss recognised in respect of trade receivables	*18*	**(6,344)**	(4,803)
Research and development expenses		**(10,694)**	(9,781)
Operating profit		**65,366**	9,612
Finance cost	*8*	**(9,267)**	(14,666)
Share of result of an associate		**79,084**	67,355
Profit before income tax	*9*	**135,183**	62,301
Income tax credits/(expenses)	*10*	**5,968**	(2,441)
Profit for the period		**141,151**	59,860

	Note	Unaudited Six months ended June 30, **2020** *RMB'000*	2019 *RMB'000*
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		**(6,320)**	(1,235)
Share of exchange differences reserve of an associate		**28,883**	7,764
Reclassification from exchange differences reserve to profit or loss on			
— Deemed disposal of an associate		**(23)**	(19)
— Disposal of interest in an associate		**1,464**	—
Other comprehensive income for the period		**24,004**	6,510
Total comprehensive income for the period		**165,155**	66,370
Profit attributable to:			
Owners of the Company		**141,153**	59,869
Non-controlling interests		**(2)**	(9)
		141,151	59,860
Total comprehensive income for the period attributable to:			
Owners of the Company		**165,157**	66,379
Non-controlling interests		**(2)**	(9)
		165,155	66,370
Earnings per share attributable to owners of the Company for the period (expressed in RMB cents per share)			
Basic earnings per share	*11*	**8.99**	3.82
Diluted earnings per share	*11*	**8.99**	3.82

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2020

	Notes	**June 30, 2020 RMB'000 (Unaudited)**	December 31, 2019 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	*13*	**716,422**	725,214
Right-of-use assets	*14*	**22,849**	23,027
Investment properties	*15*	**262,506**	276,493
Intangible assets	*16*	**179,506**	181,113
Interest in an associate	*17*	**3,199,388**	3,699,401
Deferred income tax assets		**13,659**	9,174
Long-term prepayments		**24,020**	23,552
Trade receivables	*18*	**2,800**	11,200
		4,421,150	4,949,174
Current assets			
Inventories		**39,988**	36,384
Amount due from an associate		**27,507**	27,449
Trade and other receivables	*18*	**157,346**	206,225
Cash and cash equivalents		**290,618**	132,598
		515,459	402,656
Total assets		**4,936,609**	5,351,830
Current liabilities			
Amount due to an associate		**27,799**	28,086
Trade and other payables	*19*	**99,842**	98,498
Lease liabilities		**2,604**	2,545
Bank borrowings	*20*	**10,000**	587,071
Tax payables		**2,552**	5,925
Total current liabilities		**142,797**	722,125
Net current assets/(liabilities)		**372,662**	(319,469)

	Note	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**3,000**	3,727
Deferred government grants		**17,168**	17,489
Total non-current liabilities		**20,168**	21,216
NET ASSETS		**4,773,644**	4,608,489
Equity			
Share capital	*21*	**965**	965
Share premium		**1,492,937**	1,492,937
Other reserves		**527,989**	503,985
Retained earnings		**2,751,914**	2,610,761
Equity attributable to owners of the Company		**4,773,805**	4,608,648
Non-controlling interests		**(161)**	(159)
TOTAL EQUITY		**4,773,644**	4,608,489

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020

	Attributable to owners of the Company						
	Share capital *RMB'000* *(Note 21)*	**Share premium** *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at January 1, 2020	965	1,492,937	503,985	2,610,761	4,608,648	(159)	4,608,489
Comprehensive income							
Profit for the period	—	—	—	141,153	141,153	(2)	141,151
Other comprehensive income							
Currency translation differences	—	—	(6,320)	—	(6,320)	—	(6,320)
Share of exchange differences reserve of an associate	—	—	28,883	—	28,883	—	28,883
Reclassification from exchange differences reserve to profit or loss on deemed disposal of an associate	—	—	(23)	—	(23)	—	(23)
Reclassification from exchange differences reserve to profit or loss on disposal of interest in an associate	—	—	1,464	—	1,464	—	1,464
Total comprehensive income	—	—	24,004	141,153	165,157	(2)	165,115
Balance at June 30, 2020 (unaudited)	965	1,492,937	527,989	2,751,914	4,773,805	(161)	4,773,644

	Attributable to owners of the Company						
	Share capital *RMB'000* *(Note 21)*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at January 1, 2019	965	1,492,937	471,602	2,528,779	4,494,283	(146)	4,494,137
Comprehensive income							
Profit for the period	—	—	—	59,869	59,869	(9)	59,860
Other comprehensive income							
Currency translation differences	—	—	(1,235)	—	(1,235)	—	(1,235)
Share of exchange differences reserve of an associate	—	—	7,764	—	7,764	—	7,764
Reclassification from exchange differences reserve to profit or loss on deemed disposal of an associate	—	—	(19)	—	(19)	—	(19)
Total comprehensive income	—	—	6,510	59,869	66,379	(9)	66,370
Balance at June 30, 2019 (unaudited)	965	1,492,937	478,112	2,588,648	4,560,662	(155)	4,560,507

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2020

	Unaudited Six months ended June 30, 2020 RMB'000	2019 RMB'000
Cash flows from operating activities		
Cash generated from operations	**42,654**	25,661
Income tax paid	**(2,617)**	(4,028)
Net cash generated from operating activities	**40,037**	21,633
Cash flows from investing activities		
Purchases of property, plant and equipment	**(1,540)**	(1,353)
Payments for development costs of construction in progress	**(4,874)**	(26,263)
Proceeds from disposal of interest in an associate	**714,232**	—
Proceeds from disposal of property, plant and equipment	**4,510**	124
Interest received	**1,591**	550
Net cash generated from/(used in) investing activities	**713,919**	(26,942)
Cash flows from financing activities		
Proceeds from exercise of share options	**—**	62
Repayment of lease liabilities	**(186)**	(101)
Increase in bank borrowings	**—**	8,931
Repayment of bank borrowings	**(585,401)**	—
Interest paid on bank borrowings	**(10,437)**	(15,212)
Net cash used in financing activities	**(596,024)**	(6,320)
Net increase/(decreased) in cash and cash equivalents	**157,932**	(11,629)
Cash and cash equivalents at beginning of period	**132,598**	98,964
Exchange gains	**88**	788
Cash and cash equivalents at end of period	**290,618**	88,123

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL

PW Medtech Group Limited (the "**Company**") was incorporated in the Cayman Islands on May 13, 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company's registered office is the Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since November 8, 2013.

The Company is an investment holding company. The Company and its subsidiaries (together referred to as the "**Group**") are principally engaged in the development, manufacturing and sale of advanced infusion set products (the "**Infusion Set Business**") in the People's Republic of China (the "**PRC**").

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("**HKAS 34**"), issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure provisions of Rules Governing the Listing of Securities on the Main Board of the Stock Exchange. These condensed consolidated interim financial statements were authorised for issue on August 27, 2020.

These condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2019 annual financial statements.

The preparation of these condensed consolidated interim financial statements in compliance with HKAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 4.

These condensed consolidated interim financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated. These condensed consolidated interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2019 annual consolidated financial statements. These condensed consolidated interim financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with HKFRSs and should be read in conjunction with the 2019 annual consolidated financial statements.

3. SIGNIFICANT EVENTS

The World Health Organisation declared coronavirus and COVID-19 a global health emergency on January 30, 2020. Since then, the Group has experienced significant disruption to its operations in the following respects:

— Interruptions to the infusion-set business operated by the Group;

— Decrease in hospital traffic in the PRC;

— Significant uncertainty concerning when government lockdowns will be lifted, social distancing requirements will be eased and the long-term effects of the pandemic on the demand for the Group's primary products.

The significant events and transactions that have occurred since December 31, 2019 relate to the effects of the global pandemic on the Group's condensed consolidated interim financial statements for the six months ended June 30, 2020 and are summarised as follows.

(a) Decrease in sales and cash flows, including impairment of goodwill

As disclosed in Note 6(b), the revenue streams from infusion set business have experienced significant reductions since the pandemic's effects became widespread. The Group considered the reduced sales and reductions in budgeted revenue as indicators of impairment, and therefore determined the recoverable amount for all of its cash generating units. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use was higher in all cases due to the nature of the assets included in the carrying amount of cash generating units.

The impairment assessment for the infusion set business cash-generating unit ("**CGU**") are disclosed in Note 16.

(b) Provision for impairment loss on trade receivables

The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses ("**ECLs**"), which is calculated using a provision matrix. As the Group's historical credit loss experience indicated significantly different loss patterns for different customer segments, the grouping for trade receivables for the assessment of ECLs is by customer segments, while Group C represents distributor customers who identified as having significant increase in risk of default and Group D represents three credit-impaired customers with significant risk of default.

For the six months ended June 30, 2020, the Group recorded an additional allowance for expected credit losses of RMB6,344,000, reflecting a reduction in the credit quality of its trade receivables as a results of the COVID-19 global pandemic. The management has incorporated their judgements on deciding forward-looking factors in the calculation of expected credit losses. Management's judgements regarding expected credit losses are based on the facts available to management currently. Due to the unprecedented nature of the COVID-19 pandemic, its effect on the Group's customers and their ability to meet their financial obligations to the Group is difficult to predict. As a result, the Group's judgments and associated estimates of expected credit losses may ultimately prove, with the benefit of hindsight, to be incorrect.

For detail assessment of loss allowances for trade receivables, please refer to Note 18.

4. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019, as described therein.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 7, HKFRS 9 and HKAS 39	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

The new or amended HKFRSs that are effective from January 1, 2020 did not have any significant impact on the Group's accounting policies.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2019 annual financial statements.

However, as disclosed in Note 3, the effects of COVID-19 have required significant judgments and estimates to be made, including calculating the recoverable amount for cash generating units that exhibit indicators of impairment as at the period end, and determining the amount of goodwill impairment attributable to the cash generating units.

Additionally, while the changes in the following estimates and judgments have not had a material impact on the Group, the effects of COVID-19 have required revisions to: estimates of expected credit losses attributable to accounts receivable arising from sales to customers on credit terms, including the incorporation of forward-looking information to supplement historical credit loss rates.

6. SEGMENT REPORTING

(a) Business segments

The chief operating decision-makers have been identified as the executive director of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Group has only one reportable operating segment which is Infusion Set Business. Thus, no operating segments have been aggregated to form the above reportable operating segment.

(b) Disaggregation of revenue

In the following table, revenue is disaggregated by customer segments and timing of revenue recognition.

	Unaudited Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
Customer segments		
Revenue from hospitals	**12,549**	33,221
Revenue from medical products distributors	**88,987**	139,088
	101,536	172,309
Timing of revenue recognition		
Recognised at a point of time	**101,536**	172,309

As the primary geographical market solely represents the PRC, no disaggregation of revenue by primary geographical market is disclosed.

7. OTHER GAINS/(LOSSES)

	Unaudited Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
Government grants	**3,292**	2,784
Rental income	**5,996**	5,745
Loss on disposal of property, plant and equipment	**(1,536)**	(445)
Loss on guarantee liability *(Note (a))*	**(366)**	(1,190)
Loss on deemed disposal of an associate	**(18,127)**	(8,795)
Gain on disposal of interest in an associate *(Note 17)*	**122,938**	—
Written off of property, plant and equipments	**(1,926)**	—
Others	**6,240**	3
Other gain/(losses)	**116,511**	(1,898)

(a) The loss from financial guarantee mainly related to a joint guarantee liability of the Group's subsidiary, Xuzhou Yijia Medical Device Co., Ltd ("**Xuzhou Yijia**"). Based on the judgement from the Supreme People's Court of the PRC in 2018, Xuzhou Yijia is liable to the principal (RMB10 million) and accumulated interest for a defaulted loan granted by a bank, which Xuzhou Yijia had undertaken a joint guarantee with another independent guarantor. At the date of approval of the condensed interim consolidated financial statements, the Group is considering to make claims against the other joint guarantor and the former owners of Xuzhou Yijia to claim such loss.

After assessing the risk relating to the joint guarantee liability, the directors of the Company accrued a provision to guarantee liability which included the principal and accumulated interest of the above loan in 2018. The loss recognised during the period ended 30 June 2019 and 2020 represents the interest for the period on the guarantee liability.

8. FINANCE COST — NET

	Unaudited Six months ended June 30, **2020** ***RMB'000***	 2019 *RMB'000*
Finance income		
Interest income on short-term bank deposits	**1,591**	550
Finance costs		
Interest expenses on lease liabilities	**(5)**	(18)
Interest expenses on bank borrowings	**(10,437)**	(15,194)
Net foreign exchange loss	**(416)**	(4)
	(10,858)	(15,216)
Finance cost — net	**(9,267)**	(14,666)

9. PROFIT BEFORE INCOME TAX

	Unaudited Six months ended June 30, **2020** ***RMB'000***	 2019 *RMB'000*
Provision for impairment loss on trade receivables	**6,344**	4,803
Bad debt written off	**4,427**	—
Amortisation of intangible assets	**1,607**	1,693
Depreciation of property, plant and equipment	**13,960**	11,814
Depreciation of right-of-use-assets		
— Properties	**177**	97
— Leasehold land and land use right	**241**	367

10. TAXATION

The amount of tax recognised in the condensed consolidated statement of comprehensive income represents:

	Unaudited	
	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
Current income tax		
PRC income tax for the period	**—**	(5,406)
Overprovision of PRC income tax of prior year	**756**	—
Deferred income tax	**5,212**	2,965
Income tax credits/(expenses)	**5,968**	(2,441)

Below are the major tax jurisdictions that the Group operates during the period.

(a) Cayman Islands profits tax

The Company has not been subject to any taxation in the Cayman Islands.

(b) Hong Kong profits tax

Companies incorporated in Hong Kong are subject to the Hong Kong profits tax at a rate of 16.5% (six months ended June 30, 2019: 16.5%).

(c) PRC corporate income tax (the "CIT")

Under the Law of the PRC on CIT (the "**CIT Law**") and Implementation Regulation of the CIT Law, the tax rate of the PRC subsidiaries is 25% (six months ended June 30, 2019: 25%).

Two subsidiaries (six months ended June 30, 2019: two subsidiaries) of the Group have been qualified as "High and New Technology Enterprises" under the CIT Law. Therefore, they were entitled to a preferential income tax rate of 15% on their estimated assessable profits during the period (six months ended June 30, 2019: 15%). They will continue to enjoy the preferential tax rate in the subsequent periods, provided that they continue to be qualified as "High and New Technology Enterprises" during such periods.

(d) Withholding tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant WHT rate will be reduced from 10% to 5%.

The Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand the Group's business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as of the end of the period.

11. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period ended June 30, 2020.

	Unaudited Six months ended June 30, 2020 *RMB'000*	2019 *RMB'000*
Profit attributable to owners of the Company	**141,153**	59,869
Weighted average number of ordinary shares in issue (thousands)	**1,569,246**	1,569,246
Basic earnings per share (RMB cents per share)	**8.99**	3.82

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all dilutive potential ordinary shares arising from share options granted by the Company (collectively forming the denominator for computing the diluted earnings per share). No adjustment is made to earnings (numerator).

	Unaudited Six months ended June 30, 2020 *RMB'000*	2019 *RMB'000*
Profit attributable to owners of the Company	**141,153**	59,869
Weighted average number of ordinary shares in issue (thousands)	**1,569,246**	1,569,246
Adjustments for:		
— Share options (thousands)	**26**	23
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,569,272**	1,569,269
Diluted earnings per share (RMB cents per share)	**8.99**	3.82

12. DIVIDENDS

The board does not propose an interim dividend for the six months ended June 30, 2020 (six months ended June 30, 2019: nil).

13. PROPERTY, PLANT AND EQUIPMENT

	Unaudited Six months ended June 30, 2020 *RMB'000*	2019 *RMB'000*
At beginning of period	**725,214**	709,348
Additions	**15,023**	31,617
Disposals	**(9,855)**	(5,507)
Depreciation	**(13,960)**	(11,814)
At end of period	**716,422**	723,644

14. RIGHT-OF-USE ASSETS

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

	Leasehold land and land use rights *RMB'000*	**Properties** *RMB'000*	**Total** *RMB'000*
At December 31, 2019 (Audited)	22,929	98	23,027
Additions	—	240	240
Depreciation for the period	(241)	(177)	(418)
At June 30, 2020 (Unaudited)	22,688	161	22,849

15. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
At December 31, 2019 (Audited)	276,493
Fair value loss	(13,987)
At June 30, 2020 (Unaudited)	262,506

The above investment properties mainly comprising factories and offices, are held by the Group for long-term rental yields, which are located at No. 23 Panlong West Road, Pinggu District, Beijing, with a construction area of approximately 39,714.5 square meters. The Group's property interest held to earn rentals is measured using the fair value model and is classified and accounted for as investment properties.

The fair value of the Group's investment properties as at June 30, 2020 was approximately RMB262,506,000 (December 31, 2019: RMB276,493,000).

The fair value was determined based on the income approach, where capitalising the estimated net income derived from the investment properties with reference to the lease agreement and taking into account the future growth potential. The discount rate was determined by reference to weighted average cost of capital of the listed companies with similar business portfolio. Key assumptions used in calculating the recoverable amount are as follows:

	June 30, 2020	December 31, 2019
Growth rate of revenue	**–4.0% to 4.0%**	4.0%
Discount rate	**7.1%**	7.1%

The fair value of the investment property at June 30, 2020 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy. There were no transfer into or out of Level 3 during the period.

16. INTANGIBLE ASSETS

	Unaudited Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
At beginning of period	**181,113**	184,437
Amortisation charge	**(1,607)**	(1,693)
At end of period	**179,506**	182,744

Impairment tests for goodwill

Goodwill was acquired through business combinations and it is related to the Infusion Set Business. Goodwill is monitored by the management at the operating segment level.

The recoverable amounts of the CGU has been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2.5% (December 31, 2019: 2.5%), which does not exceed the long-term growth rate for the medical device industry in the PRC.

	June 30, 2020	December 31, 2019
Gross profit margin	**57%**	61.3%
Operating margin	**17% to 36%**	23% to 36%
Discount rate	**12.6%**	15.2%

The cash flow forecasts for the infusion set business CGU are based on budgets for the next 5 years, with a terminal value thereafter. The cash flows were probability weighted based on the following scenarios to account for the impact of COVID-19 as discussed in Note 3:

1. Positive case (50% weighting): Subject to the travel restriction and reduction in customer demands, revenue generated from infusion set business can be recovered to its normal level recorded in 2019 before the COVID-19 in the financial year of 2021.

2. Negative case (50% weighting): Subject to the travel restriction and reduction in customer demands, revenue generated from infusion set business can only be gradually returning to its normal performance by 2022.

Management determined budgeted gross profit margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the operating segment.

Management believes that any reasonably possible change in any of these assumption would not cause the aggregate carrying amount to exceed the aggregate recoverable amount. As at June 30, 2020, management determines that there is no impairment on goodwill.

17. INTEREST IN AN ASSOCIATE

As at December 31, 2019, the Group held 16.44% equity interest in China Biologic Products Holdings, Inc. ("**CBPO**"). CBPO is a limited liability company incorporated in the Cayman Islands. Its shares are listed on NASDAQ Stock Market. CBPO and its subsidiaries are principally engaged in the research, development, manufacturing and sales of human plasma-based biopharmaceutical products.

Although the Group's equity interest in CBPO is less than 20%, the directors of the Company consider that they have power to exercise significant influence on CBPO as the executive director of the Company is one of the six directors of CBPO. Under HKAS 28, the investment in CBPO is classified as interest in an associate and has been accounted for in the consolidated financial statements using equity method.

During the period from January 2020 to April 2020, the equity interest held by the Group in CBPO was diluted from 16.44% to 16.40% due to exercise of share options by grantee and issuance of share capital by CBPO. The dilution of interest resulted in a deemed disposal of interest in an associate and a loss of RMB8,138,000 is recognised in "Other gains/(losses)" and a gain of RMB17,000 is recognised as other comprehensive income in the consolidated statement of comprehensive income.

On May 8, 2020, in accordance with a share purchase agreement (the "**Share Purchase Agreement**"), the Company sold 1,000,000 ordinary shares to an independent third party for a cash consideration of US$101 million. The sale price is subject to price adjustment mechanism which has not been triggered up to the date of this announcement. The transaction did not affect the degree of significant influences to CBPO as the Company still has power to appoint one of the six directors of CBPO. The disposal of interests in CBPO resulted a gain of RMB122,938,000 recognized in "Other gains/(losses)" and a gain of RMB1,464,000 is recognised as other comprehensive income in the condensed consolidated statement of comprehensive income. The interest in CBPO reduced from 16.40% to 13.84% as at the disposal date.

During the period from May 2020 to June 2020, the equity interest held by the Group in CBPO was diluted from 13.83% to 13.79% due to exercise of share options by grantee and issuance of share capital by CBPO. The dilution of interest resulted in a deemed disposal of interest in an associate and a loss of RMB9,989,000 is recognised in "Other gains/(losses)" and a loss of RMB40,000 is recognised as other comprehensive income in the consolidated statement of comprehensive income.

	June 30, 2020	December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Share of net assets	**2,030,381**	2,311,883
Goodwill	**1,169,007**	1,387,518
	3,199,388	3,699,401

Particulars of the Group's interest in an associate are as follows:

Name of company	**Form of business structure**	**Place of incorporation/ operations**	**Percentage of ownership interest/ voting rights/profit share**	**Principal activity**
China Biologic Products Holdings, Inc.	Corporation	Cayman Islands/ PRC	13.79% (December 31, 2019:16.44%)	Research, development, manufacturing and sales of human plasma-based biopharmaceutical products

The summarised movements of interest in an associate during the period are as below:

	RMB'000
	(Unaudited)
At January 1, 2020	3,699,401
Share of result of an associate	79,084
Share of exchange differences of an associate	28,883
Disposal of interest in an associate	(589,830)
Deemed disposal of interest in an associate	(18,150)
	3,199,388

The gain on disposal of interest in CBPO is calculated as below:

	RMB'000 (Unaudited)
Purchase consideration received	714,232
Share of interest disposed of	(589,830)
Gain on disposal of interest in an associate	124,402

18. TRADE AND OTHER RECEIVABLES

	June 30, 2020 ***RMB'000*** **(Unaudited)**	December 31, 2019 *RMB'000* (Audited)
Trade receivables *(i)*	**121,839**	163,639
Bills receivable *(ii)*	**1,225**	6,303
Prepayments and deposits	**2,339**	7,127
Value added tax recoverable	**16,594**	15,970
Other receivables	**18,149**	24,386
	160,146	217,425
Trade receivables — non-current	**(2,800)**	(11,200)
Trade and other receivables	**157,346**	206,225

(i) Included in trade and other receivables are trade receivables (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period:

	June 30, 2020 ***RMB'000*** **(Unaudited)**	December 31, 2019 *RMB'000* (Audited)
Up to 3 months	**17,246**	42,948
3 months to 6 months	**12,959**	28,249
6 months to 12 months	**38,902**	28,245
1 year to 2 years	**19,180**	20,096
2 years to 3 years	**33,552**	44,101
	121,839	163,639

The Group and the Company recognised impairment loss based on the expected credit loss model.

Trade and bills receivables are due within 180 days from the date of billing. The Group does not hold any collateral as security.

Non-current portion of the trade receivables

During the year ended December 31, 2019, the Group has entered into repayment agreements (the "**Agreements**") individually with three major customers (the "**Customers**") who owed total amount of approximately RMB90,389,000 to the Group. Pursuant to the Agreements, approximately RMB28,000,000 (the "**Overdue Debts**") are identified as amount that exceeding the line of credit being granted to the Customers. The Overdue Debts will be settled in cash by monthly instalment of RMB1,400,000 for a period within two years commencing from January 2020. During the six months ended June 30, 2020, the repayments made by the Customers for the Overdue Debts have been consistent with the agreed schedule.

(ii) The ageing of bills receivable is within 180 days, which is within the credit term.

(iii) Impairment assessment

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicated significantly different loss patterns for different customer segments, the grouping for trade receivables for the assessment of ECLs is by customer segments, while Group C represents distributor customers who identified as having significant increase in risk of default and Group D represents three credit-impaired customers with significant risk of default.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

June 30, 2020	**Group A**	**Group B**	**Group C**	**Group D**
Expected credit loss rate (%)	**4.47**	**2.07**	**28.97**	**32.45**
Gross carrying amount	**27,624**	**33,567**	**11,611**	**80,428**
Loss allowance	**1,236**	**695**	**3,364**	**26,096**

December 31, 2019	Group A	Group B	Group C	Group D
Expected credit loss rate (%)	3.85	1.61	—	24.62
Gross carrying amount	54,150	44,145	—	90,391
Loss allowance	2,084	709	—	22,254

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	RMB'000
Balance at January 1, 2019	9,550
Provision for impairment losses recognised during the year	15,497
Balance at December 31, 2019	25,047
Provision for impairment losses recognised during the year	6,344
Balance at June 30, 2020	31,391

19. TRADE AND OTHER PAYABLES

	June 30, 2020	December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**15,920**	13,348
Salary and staff welfare payables	**17,495**	22,545
Advances from customers	**13,037**	13,266
Deposits received	**3,973**	2,411
Value added tax and other taxes	**851**	4,038
Professional service fee	**1,431**	3,269
Provision for loss from guarantee liability *(Note 6(a))*	**18,110**	17,744
Deferred government grants-current portion	**442**	442
Other payables	**28,583**	21,435
	99,842	98,498

As at June 30, 2020 and December 31, 2019, except for the advances from customers, deposits received, value added tax and other taxes and deferred government grants which are not financial liabilities, all trade and other payables of the Group were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

Included in trade payables are trade creditors with the following ageing analysis, based on invoice dates, as of the end of reporting period:

	June 30, 2020 *RMB'000* **(Unaudited)**	December 31, 2019 *RMB'000* (Audited)
Up to 6 months	**8,298**	10,592
6 months to 12 months	**5,160**	1,015
Over 1 year	**883**	804
2 years to 3 years	**669**	361
Over 3 years	**910**	576
	15,920	13,348

20. BANK BORROWINGS

	June 30, 2020 *RMB'000* **(Unaudited)**	December 31, 2019 *RMB'000* (Audited)
Current		
Bank loan due for repayment within one year *(Note (a))*	**—**	577,071
Trade finance borrowings due to repayment within one year which contained a repayable on demand clause *(Note (b))*	**10,000**	10,000
	10,000	587,071

Notes:

(a) On September 20, 2018, the Company, as borrower, entered into a loan agreement with Morgan Stanley Bank, N.A. (the "**Lender**") (the "**Loan Agreement**"), pursuant to which the Lender agreed to make a loan to the Company in an amount of up to US$82,720,000 (equivalent to RMB567,724,000) (the "**Loan**") for a term of one year. The Loan was subsequently extended for one year upon the mutual agreement between the Company and the Lender. Pursuant to the Loan Agreement, it will be a mandatory prepayment event if Mrs. Liu Yufeng as the controlling shareholder of the Company, together with any relative of Mrs. Liu Yufeng or any entity through which Mrs. Liu Yufeng holds the shares of the Company, ceases to beneficially own, directly or indirectly through any entity, more than 30% of the voting power in respect of all such interests or equity entitled to vote generally in elections with respect to the management of the Company.

The loan was interest bearing at LIBOR plus 2.685% per annum and secured by 3,162,854 shares of CBPO. Following the disposal of shares of CBPO on May 8, 2020 (Note 17), the Company has repaid the loan in full.

(b) The bank borrowings represent trade finance advanced from the Bank of Beijing. As at June 30, 2020, bank facilities in total of RMB10,000,000 were granted to the Group's subsidiary, Beijing Fert Technology Co., Ltd. by the Bank of Beijing, and was utilised by the Company as at June 30, 2020.

All of the banking facilities are subject to the fulfillment of covenants relating to certain of the Company's financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Company was to breach the covenants, the drawn down facilities would become repayable on demand.

The borrowing is secured by corporate guarantee and bears interest at 0.91% plus the prime rate of the Central Bank in the PRC. The loan is carried at amortised cost.

21. SHARE CAPITAL

	Number of ordinary shares	Share capital
		RMB'000
Issued and fully paid:		
Balance at January 1, 2019, December 31, 2019 and June 30, 2020	1,569,246,098	965

22. CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the period but not yet incurred is as follows:

	June 30, 2020	December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Commitments for the acquisition of:		
Property, plant and equipment	**24,730**	30,416

23. RELATED PARTY DISCLOSURES

Compensation of key management personnel

During the year, the Group had the following material related party transactions:

The remuneration of directors and other members of key management of the Group during the period was as follows:

	Unaudited Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
Salaries and other allowances	**1,102**	1,477

The remuneration of directors is determined by the remuneration committee having regard to the level and composition of pay and the general market conditions in the respective countries and businesses.

24. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the financial assets and financial liabilities recognised at the end of reporting period were categorised as follows:

	June 30, 2020	December 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Financial assets		
Financial assets at amortised cost	**459,338**	354,375
Financial liabilities		
Financial liabilities at amortised cost	**121,942**	696,043

The fair values of financial assets and financial liabilities are determined as follows:

— the fair value of investments held for trading with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market price; and

— the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

HKFRS 13 requires disclosures for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data.

All of the Group and the Company's financial assets and financial liabilities are measured at amortised cost as at December 31, 2019 and June 30, 2020. The directors consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in the financial statements approximate their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

Market and Business Review

In the first half of 2020, affected by the continuous outbreak of the novel coronavirus ("**COVID-19**") pandemic, the overall global economy slowed down. Furthermore, the lingering US-China trade frictions and significant contraction of international trade have worsened the macro economic performance. Under the impact of the pandemic at the beginning of this year and the exported trade faced with numerous challenges, the economy in China was also seriously affected and various industries were confronted with unprecedented difficulties and changes. Despite a relatively stable performance in the high-end medical device market where the Group operates, as the overall medical demand was dragged and reduced sharply due to the partial suspension of public transport system, inter-region travel restrictions and stay-at-home orders in various cities, infusion set segment market was subsequently under a huge pressure.

During the COVID-19 pandemic, travel restrictions between regions and on domestic public transport to varying extents were imposed in various places and with increasing awareness of pandemic prevention, residents avoided or postponed going out for non-urgent medical consultation and treatment. Meanwhile, amidst the concerted efforts to fight against the pandemic, supply of major medical resources focused more on pandemic prevention and control. Moreover, certain medical institutions suspended non-emergency outpatient services, resulting in prolonged queuing for medical consultation and treatment, and shortage of beds as well as a significant decline in hospital traffic in certain regions.

For the above reasons, the Infusion Set Business, the Group's core business segment, ultimately faced daunting challenges. During the first half of 2020, the Group's revenue was RMB101.5 million, representing a decrease of 41.1% over the corresponding period of the previous year. The gross profit was RMB59.5 million, representing a decrease of 44.2% over the corresponding period of the previous year. The overall gross profit margin of the Relevant Period was 58.6%. For the Relevant Period, the profit attributable to owners of the Company amounted to RMB141.2 million, representing an increase of 135.8% over the corresponding period of the previous year. The decrease in the Group's revenue during the Relevant Period was mainly due to the significant decline in hospital traffic in certain regions, especially in the major sale areas of the Group's Infusion Set Business, such as Beijing, Hubei and Heilongjiang, and decrease in daily medical consultation demand during the pandemic for the above reasons, thereby resulting in a significant year-on-year decrease in revenue of the Infusion Set Business. As the sale areas of intravenous cannula were relatively less affected by the pandemic, the revenue of intravenous cannula business has increased as compared to the corresponding period of the previous year. The increase in the Group's net profit for the Relevant Period was mainly contributed by the one-off gain from the disposal of part of the CBPO shares completed in May 2020.

We expect that the backlog orders of infusion set and intravenous cannula business secured last year, coupled with continuous month-on-month rebound in the number of outpatient visits across China, will bring positive benefits to the Group's overall business development in the second half of the year. In particular, given that the development of intravenous cannula business is still at an early stage, the

Group believes that there remains huge room for growth in this business line in the future. The Group will continue to actively expand the intravenous cannula business so as to broaden its income source and further leverage the synergy between the existing businesses.

Although the epidemic in China began to be significantly alleviated in most regions from May to June 2020, the impact of the uncertainties arising from the epidemic could not be neglected still. The Group has been closely monitoring the market conditions to adjust its business strategies when appropriate so as to mitigate the negative impact. During the pandemic, the Group implemented various measures to ensure sanitation and safety during production. The Group also immediately responded to the government policy to resume work and production so as to ensure supply and stable price in the medical device market nationwide, thereby consistently providing medical products for the medical market.

In the first half of 2020, the Group continued to endeavor to expand its product portfolio, enhance its product innovation and research and development ("**R&D**") capability, while expanding the distribution network in a proactive manner. The pandemic not only serves as a huge test for the Group, but also brings opportunities for industrial transformation and development. We are well aware that safeguarding medical device resources and product quality are both integral to battling against the pandemic. In response to the pandemic, the Group upgraded quality control of its own products and continued to expand product R&D, with a view to enhancing its own competence and actively providing strong support for the industry. Meanwhile, reinforcing management of our own industrial park, we stayed ready for this pandemic fight at all times by actively carrying out proper corporate pandemic prevention measures and further enhancing prevention awareness of and health protection for our employees to ensure the safe and stable operation of the Group. In terms of working capital management, the Group strengthened control and management of cash flow and optimized its system and mechanism for prevention and control of the epidemic, thereby guaranteeing sufficient working capital for adapting to the possibility of normalization of the pandemic. At the same time, the Group will continue to focus on the fast-growing and high margin medical device markets in China, striving to expand new markets with huge potential for development and seize every opportunity in the market.

Business Strategies and Future Outlook

As a pivotal player in addressing this major public health emergency, the medical device industry was actively engaged in the pandemic fight and fully demonstrated its role in technological support and supplies security as well as the strong sense of industry mission. When the pandemic is over, the PRC government is expected to continue to strengthen its investment in the medical health sector and enhance the ability of the society to respond to the public health emergency. As the key protection for the entire medical health sector, the medical device is expected to further remain long-term and stable growth momentum with its market size. According to the Blue Book of Medical Device Industry: Annual Report on the Development of Medical Device Industry in China (2019) ("**Blue Book of Medical Device Industry**"), the compound annual growth rate of the medical device industry in China from 2019 to 2022 is expected to remain at about 15%. In 2022, the revenue from the main business of the production enterprises for medical devices is expected to exceed RMB1 trillion.

Looking forward to the second half of 2020, despite the continuously volatile global pandemic, the epidemic in China has basically been under control and domestic travel restriction measures have also been gradually loosened and passenger traffic has gradually resumed. It is expected that as hospitals begin to resume normal medical consultation and treatment, the medical consultation demand of large numbers of patients who did not receive medical treatment during the epidemic will possibly and gradually be released. The recovery of passenger traffic and the resumption of consultation services in medical institutions are expected to drive a significant rebound in the daily medical consultation demand of the public, thereby continuing to propel the demand for the products of the Group.

The financial position and cash flow of the Group remain stable and sound. Save from the uncertainties resulting from, among other factors, impacts of the development of the epidemic in China and market conditions, the Board considers that the Group's revenue for the second half of 2020 will increase as compared to that for the first half of the year.

The Group will closely monitor the market conditions to adjust its business strategies when appropriate. It will focus on the advanced infusion set and intravenous cannula business and be committed to providing a safer and more efficient solutions for the market. The Group will also continue the R&D and expansion of the medical devices in the diabetes therapy sector and other therapy sectors to further optimize its business coverage. As of June 30, 2020, the Group has obtained 35 registration certificates for products, covering, among others, infusion set, intravenous cannula, intestinal feeding device, insulin injection pen, insulin injection needle and blood transfusion set. The Group will continue to optimize its business coverage to enhance its overall competitiveness and make essential contribution to the safety and effectiveness of medical therapy proactively.

Emphasis on Innovation and R&D

The Group has an R&D team consisting of experienced members. The team closely cooperates with surgeons, hospitals (especially Class III Grade A hospitals), first class university research centers and other research institutions. As of June 30, 2020, the Group had owned 88 patents for products and the Group had applied for 22 new patents. The Group will continue its investment in product innovation and R&D with an aim to maintain its position in the industry.

Expansion of Distribution Network

The Group has an experienced, strong and dedicated team of professional sales and marketing staff to support and consolidate its distribution networks in 31 provinces, municipalities and autonomous regions in China, and enhance the promotion of products from all business segments. Our core salesmen have an average of ten years of experience in their respective fields. Nearly half of our sales and marketing team have medical education backgrounds, which enables them to communicate with doctors and nurses in a professional and effective manner.

Strategic Acquisitions

As stated in the Blue Book of Medical Device Industry, the medical device market in China has become the second largest market in the world and the upcoming decade will still be the "golden era" for the fast development of the medical device industry in China. Facing the unexpected pandemic and with the trend of driving the reform of public health emergency management system in various countries, the medical device industry will serve as the key protection for public health emergency and its development will also face new opportunities for breakthroughs as well as the reshaping of its regional landscape, bringing huge development potential in the market. In terms of policies, National Health Commission of the People's Republic of China and State Administration for Market Regulation successively promulgated policies regarding medical device, under which, apart from deepening the reform of reviewing and approval system, more emphases will be put on post-marketing regulations for medical devices so as to safeguard public safety. To precisely seize the business opportunities, the Group will continue to seek opportunities with high-growth, high-profit margin and immense growth potential within its existing business segments so as to expand its business presence and consolidate its position in the industry.

Financial Review

Overview

	Six months ended June 30,		
	2020	2019	Change
	RMB'000	*RMB'000*	
Revenue	**101,536**	172,309	–41.1%
Gross profit	**59,513**	106,578	–44.2%
Other gains/(losses)	**116,511**	(1,898)	N/A
Profit for the period	**141,151**	59,860	135.8%

Revenue

The revenue of the Group decreased by 41.1% from approximately RMB172.3 million for the six months ended June 30, 2019 to approximately RMB101.5 million for the Relevant Period, as a result of the decrease in sales of the Infusion Set Business. Such decrease was mainly due to: (i) the outbreak of COVID-19 pandemic starting in early 2020, which caused significant decline in hospital traffic in the PRC and led to the decrease of sale volume of infusion sets, especially in the major sale areas of the Group, such as Beijing, Hubei and Heilongjiang; and (ii) an increase in sales of disposable intravenous cannula by 43.9% to RMB23.9 million, partially offsetting negative impact of the decrease of infusion sets sales.

Gross Profit

The Group's gross profit decreased by 44.2% from approximately RMB106.6 million for the six months ended June 30, 2019 to approximately RMB59.5 million for the Relevant Period. The gross profit margin decreased from 61.9% for the six months ended June 30, 2019 to 58.6% for the Relevant Period which was mainly due to the increase of the unit fixed cost as the sales volume declined.

Selling and Marketing Expenses

Selling and marketing expenses decreased by 7.4% from approximately RMB50.2 million for the six months ended June 30, 2019 to approximately RMB46.5 million for the Relevant Period. This decrease was mainly attributable to the decrease of the travelling and logistical expenses as well as the business entertainment cost which was due to the imposition of travel restrictions during the COVID-19 pandemic period.

General and Administrative Expenses

General and administrative expenses increased by 7.5% from approximately RMB30.8 million for the six months ended June 30, 2019 to approximately RMB33.1 million for the Relevant Period. The increase was mainly because the write off of trade receivables increased by RMB4.4 million for the Relevant Period (nil for the six months ended June 30, 2019).

R&D Expenses

R&D expenses increased by 9.3% from approximately RMB9.8 million for the six months ended June 30, 2019 to approximately RMB10.7 million for the Relevant Period, which was mainly due to certain new R&D activities launched during the period.

Other Gain — Net

Net other loss was approximately RMB1.9 million for the six months ended June 30, 2019 as compared with net other gain of approximately RMB116.5 million for the Relevant Period, which was mainly the net result of: (i) a gain on one-off transaction of disposal of CBPO shares amounted to RMB122.9 million as disclosed in Note 17 to the condensed consolidated interim financial statements; (ii) the loss on deemed disposal of an associate increased by approximately RMB9.3 million; (iii) a rental and property management income of investment properties increased by RMB6.5 million, from RMB5.7 million for the six months ended June 30, 2019; and (iv) the loss on the disposal and written off of property, plant and equipment increased by approximately RMB3.0 million.

Fair Value (Loss)/Gain on Investment Properties

The Group had a fair value loss on investment properties of RMB14.0 million for the Relevant Period, while for the six months ended June 30, 2019, there was a fair value gain on investment properties amounted to RMB0.5 million, which is mainly due to decline in the rental market in an epidemic environment.

Finance Cost — Net

The Group had a net finance cost of RMB9.3 million for the Relevant Period, which decreased by approximately RMB5.4 million from RMB14.7 million for the six months ended June 30, 2019. The decrease was mainly due to the early repayment of bank borrowing of US$82,720,000 in May 2020, such that the Group accrued approximately 4 months interest expense for the Relevant Period, while accrued 6 months interest expense for the six months ended June 30, 2019.

Share of Result of an Associate

As disclosed in Note 17 to the condensed consolidated interim financial statements for the Relevant Period, the investment in CBPO is classified as interest in an associate and has been accounted for using equity method, and share of result of CBPO during the Relevant Period amounted to RMB79.1 million (for the six months ended June 30, 2019: RMB67.4 million), after deducting amortization of intangible assets arising from the acquisition of RMB20.1 million for the Relevant Period (for the six months ended June 30, 2019: RMB20.8 million).

Income Tax Credits

Income tax expense was approximately RMB2.4 million for the six months ended June 30, 2019, as compared with income tax credits of RMB6.0 million for the Relevant Period, which was mainly due to the decrease of taxable profit as well as the record of the deferred income tax assets related to impairment loss of trade receivables and fair value loss on investment properties.

Net Profit

The net profit of the Group increased by RMB81.3 million from approximately RMB59.9 million for the six months ended June 30, 2019 to RMB141.2 million for the Relevant Period after taking into account the one-off effect of the gain on partial disposal of CBPO shares of RMB122.9 million.

Trade and Other Receivables

The Group's trade receivables primarily comprised the outstanding payment from credit sales. As of June 30, 2020, the trade receivables of the Group was approximately RMB121.8 million, representing a decrease of approximately RMB41.8 million as compared to approximately RMB163.6 million as of December 31, 2019, which was mainly due to the collection of trade receivables and the increase of impairment allowance of trade receivables by RMB6.3 million.

The Group has selected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and established a provision matrix that was based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The details are disclosed in Note 18 to the condensed consolidated interim financial statements for the Relevant Period.

The Group reviews the financial performance of the customers with long aging receivables periodically and revises the credit terms granted to the customers based on credit risk analysis. Besides review of account receivables, the management may also use letter of collection and lawyer's letter to collect the receivables. The Group would also negotiate with customers to explore the use of debt agreement if there are higher risk of recoverability. In some circumstances, the internal legal department of the Group would be involved in collection of receivables to explore the availability of legal actions, and to issue formal communication to the customer before escalating the actions. Out of the trade receivables aged over 6 months amounted to RMB92.4 million at December 31, 2019, a total of RMB36.1 million was subsequently received up to June 30, 2020.

As at June 30, 2020, the Group had made loss allowances of RMB31.4 million (as at December 31, 2019: RMB25.0 million) on the trade receivables with a gross amount of RMB153.2 million (as at December 31, 2019: RMB188.6 million).

Inventories

Inventories increased by 9.9%, from approximately RMB36.4 million as at December 31, 2019, to approximately RMB40.0 million as at June 30, 2020, which was mainly due to the slowdown of the sales.

Property, Plant and Equipment

Property, plant and equipment mainly include buildings and facilities, machinery and equipment and construction in progress. As of June 30, 2020, the property, plant and equipment of the Group amounted to approximately RMB716.4 million, representing a decrease of approximately RMB8.8 million as compared to approximately RMB725.2 million as at December 31, 2019. The decrease was mainly due to: (i) the construction of facilities to expand production capacities amounted to approximately RMB15.0 million; (ii) the disposal of property which amounted to RMB9.9 million; and (iii) the depreciation for the Relevant Period which amounted to RMB13.9 million.

Investment Properties

Investment properties, mainly comprising factories and offices, are held by the Group for long-term rental yields, which are located at No. 23 Panlong West Road, Pinggu District, Beijing, with approximately 39,714.5 square meters construction area. The properties are held on a leasehold land with land use right granted to the Group for 47 years until May 26, 2059. As at 30 June 2020, the investment property of the Group amounted to approximately RMB262.5 million, decreased by RMB14.0 million compared to approximately RMB276.5 million as at 31 December 2019. The decrease was mainly due to the recognition of the fair value loss on investment properties of RMB14.0 million for the Relevant Period.

Intangible Assets

The Group's intangible assets mainly include goodwill, technology know-how, trademarks, computer software and customer relationship. The Group's goodwill, technology know-how and trademarks are mainly identified and recorded during the purchase accounting process for the acquisitions of subsidiaries in prior years. The goodwill is subject to impairment test at each period end, while the technology know-how and trademarks are amortised with straight line method for 15 years. As of June 30, 2020, the net value of the Group's intangible assets was approximately RMB179.5 million, representing a decrease of approximately RMB1.6 million as compared to RMB181.1 million as at December 31, 2019. The decrease was primarily due to the amortisation charged during the Relevant Period.

Interest in an associate

As at June 30, 2020, our share of the net assets of CBPO amounted to RMB2,030 million, representing 41.1% of our total asset as at June 30, 2020. While as at December 31, 2019, our share of the net assets of CBPO amounted to RMB2,312 million, representing 43.3% of our total asset as at December 31, 2019.

Financial Resources and Liquidity

As of June 30, 2020, the Group's cash and bank balances amounted to approximately RMB290.6 million (December 31, 2019: RMB132.6 million). As at June 30, 2020, the Group's bank borrowings balances were RMB10 million as disclosed in Note 20 to the condensed consolidated interim financial statements for the Relevant Period (December 31, 2019: RMB587.1 million).

The Board is of the opinion that the Group is in a healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditures.

Cash Flows from Operating Activities

During the Relevant Period, the net cash generated from operating activities amounted to RMB40.0 million, representing an increase by RMB18.4 million as compared to RMB21.6 million for the six months ended June 30, 2019. The increase of the operating cash flow was mainly due to the collection of the trade and other receivable and the delay of the payment.

Pledge of Assets

Save as those disclosed in Note 20 to the condensed consolidated interim financial statements, during the Relevant Period, the Group did not enter into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third party. The Group did not have any interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to it or engages in leasing or hedging, R&D or other services with it.

Commitments

As of June 30, 2020, the Group had a total capital commitment of approximately RMB24.7 million (December 31, 2019: RMB30.4 million), comprising mainly contracted capital expenditure for construction or acquisition of property, plant and equipment.

Capital Expenditure

During the Relevant Period, the Group incurred capital expenditure of RMB15.0 million (for the six months ended June 30, 2019: RMB31.6 million) on the expansion of the plants and procurement of equipments.

Gearing Ratio

The Group monitors capital on the basis of gearing ratio. This ratio is calculated as total borrowing divided by total capital. Total borrowing is current bank borrowing as shown in the condensed consolidated statement of financial position. Total capital is calculated as "total equity" as shown in the condensed consolidated statement of financial position plus total borrowing.

	As at June 30, 2020 *RMB'000*	As at December 31, 2019 *RMB'000*
Total borrowing	**10,000**	587,071
Total equity	**4,773,644**	4,608,489
Total capital	**4,783,644**	5,195,560
Gearing ratio	**0.21%**	11.30%

Foreign Exchange Risk

The Group mainly operates its business in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar and the Hong Kong dollar. Foreign exchange risk arises from foreign currencies held in certain overseas subsidiaries. The Group did not hedge against any fluctuation in foreign currency during the Relevant Period. Management may consider entering into currency hedging transactions to manage the Group's exposure towards fluctuations in exchange rates in future.

Cash Flow and Fair Value Interest Rate Risk

Other than bank balances with variable interest rates, the Group has no other significant interest-bearing assets. The management does not anticipate any significant impact to interest-bearing assets resulting from the changes in interest rates because the interest rates of bank balances are not expected to change significantly.

The Group's interest rate risk arises from bank borrowings. Borrowing issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest risk, respectively.

As at June 30, 2020, it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would not decrease/increase the Group's profit for the Relevant Period (for the six months ended June 30, 2019: RMB482,300).

The sensitivity analysis above has been determined by assuming that the change in interest rates had occurred at the end of Relevant Period and had been applied to the exposure to interest rate risk for the borrowings in existence on that date. The increase/decrease of the 100 basis points represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

Credit Risk

The carrying amounts of cash and cash equivalents and trade and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problems.

The credit risk of bank balances is limited because the counterparties are banks with good reputation and most of them are state-owned commercial banks in China or public listed companies. Most of the bank deposits of the Group are placed with commercial banks with an acceptable credit rating.

For trade and other receivables, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Most of these balances are due from stated-owned enterprises or major customers with good repayment history. Details of the Group's trade and other receivable credit management are also discussed above under the heading of "Trade and Other Receivables".

HUMAN RESOURCES

As at June 30, 2020, the Group had a total of approximately 845 employees (December 31, 2019: 1,022 employees). The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits, liabilities for breaches and grounds for termination. Remuneration of the Group's employees includes basic salaries, allowances, bonus and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The Group has designed an evaluation system to assess the performance of its employees. This system forms the basis of the Group's determination on employees' salaries, bonuses and promotions. We believe the salaries and bonuses that the Group's employees received are competitive with market rates. Under applicable PRC laws and regulations, the Group is subject to social insurance contribution plans, work-related injury insurance and maternity insurance schemes.

We place a strong emphasis on providing training to our employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards and work place safety standards. We also provide regular on-site and off-site trainings to help our employees to improve their skills and knowledge. These training courses range from further educational studies in basic product process and skill trainings to professional development courses for its management personnel.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the Relevant Period (for the six months ended June 30, 2019: nil).

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders of the Company (the "**Shareholders**") as a whole. The Company has adopted the code provisions as set out in the "Corporate Governance Code" (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code during the Relevant Period, with the exception of code provision A.2.1 of the CG Code.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same person. Currently, Ms. Yue'e Zhang performs both the roles of the chairman of the Board and the chief executive officer of the Company. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies which is in the best interests of the Company. Under the leadership of Ms. Yue'e Zhang, the Board works effectively and performs its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board.

The Board shall nevertheless review the structure and composition of the Board from time to time in light of prevailing circumstances, to maintain a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding dealings in the securities of the Company by each of the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company or its securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Relevant Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the Relevant Period.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Relevant Period.

REVIEW OF FINANCIAL INFORMATION

Audit Committee

The audit committee of the Company (comprising Mr. Wang Xiaogang, Mr. Chen Geng and Mr. Lin Junshan) has discussed with the management and the external auditor and reviewed the unaudited condensed consolidated interim financial information of the Group for the Relevant Period.

Auditor

The Company's external auditor, BDO Limited, has performed an independent review of the Group's condensed consolidated interim financial information for the Relevant Period in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity". Based on their review, BDO Limited confirmed that nothing has come to their attention that causes them to believe that the unaudited condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at *www.hkexnews.hk* and on the website of the Company at *www.pwmedtech.com*. The interim report of the Company for the Relevant Period containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our Shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board
PW Medtech Group Limited
Yue'e Zhang
Chairman & Chief Executive Officer

Hong Kong, August 27, 2020

As at the date of this announcement, the Board comprises one executive Director, namely, Ms. Yue'e Zhang; two non-executive Directors, namely, Mr. Jiang Liwei and Mr. Lin Junshan; and three independent non-executive Directors, namely, Mr. Wang Xiaogang, Mr. Zhang Xingdong and Mr. Chen Geng.