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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, 2021

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended June 30, 2021 amounted to approximately RMB133.5 million, representing an increase of 31.5% from approximately RMB101.5 million for the corresponding period in 2020.
- Gross profit for the six months ended June 30, 2021 amounted to approximately RMB82.5 million, representing an increase of 38.6% from approximately RMB59.5 million for the corresponding period in 2020.
- Profit for the period for the six months ended June 30, 2021 amounted to approximately RMB761.1 million, representing an increase of 439.2% from approximately RMB141.2 million for the corresponding period in 2020.
- Profit attributable to owners of the Company for the six months ended June 30, 2021 amounted to approximately RMB761.1 million, representing an increase of 439.2% from approximately RMB141.2 million for the corresponding period in 2020.
- Basic earnings per share and diluted earnings per share for the six months ended June 30, 2021 were RMB48.5 cents and RMB48.5 cents, representing an increase of 439.5% and 439.5% from RMB9.0 cents and RMB9.0 cents for the corresponding period in 2020.

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, 2021 (the “**Relevant Period**”), together with the comparative figures for the corresponding period in 2020 or other date/period as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2021

		Unaudited	
		Six months ended June 30,	
		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5(b)	133,492	101,536
Cost of sales		<u>(51,012)</u>	<u>(42,023)</u>
Gross profit		82,480	59,513
Other losses	6	(5,496)	(6,427)
Fair value loss on investment properties	14	(1,350)	(13,987)
Gain on disposal of assets held for sale/interest in an associate	16	731,750	122,938
Selling and marketing expenses		(34,053)	(46,522)
General and administrative expenses		(26,919)	(33,111)
Provision for impairment loss recognised in respect of trade receivables	18	(4,093)	(6,344)
Research and development expenses		<u>(7,366)</u>	<u>(10,694)</u>
Operating profit		734,953	65,366
Finance income/(cost) — net	7	30,891	(9,267)
Share of result of an associate		<u>—</u>	<u>79,084</u>
Profit before income tax	8	765,844	135,183
Income tax (expenses)/credits	9	<u>(4,755)</u>	<u>5,968</u>
Profit for the period		<u>761,089</u>	<u>141,151</u>

		Unaudited	
		Six months ended June 30,	
		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Currency translation differences		9,466	(6,320)
Share of exchange differences reserve of an associate		—	28,883
Reclassification from exchange differences reserve to profit or loss on			
— Deemed disposal of an associate		—	(23)
— Disposal of an associate		<u>8,944</u>	<u>1,464</u>
Other comprehensive income for the period		<u>18,410</u>	<u>24,004</u>
Total comprehensive income for the period		<u>779,499</u>	<u>165,155</u>
Profit attributable to:			
Owners of the Company		761,091	141,153
Non-controlling interests		<u>(2)</u>	<u>(2)</u>
		<u>761,089</u>	<u>141,151</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		779,501	165,157
Non-controlling interests		<u>(2)</u>	<u>(2)</u>
		<u>779,499</u>	<u>165,155</u>
Earnings per share attributable to owners of the Company for the period			
(expressed in RMB cents per share)			
Basic earnings per share	<i>10</i>	<u>48.50</u>	<u>8.99</u>
Diluted earnings per share	<i>10</i>	<u>48.50</u>	<u>8.99</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2021

		June 30, 2021	December 31, 2020
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Assets			
Non-current assets			
Property, plant and equipment	12	686,562	698,441
Right-of-use assets	13	22,205	22,465
Investment properties	14	273,390	274,740
Intangible assets	15	176,290	177,898
Deferred income tax assets		15,395	14,726
Long-term prepayments		10,577	9,140
Loan receivable	19	180,000	—
Financial asset at fair value through other comprehensive income	17	<u>10,000</u>	<u>—</u>
		<u>1,374,419</u>	<u>1,197,410</u>
Current assets			
Inventories		35,311	39,041
Amount due from an associate		—	27,505
Trade and other receivables	18	132,764	151,370
Cash and cash equivalents		<u>2,410,788</u>	<u>1,701,783</u>
		2,578,863	1,919,699
Assets classified as held for sale	16	<u>—</u>	<u>2,166,486</u>
Total current assets		<u>2,578,863</u>	<u>4,086,185</u>
Total assets		<u>3,953,282</u>	<u>5,283,595</u>
Current liabilities			
Amount due to an associate		—	27,829
Trade and other payables	20	85,413	92,602
Lease liabilities		2,442	2,461
Bank borrowings		—	10,000
Tax payables		<u>5,041</u>	<u>5,049</u>
Total current liabilities		<u>92,896</u>	<u>137,941</u>
Net current assets		<u>2,485,967</u>	<u>3,948,244</u>

		June 30,	December 31,
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Liabilities			
Non-current liabilities			
Bank borrowings		16,360	18,000
Deferred tax liabilities		2,111	2,728
Deferred government grants		16,325	<u>16,647</u>
Total non-current liabilities		<u>34,796</u>	<u>37,375</u>
NET ASSETS		<u>3,825,590</u>	<u>5,108,279</u>
Equity			
Share capital	<i>21</i>	965	965
Share premium		1,492,937	1,492,937
Reserves		390,374	371,964
Retained earnings		1,941,478	<u>3,242,575</u>
Equity attributable to owners of the Company		3,825,754	5,108,441
Non-controlling interests		<u>(164)</u>	<u>(162)</u>
TOTAL EQUITY		<u>3,825,590</u>	<u>5,108,279</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2021

	Attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2021	<u>965</u>	<u>1,492,937</u>	<u>371,964</u>	<u>3,242,575</u>	<u>5,108,441</u>	<u>(162)</u>	<u>5,108,279</u>
Comprehensive income							
Profit for the period	—	—	—	761,091	761,091	(2)	761,089
Other comprehensive income							
Currency translation differences	—	—	9,466	—	9,466	—	9,466
Reclassification from exchange differences reserve to profit or loss on disposal of interest in an associate	—	—	8,944	—	8,944	—	8,944
Total comprehensive income	<u>—</u>	<u>—</u>	<u>18,410</u>	<u>761,091</u>	<u>779,501</u>	<u>(2)</u>	<u>779,499</u>
Dividend paid (note 11)	—	—	—	(2,062,188)	(2,062,188)	—	(2,062,188)
Total transaction with owners	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,062,188)</u>	<u>(2,062,188)</u>	<u>—</u>	<u>(2,062,188)</u>
Balance at June 30, 2021 (unaudited)	<u>965</u>	<u>1,492,937</u>	<u>390,374</u>	<u>1,941,478</u>	<u>3,825,754</u>	<u>(164)</u>	<u>3,825,590</u>

Attributable to owners of the Company

	Share capital <i>RMB'000</i> <i>(Note 22)</i>	Share premium <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
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)	165,155
Balance at June 30, 2020 (unaudited)	965	1,492,937	527,989	2,751,914	4,773,805	(161)	4,773,644

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 R&D, manufacturing and sale of advanced infusion set, intravenous cannula products, insulin needles etc. (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 26, 2021.

These condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2020 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 interim 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 2020 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 2020 annual consolidated financial statements.

These condensed consolidated interim financial statements are unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the HKICPA.

3. CHANGE IN 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, 2020, 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.

Amendment to HKFRS 16	Covid-19-related rent concessions beyond June 30, 2021
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — phase 2

The new or amended HKFRSs that are effective from January 1, 2021 did not have any significant impact on the Group's accounting policies.

4. 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 2020 annual financial statements.

5. 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,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Customer segments		
Revenue from hospitals	20,158	12,549
Revenue from medical products distributors	<u>113,334</u>	<u>88,987</u>
	<u><u>133,492</u></u>	<u><u>101,536</u></u>
Timing of revenue recognition		
Recognised at a point of time	<u><u>133,492</u></u>	<u><u>101,536</u></u>

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

6. OTHER LOSSES

	Unaudited	
	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	543	3,292
Rental income	5,788	5,996
Loss on disposal of property, plant and equipment	—	(1,536)
Loss on guarantee liability (<i>Note</i>)	(364)	(366)
Loss on deemed disposal of an associate	—	(18,127)
Written off of property, plant and equipment	—	(1,926)
Net foreign exchange	(17,262)	—
Others	<u>5,799</u>	<u>6,240</u>
	<u><u>(5,496)</u></u>	<u><u>(6,427)</u></u>

Note:

The guarantee liability 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 of 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.

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 year ended December 31, 2020 and June 30, 2021 represents the interest accrued for the period on the guarantee liability.

7. FINANCE INCOME/(COST) — NET

	Unaudited	
	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
Interest income on short-term bank deposits	29,561	1,591
Loan interest income	<u>1,871</u>	<u>—</u>
	31,432	1,591
Finance costs		
Interest expenses on lease liabilities	—	(5)
Interest expenses on bank borrowings	(541)	(10,437)
Net foreign exchange loss	<u>—</u>	<u>(416)</u>
	(541)	(10,858)
	<u>30,891</u>	<u>(9,267)</u>

8. PROFIT BEFORE INCOME TAX

	Unaudited	
	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Provision for impairment loss on trade receivables	4,093	6,344
Bad debt written off	—	4,427
Amortisation of intangible assets	1,608	1,607
Depreciation of property, plant and equipment	13,658	13,960
Depreciation of right-of-use-assets		
— Properties	18	177
— Leasehold land and land use right	242	241

9. TAXATION

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

	Unaudited	
	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
Current income tax		
PRC income tax for the period	(6,041)	—
Overprovision of PRC income tax of prior year	—	756
Deferred income tax	<u>1,286</u>	<u>5,212</u>
Income tax (expenses)/credits	<u>(4,755)</u>	<u>5,968</u>

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, 2020: 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, 2020: 25%).

Two subsidiaries (six months ended June 30, 2020: 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, 2020: 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.

10. 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, 2021.

	Unaudited	
	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
Profit attributable to owners of the Company	761,091	141,153
Weighted average number of ordinary shares in issue (thousands)	1,569,246	1,569,246
Basic earnings per share (RMB cents per share)	<u>48.5</u>	<u>8.99</u>

(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,	
	2021	2020
	RMB'000	RMB'000
Profit attributable to owners of the Company	761,091	141,153
Weighted average number of ordinary shares in issue (thousands)	1,569,246	1,569,246
Adjustments for:		
— Share options (thousands)	<u>4</u>	<u>26</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,569,250	1,569,272
Diluted earnings per share (RMB cents per share)	<u>48.5</u>	<u>8.99</u>

11. DIVIDENDS

**Unaudited
Six months
ended
June 30,
2021
RMB'000**

Special dividend declared and paid of HK\$1.5766 per share (2020: Nil)

2,062,188

The board does not propose an interim dividend for the six months ended June 30, 2021 (six months ended June 30, 2020: nil).

The special dividend of HK\$1.5766 per share of RMB2,062,188,000 was declared on December 8, 2020 and was paid on February 25, 2021.

12. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2021 RMB'000 (Unaudited)	December 31, 2020 RMB'000 (Audited)
At beginning of year	698,441	725,214
Additions	1,779	17,248
Disposals	—	(19,603)
Depreciation	<u>(13,658)</u>	<u>(24,418)</u>
At end of period/year	<u>686,562</u>	<u>698,441</u>

During the Period, the Group acquired property, plant and equipment of approximately RMB1,779,000 (six months ended June 30, 2020: RMB15,023,000) and no disposal of property, plant and equipment during the period (six months ended June 30, 2020: RMB9,855,000).

13. RIGHT-OF-USE ASSETS

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

	Properties <i>RMB'000</i>	Leasehold land and land use rights <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at January 1, 2020	98	22,929	23,027
Addition	240	—	240
Depreciation charge for the year	(320)	(482)	(802)
At December 31, 2020 (Audited) and January 1, 2021	18	22,447	22,465
Depreciation for the period	(18)	(242)	(260)
At June 30, 2021 (Unaudited)	<u>—</u>	<u>22,205</u>	<u>22,205</u>

14. INVESTMENT PROPERTIES

	June 30, 2021 <i>RMB'000</i> (Unaudited)	December 31, 2020 <i>RMB'000</i> (Audited)
FAIR VALUE		
At beginning of year	274,740	276,493
Fair value adjustment	<u>(1,350)</u>	<u>(1,753)</u>
At end of period/year	<u>273,390</u>	<u>274,740</u>

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 approximately 39,714.5 square meters construction area. 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, 2021 was approximately RMB273,390,000 (December 31, 2020: RMB274,740,000).

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, 2021	December 31, 2020
Occupancy rate	60.0% to 86.8%	60.0% to 86.8%
Rental growth rate	3.0%	3.0%
Discount rate	<u>6.0%</u>	<u>6.0%</u>

The fair value of the investment property at June 30, 2021 and December 31, 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.

A significant increase/decrease in the rental value in isolation would result in a significant increase/decrease in the fair value of the investment properties. A significant increase/decrease in the discount rate in isolation would result in a significant decrease/increase in the fair value of the investment properties. Generally, a change in the assumption made for the rental value is accompanied by a directionally similar change in the rent growth per annum.

In addition, as a result of the increased uncertainty, significant judgement is required when evaluating the inputs used in the fair value estimate. Reasonably possible changes at the reporting date to any of the relevant assumptions would have affected the fair value of the investment property as presented below:

	June 30, 2021 RMB'000
Discount rate increased by 1%	(40,410)
Expected occupancy rate decreased by 3%	(12,090)
Rental growth rate decreased by 0.5%	<u>(24,350)</u>

15. INTANGIBLE ASSETS

	June 30, 2021 RMB'000 (Unaudited)	December 31, 2020 RMB'000 (Audited)
At beginning of year	177,898	181,113
Amortisation charge	<u>(1,608)</u>	<u>(3,215)</u>
At end of period/year	<u>176,290</u>	<u>177,898</u>

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 management is in the opinion that the Infusion Set Business has operating segment profit during the period. As at June 30, 2021, management determines that there is no impairment on goodwill.

16. ASSETS CLASSIFIED AS HELD FOR SALE

As at December 31, 2020, the remaining 9.67% equity of interest in an associate, China Biologic Products Holdings, Inc. (“CBPO”), being 3,750,000 CBPO shares, are classified as assets and liabilities of a disposal group classified as held for sale. The transaction of selling the remaining interest was completed on January 6, 2021 and detailed in the Company’s announcement dated on January 7, 2021.

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

	Unaudited	
	For the six months ended	
	June 30, 2021	June 30, 2020
	<i>RMB’000</i>	<i>RMB’000</i>
Cash consideration received	2,907,180	714,232
Share of interest disposed of	(2,166,486)	(589,830)
Exchange alignments	<u>(8,944)</u>	<u>(1,464)</u>
Gain on disposal of assets held for sale/interest in an associate	<u><u>731,750</u></u>	<u><u>122,938</u></u>

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income include the following:

	June 30,
	2021
	<i>RMB’000</i>
	(Unaudited)
Non-current asset	
Unlisted investment fund (<i>note</i>)	<u><u>10,000</u></u>

On May 15, 2021, the Company’s wholly owned subsidiary, PW Medtech (Beijing) Limited entered into a Limited Partnership Agreement (the “**Agreement**”) to subscribe for the interests in the fund, as a limited partner, in the total amount of RMB20,000,000 of 分宜昊達投資合夥企業(有限合夥) (the “**Company**”). Amounted of RMB10,000,000 required capital contribution of the investment was paid during the period ended June 30, 2021. The underlying assets of the Company represent a private equity fund of investing into medical industry.

This Fund was established principally to achieve long-term capital appreciation primarily through privately-negotiated investments in companies and/or its affiliates which is/are engaged in the research and development and sales of medical devices. The Group is a limited partner in this Fund and does not have control nor significant influence in the Fund’s operational and financing decisions.

The directors of the Company have determined the fair value of the remaining interest held in the Fund as at June 30, 2021 with reference to the valuation report issued by Flagship Appraisals and Consulting Limited, an independent professional valuer who has professional qualifications and relevant experience. The fair value of the Fund is determined by market approach, with references to comparable companies benchmark multiples.

18. TRADE AND OTHER RECEIVABLES

	June 30, 2021	December 31, 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Trade receivables (i)	97,108	107,880
Bills receivable (ii)	27	2,026
Prepayments and deposits	3,947	6,488
Value added tax recoverable	17,849	19,713
Interest receivable	1,872	—
Other receivables	<u>11,961</u>	<u>15,263</u>
Trade and other receivables	<u>132,764</u>	<u>151,370</u>

- (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, 2021	December 31, 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Up to 3 months	28,998	26,345
3 months to 6 months	22,307	15,825
6 months to 12 months	20,277	15,478
1 year to 2 years	5,487	29,191
2 years to 3 years	<u>20,039</u>	<u>21,041</u>
	<u>97,108</u>	<u>107,880</u>

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.

On January 1, 2020, the Group has entered into the second repayment agreements individually with three credit-impaired customers with significant risk of default (“**Group D**”). Pursuant to the second repayment agreements, approximately RMB28,000,000 (the “**Overdue Debts**”) are identified as amount that exceeding the line of credit being granted. The Overdue Debts will be settled in cash by monthly instalment of RMB1.4 million within two years commencing from January 1, 2020, and all the debtors paid on time on the monthly basis as of the date of this announcement. During the period ended June 30, 2021, 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 expected credit losses, 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, 2021	Group A	Group B	Group C	Group D
Expected credit loss rate (%)	5.72	1.48	55.45	45.70
Gross carrying amount (RMB'000)	25,855	33,251	18,351	58,562
Loss allowance (RMB'000)	1,480	492	10,177	26,762
December 31, 2020	Group A	Group B	Group C	Group D
Expected credit loss rate (%)	5.20	1.46	46.15	39.20
Gross carrying amount (RMB'000)	28,369	32,754	12,791	68,784
Loss allowance (RMB'000)	1,475	477	5,903	26,963

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:

	<i>RMB'000</i>
Balance at January 1, 2020	25,047
Provision for impairment losses recognised during the year	<u>9,771</u>
Balance at December 31, 2020	34,818
Provision for impairment losses recognised during the year	<u>4,093</u>
Balance at June 30, 2021	<u><u>38,911</u></u>

19. LOAN RECEIVABLE

On April 12, 2021, a loan advance with principal of RMB180,000,000 was granted to Beijing Tianxia Pule Medical Investment Co., Ltd., which is a third party independent of the Company. The loan is interest bearing at 5.5% per annum. The interest is repayable on a half-yearly basis and the outstanding principal amount in full on April 11, 2023.

Impairment assessment

It is considered to be low risk as the loans are collateralised by the real properties owned by the borrower located in Beijing with fair value amounted RMB297,874,000 and therefore the impairment provision is determined as 12 months expected credit losses. As at June 30, 2021, the management assess that the effect of applying the expected credit risk model on loan receivable was immaterial.

20. TRADE AND OTHER PAYABLES

	June 30, 2021 RMB'000 (Unaudited)	December 31, 2020 RMB'000 (Audited)
Trade payables	15,545	15,019
Salary and staff welfare payables	20,538	18,942
Advances from customers	9,664	16,051
Deposits received	3,718	3,955
Value added tax and other taxes	400	303
Professional service fee	1,131	2,922
Provision for loss from guarantee liability (Note 6)	18,844	18,480
Deferred government grants-current portion	642	642
Other payables	<u>14,931</u>	<u>16,288</u>
	<u>85,413</u>	<u>92,602</u>

As at June 30, 2021 and December 31, 2020, except for the advances from customers, deposit 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, 2021	December 31, 2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Up to 6 months	5,370	3,591
6 months to 12 months	2,143	3,847
1 year to 2 years	2,685	4,924
2 years to 3 years	3,593	972
Over 3 years	<u>1,754</u>	<u>1,685</u>
	<u>15,545</u>	<u>15,019</u>

21. SHARE CAPITAL

	Number of ordinary shares	Share capital RMB'000
Issued and fully paid:		
Balance at January 1, 2020, December 31, 2020 and June 30, 2021	<u>1,569,246,098</u>	<u>965</u>

22. CAPITAL COMMITMENTS

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

	June 30, 2021	December 31, 2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Commitments for the:		
Capital contribution on an unlisted investment fund (<i>note 17</i>)	10,000	—
Acquisition of property, plant and equipment	<u>18,349</u>	<u>28,593</u>

23. RELATED PARTY DISCLOSURES

Compensation of key management personnel

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

The remuneration of directors of the Group during the period was as follows:

	Unaudited	
	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other allowances	<u>2,605</u>	<u>1,102</u>

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Market and Business Review

In the first half of 2021, China's measures to prevent and control the pandemic led to positive results. As enterprises resumed production and operation, the economy and society returned to normal in an orderly manner. Due to travel restrictions during the pandemic, the sales and the demand for medical consultation and treatment from the hospital market have not restored to the pre-pandemic level, but are gradually recovering.

In the first half of 2021, the National Medical Products Administration issued the latest "Regulations on the Supervision and Administration of Medical Devices" (醫療器械監督管理條例) and the "Working Plan for the Mandatory Standardization and Optimization of Medical Devices" (醫療器械強制性標準優化工作方案), which marked the beginning of medical device supervision. These supervision measures gradually enhanced the quality of development of the medical device industry and laid a solid foundation for its innovation and growth under the "14th Five Year Plan". Driven by the population aging trend and increasing health awareness, China's medical device industry continues to have much room for future growth.

The rising demand for medical consultation and medical devices drove the gradual recovery of business in medical device market segments such as the infusion set segment. In the first half of 2021, the Group's revenue was RMB133.5 million, representing an increase of 31.5% over the corresponding period of the previous year. The gross profit was RMB82.5 million, representing an increase of 38.6% over the corresponding period of the previous year. The overall gross profit margin for the period was 61.8%. For the Relevant Period, the profit attributable to owners of the Company amounted to RMB761.1 million, representing an increase of 439.2% over the corresponding period of the previous year. Benefitting from the resumption of work and production in an orderly manner as well as the rebound in the demand for outpatient and surgical services at hospitals, revenue from operating activities rallied gradually.

The improvement in the fundamentals and operation of the medical and healthcare industry was attributable to rapid economic growth, rising living standards, national policy support and reform of the medical and healthcare system. Currently, China is pushing for the thorough implementation of the "Healthy China" strategy. Given the growth in the ageing population and the changing people's lifestyle and spectrum of disease, the society needs effective and precise medical and healthcare services, enhanced quality of medical services and more advanced technology for medical devices.

However, China's centralized procurement regime for medical consumables brought a number of challenges to the Group and the industry. Since the adoption of this policy, the ex-factory price and gross profit of products in the sector were affected to a certain extent. In spite of that, the regime will accelerate the industrial consolidation towards major players with economies of scale, well-established technology and strong innovation capability in the long run. Domestic medical consumables with substantial room for import substitution and better value for money will show upside potential.

The Group has developed in-depth insight into the new norm of the medical industry and actively responded to it through the targeted adjustment to the bidding strategies. As a leader in China's medical device industry, the Group continued to improve quality control of its products, expand product research and development (“R&D”) and enhance its own strengths, so as to provide strong support to the industry. Given that pandemic prevention and control became a part of the normal operation, the Group monitored the market closely, capitalized on favorable policies and fine-tuned business strategies in a timely manner, thereby maintaining its leading position in China's medical device industry.

Business Strategies and Future Outlook

Under the normalized pandemic prevention and control and the new situation of trade friction, the medical device industry had high growth potential. In the post-pandemic era, product localization progressed more rapidly. Pandemic-driven regional lockdown and the shortage of medical devices played a role in accelerating the localization of medical devices. In May 2021, the latest “Regulations on the Supervision and Administration of Medical Devices” (醫療器械監督管理條例) was implemented to offer full support to the innovation of medical devices, encourage the clinical trial of such devices by medical institutions and accelerate import substitution with domestic products, which provided further tailwinds for the industry.

National policy created a favorable environment for domestic medical device manufacturers to compete. The medical consumables segment also benefitted from supportive policies, the substitution of high-quality domestic consumables for similar imported goods and the increase in industry concentration. According to the statistics from the Medical Device Institute, China's low-value medical consumables market grew at a compound annual growth rate of 19.78% from 2015 to 2018, which was far higher than the global level. Based on the prediction, the market is expected to reach RMB92.73 billion by 2021. Hence, China's low-value medical consumables market still has tremendous room for growth.

In the first half of 2021, China achieved steady economic growth, which is likely to continue in the second half of the year. After eliminating the shortcomings of the national public healthcare system, the medical consumables industry was benefitted with more growth space. In addition, the sector gradually consolidated towards major players with economies of scale, well-established technology and strong innovation capability. Domestic medical consumables with substantial room for import substitution and better value for money will have a large growth potential at home and abroad.

PW Medtech has been focusing on China's fast-growing and high-margin medical device market. The Group keeps tabs on the latest industry development and gains in-depth insights into the future trend. It actively promotes industrial upgrade, enhances product innovation and R&D capabilities, and expands the mix of production capacity.

The Group maintained a stable and sound financial position and cash flows. In October 2020, it entered into three share purchase agreements with independent third parties for the disposal of 5,321,000 shares of China Biologic Products Holdings, Inc. (“CBPO”). The closing of these transactions were completed on December 30, 2020 and January 6, 2021, respectively. The proceeds of the disposal totaled US\$638.52 million. In February 2021, approximately 50% of the proceeds were used for the

distribution of a special dividend as the investment return to shareholders of the Company. The remaining proceeds will be used for corporate working capital and future strategic and development purposes, so that the Group could pursue M&A and investment projects with promising outlooks and potential for sustainable growth.

The Group will continue to leverage its leading position in China's medical device industry. In addition to its main businesses of infusion set and intravenous cannula, it will further expand the business in the diabetes therapy sector, actively facilitate the marketing and promotion of insulin injection needles and pens, and conduct R&D of medical devices in other therapy sectors so as to expand revenue sources, give play to business synergies and further optimize business coverage. As of June 30, 2021, the Group had obtained 34 registration certificates for products covering, among others, infusion set, intravenous cannula, intestinal feeding device, insulin injection pen, insulin injection needle and blood transfusion set.

Emphasis on Innovation and R&D

As an industry leader in the development of innovative products, 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, 2021, the Group had commenced a number of R&D projects. It supported the expansion and further R&D of new products in the diabetes therapy sector through substantial investment. In the first half of 2021, it advanced the project in relation to the smart cap and supporting application for insulin injection pens, where it designed a new cap structure for the advantages of accurate data transformation and low cost. With the help of the supporting application, the pen cap could connect with smart terminals to record and analyze the dosage of insulin injection and blood sugar level. Meanwhile, these records could also be uploaded to the cloud for checking by medical professionals.

Apart from diabetes products, the Group stepped up its R&D efforts in business lines such as its intravenous cannula products. Currently, it is developing a new kind of disposable dialysis cannulas that allows the users to remove the steel needle after injection. The new product minimizes damage to blood vessels by leaving only the flexible polymer cannula inside. Unlike traditional cannulas, there are asymmetrical side holes at the duct tip of the new product, which are uniquely designed to prevent insufficient blood flow due to contact with the vascular wall. The new dialysis cannula developed by the Group is expected to be launched in the second half of 2022. It aims to provide better treatment experience and safety assurance for patients with kidney failure, while promoting import substitution. This project facilitates the transformation of the Group from intravenous to intraarterial treatment, marking its first step to the hemodialysis market with promising prospects.

Thus far, vaccination is the most effective way to prevent the spread of COVID-19. Hence, market demand for vaccine syringes has increased drastically. In view of the market trend, the Group initiated the disposable vaccine syringe project in January 2021. By offering a comprehensive mix of syringes

and ancillary adaptors, it meets the needs of different age groups. At the same time, the Group has the best equipment and molds for production in the country, which enables the fully automated manufacturing of high-quality vaccine syringes at low cost.

Furthermore, in order to promote automation and smart product manufacturing, the Group developed a smart defect detection system with precision filters in collaboration with AInnovation Ltd. (創新奇智公司), which is a leading artificial intelligence company in China. Based on computer vision, the system adopts machine learning and artificial intelligence algorithms to improve defect detection efficiency and lower the detection cost of the precision filters significantly.

As of June 30, 2021, the Group had owned 97 patents for products and had applied for 34 new patents. The Group will continue its investment in product innovation and R&D. Following the R&D strategy of “produce and focus our R&D efforts for a leading next generation of products”, it will focus on the safety and effectiveness as well as R&D and innovation of medical devices so as to enhance its overall competitiveness 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. The Group continued to optimize its sales channels and expand its distribution network, actively promoted the Company’s strategic product layout in centralized procurement market and non-centralized procurement market, and closely monitored national medical policies to timely adjust the bidding strategies. In the first half of 2021, the Group won the bids for its products in regions such as Jiangsu, Henan, Hebei and Xinjiang. Adhering to the strategic approach of “low cost, high quality” continuously, it conducted a comprehensive review of daily management and corporate strategy to introduce innovative plans and measures.

Meanwhile, the Group extended the sales network in multiple channels and sectors to cover hospitals in key provinces. It strived to develop new business sectors that could bring synergy to existing businesses in terms of clinical application and sales channels, thereby promoting business growth and network expansion.

The Group’s 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 enable them to communicate with doctors and nurses in a professional and effective manner.

Strategic Acquisitions

In 2021, China actively implemented the “Opinions on Promoting In-depth Reform of the Evaluation and Approval Systems and Encouraging Innovation on Drugs and Medical Devices” (關於深化審評審批制度改革鼓勵藥品醫療器械創新的意見), which was published by the General Office of the Central Committee, the Chinese Communist Party and the General Office of the State Council. The Opinions stated that quality and safety control and innovation development of drugs and medical devices

provided a crucial safeguard for building a healthy China. The reform of the evaluation and approval system is expected to inspire the innovative development of the medical sector and encourage businesses to enhance their innovation and R&D capabilities. Given China's support for innovation, the acceleration of the evaluation and approval process for medical devices and the increasing post-pandemic health awareness of people, the medical device industry will see exceptional growth and innovation-driven development.

The Group will seize the strategic development opportunities in the medical device industry and make full use of the ample funds generated from previous strategic acquisitions to actively carry out strategic projects. Amongst the proceeds from the disposal of CBPO shares in December 2020 and January 2021, approximately US\$310 million will be used for, among others, capital expenditure, long-term investment in the future and M&A opportunities in medical and related industries. The Group will continue to seek M&A and investment projects with promising outlooks and potential for sustainable growth. It will also look for investment and M&A targets that can bring synergy, while promoting market-oriented development and sustainability. Through M&A activities, it will achieve integration of resources and advantages for satisfactory investment return.

Financial Review

Overview

	Six months ended June 30,		Change
	2021	2020	
	RMB'000	RMB'000	
Revenue	133,492	101,536	31.5%
Gross profit	82,480	59,513	38.6%
Gain on disposal of assets held for sale/ interest in an associate	731,750	122,938	495.2%
Profit for the period	<u>761,089</u>	<u>141,151</u>	<u>439.2%</u>

Revenue

The revenue of the Group increased by 31.5% from approximately RMB101.5 million for the six months ended June 30, 2020 to approximately RMB133.5 million for the Relevant Period, as a result of the increase in sales of the infusion set business. Such increase was mainly due to relief of the COVID-19 pandemic and gradual recovery of the hospital traffic in the PRC.

Gross Profit

The Group's gross profit increased by 38.6% from approximately RMB59.5 million for the six months ended June 30, 2020 to approximately RMB82.5 million for the Relevant Period. The gross profit margin increased from 58.6% for the six months ended June 30, 2020 to 61.8% for the Relevant Period. The increase was mainly due to the increase of sales volume which led to the decrease of the unit fixed cost.

Selling and Marketing Expenses

Selling and marketing expenses decreased by 26.8% from approximately RMB46.5 million for the six months ended June 30, 2020 to approximately RMB34.1 million for the Relevant Period. This decrease was mainly attributable to the decrease of the sales and promotion expenses as well as the labor cost which was due to the restructure of distribution network.

General and Administrative Expenses

General and administrative expenses decreased by 18.7% from approximately RMB33.1 million for the six months ended June 30, 2020 to approximately RMB26.9 million for the Relevant Period. The decrease was mainly due to: (i) the write off of trade receivables by RMB4.4 million for the six months ended June 30, 2020, while there was no such write off for the Relevant Period; (ii) the decrease of the labor cost and energy expenses.

Provision for Impairment Losses Recognized in Respect of Trade Receivables

Provision for impairment losses recognised in respect of trade receivables amounted to approximately RMB4.1 million for the Relevant Period, decreased by approximately RMB2.2 million from approximately RMB6.3 million for the six months ended June 30, 2020. The detailed information regarding the impairment losses recognised in respect of trade receivables could be found in Note 18 to the condensed consolidated interim financial statements.

R&D Expenses

R&D expenses decreased by 31.1% from approximately RMB10.7 million for the six months ended June 30, 2020 to approximately RMB7.4 million for the Relevant Period, which was mainly due to the decrease of direct materials used during the R&D programs, since some newly launched programs in 2021 have not entered into the testing process.

Other Losses — Net

Net other losses decreased by 14.5% from approximately RMB6.4 million for the six months ended June 30, 2020 to approximately RMB5.5 million for the Relevant Period, which was mainly the net result of: (i) the loss on deemed disposal of an associate for the six months ended June 30, 2020 was approximately RMB18.1 million while there was no such loss for the Relevant Period due to the

completion of disposal of all the CBPO shares held by the Group in January 2021; (ii) the increase of the net foreign exchange loss amounted to RMB17.3 million in the Relevant Period, which was caused by the change of the exchange rate for the US dollar deposits denominated in RMB.

Gain on Disposal of Assets Held for Sale/Interest in an Associate

The Group had a gain on disposal of interest in an associate of RMB731.8 million for the Relevant Period, being the capital gain from the disposal of 3,750,000 CBPO shares completed in January 2021, as disclosed in Note 16 to the condensed consolidated interim financial statements. While for the six months ended June 30, 2020, the capital gain from the disposal of 1,000,000 CBPO shares completed in May 2020 was approximately RMB122.9 million.

Fair Value Loss on Investment Properties

Fair value loss on investment properties decreased by 90.3% from approximately RMB14.0 million for the six months ended June 30, 2020 to approximately RMB1.4 million for the Relevant Period, which was mainly due to decline in the rental market in an epidemic environment.

Operating Profit

Operating profit increased by RMB669.6 million from RMB65.4 million for the six months ended June 30, 2020 to RMB735.0 million for the Relevant Period, mainly due to: (i) the gains on the transaction of disposal of 3,750,000 CBPO shares completed in January 2021 amounted to RMB731.8 million; (ii) the increase of the sales of infusion sets which have been gradually recovered from the impact of the COVID-19 pandemic.

Finance Income/(Cost) — Net

The Group had a net finance income of RMB30.9 million for the Relevant Period which generated from the interest income of bank deposits after the disposal of CBPO shares. While for the six months ended June 30, 2020, there was a net finance cost of approximately RMB9.3 million. The finance cost was interest expense of bank borrowing which was repaid in May 2020.

Share of Result of an Associate

For the six months ended June 30, 2020, the investment in CBPO was classified as interest in an associate and had been accounted for using equity method, and the share of result of CBPO amounted to RMB79.1 million, after deducting amortization of intangible assets arising from the acquisition of RMB20.1 million. There was no share of result of an associate after the disposal of all the remaining CBPO shares held by the Group during the Relevant Period.

Income Tax (Expenses)/Credits

Income tax expenses for the Relevant Period was approximately RMB4.8 million, as compared with income tax credits of approximately RMB6.0 million for the six months ended June 30, 2020, which was mainly due to the increase of taxable profit. While for the six months ended June 30, 2020, the record of the deferred income tax assets related to impairment loss of trade receivables and fair value loss on investment properties led to the income tax credits.

Net Profit

The net profit of the Group increased by RMB619.9 million from approximately RMB141.2 million for the six months ended June 30, 2020 to RMB761.1 million for the Relevant Period. The increase of the net profit was mainly due to: (i) the increase of the gains amounted by approximately RMB608.8 million on the disposal of CBPO shares; (ii) the increased profit generated from the increased sales of infusion sets.

Trade and Other Receivables

The Group's trade receivables primarily comprised the outstanding payment from credit sales. As of June 30, 2021, the trade receivables of the Group was approximately RMB97.1 million, representing a decrease of approximately RMB10.8 million as compared to approximately RMB107.9 million as of December 31, 2020, which was mainly due to the increase in collection of trade receivables and the increase of impairment allowance of trade receivables by RMB4.1 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 which amounted to RMB65.7 million at December 31, 2020, a total of RMB34.8 million was subsequently received up to June 30, 2021.

As at June 30, 2021, the Group had made loss allowances of RMB38.9 million (as at December 31, 2020: RMB34.8 million) on the trade receivables with a gross amount of RMB136.0 million (as at December 31, 2020: RMB142.7 million).

Inventories

Inventories decreased by 9.6%, from approximately RMB39.0 million as at December 31, 2020, to approximately RMB35.3 million as at June 30, 2021, which was mainly due to the enhancement in effectiveness of the purchase process and inventory management.

Property, Plant and Equipment

Property, plant and equipment mainly include buildings and facilities, machinery and equipment and construction in progress. As at June 30, 2021, the property, plant and equipment of the Group amounted to approximately RMB686.6 million, representing a decrease of approximately RMB11.8 million as compared to approximately RMB698.4 million as at December 31, 2020. The decrease was mainly due to the depreciation for the Relevant Period which amounted to RMB13.7 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 June 30, 2021, the investment properties of the Group amounted to approximately RMB273.4 million, decreased by RMB1.3 million compared to approximately RMB274.7 million as at December 31, 2020. The decrease was mainly due to the recognition of the fair value loss on investment properties of RMB1.4 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 at June 30, 2021, the net value of the Group's intangible assets was approximately RMB176.3 million, representing a decrease of approximately RMB1.6 million as compared to RMB177.9 million as at December 31, 2020. The decrease was primarily due to the amortisation charged during the Relevant Period.

Assets Classified as Held for Sale

As at June 30, 2021, there was no Company's assets classified as held for sale, since all the CBPO shares which the Company owned have been disposed by January 2021. As at December 31, 2020, the Company's share of the net assets of CBPO amounted to RMB2,166.0 million which classified as assets classified as held for sale, representing 41.0% of total assets as at December 31, 2020.

Loan Receivable

As at June 30, 2021, the Company's loan receivable was RMB180.0 million which was a loan advance granted to an independent third party on April 12, 2021 as disclosed in the announcement of the Company dated April 12, 2021. The detailed information regarding the loan receivable could be found in Note 19 to the condensed consolidated interim financial statements.

Financial Assets at Fair Value through other comprehensive income

Financial assets at fair value through other comprehensive income was RMB10.0 million for the Relevant Period which was a new investment in a fund on May 15, 2021. The detailed information regarding the financial assets could be found in Note 17 to the condensed consolidated interim financial statements.

Financial Resources and Liquidity

As at June 30, 2021, the Group's cash and bank balances amounted to approximately RMB2,410.8 million (December 31, 2020: RMB1,701.8 million). As at June 30, 2021, the Group's bank borrowing balance was RMB16.4 million (December 31, 2020: RMB28.0 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 RMB47.4 million, representing an increase by RMB7.4 million as compared to RMB40.0 million for the six months ended June 30, 2020. The increase of the net operating cash flow was mainly due to the collection of the trade and other receivables and the delay of the payment.

Pledge of Assets

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, 2021, the Group had a total capital commitment of approximately RMB18.3 million (December 31, 2020: RMB28.6 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 RMB1.8 million (for the six months ended June 30, 2020: RMB15.0 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, 2021 RMB'000	As at December 31, 2020 RMB'000
Total borrowing	16,360	28,000
Total equity	3,825,590	5,108,279
Total capital	3,841,950	5,136,279
Gearing ratio	0.43%	0.55%

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 by 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, 2021, 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, 2020: nil).

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 state-owned enterprises or major customers with good repayment history. Details of the Group's trade and other receivables credit management are also discussed above under the heading of "Trade and Other Receivables".

HUMAN RESOURCES

As at June 30, 2021, the Group had a total of approximately 748 employees (December 31, 2020: 756 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, 2020: 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 26, 2021

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