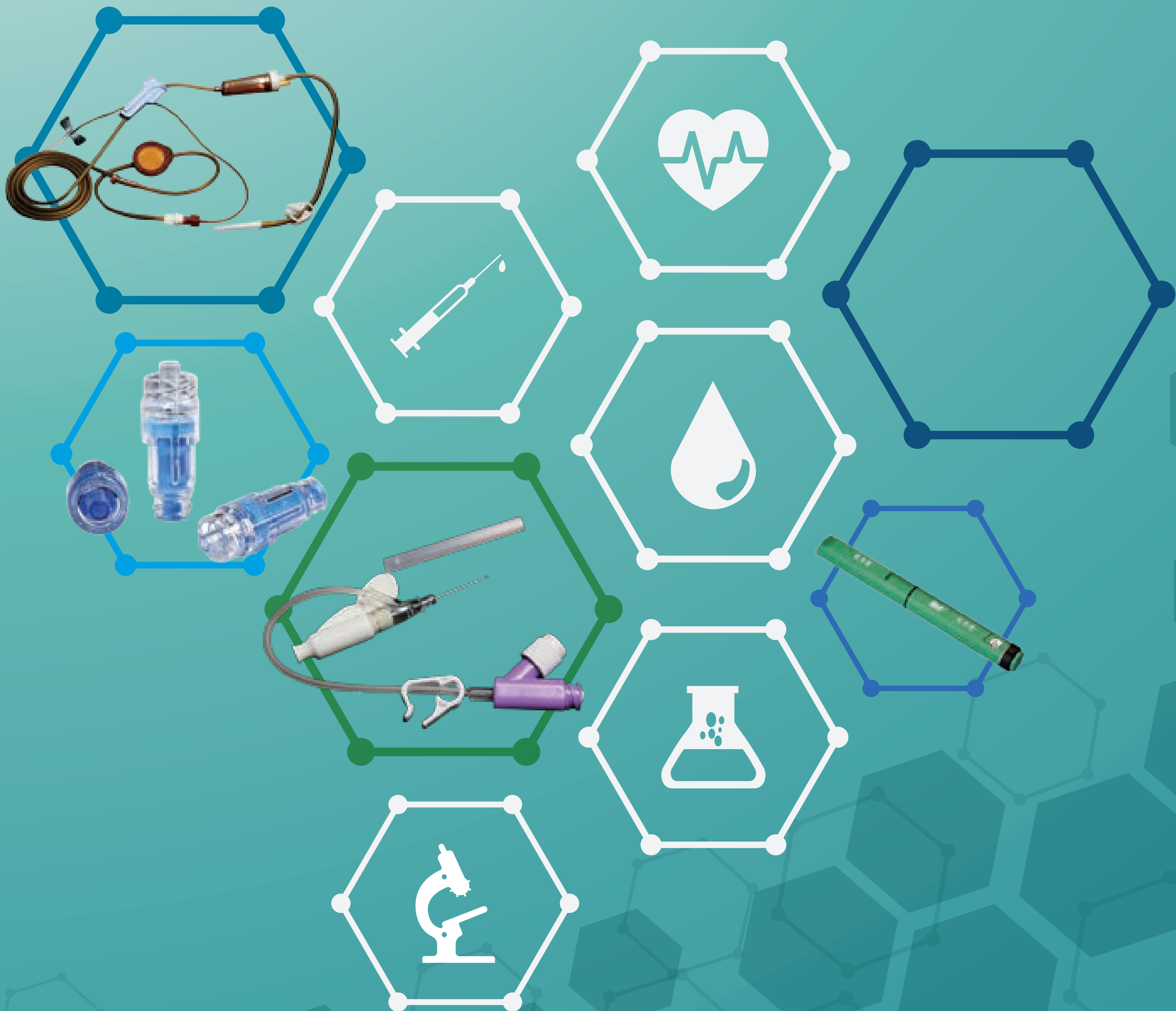
# PW MEDTECH GROUP LIMITED
# 普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01358.HK)

# INTERIM REPORT 2019



# A TRUE PIONEER IN CHINA'S MEDICAL DEVICE INDUSTRY

We are a leading medical device company with focus on fast-growing and high-margin segments of China's medical device industry. We have a leading market position in our current business segment of advanced infusion sets, with strong research and development capabilities and well-established distribution networks.

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# DEFINITIONS

In this interim report, unless the context otherwise requires, the following expressions shall have the following meanings.

| | |
|---|---|
| "Audit Committee" | the audit committee of the Company |
| "Board" | our board of Directors |
| "CBPO" | China Biologic Products Holdings, Inc., a Cayman Islands exempted company, which changed its domicile from Delaware to the Cayman Islands on 21 July 2017 and has been listed on the NASDAQ Stock Market since 2009 (NASDAQ stock code: CBPO) |
| "CEO" | chief executive officer of the Company |
| "CG Code" | the "Corporate Governance Code" as contained in Appendix 14 to the Listing Rules |
| "China" or "PRC" | the People's Republic of China, which for the purpose of this interim report and for geographical reference only, excludes Hong Kong, Macau and Taiwan |
| "Company", "Group", "PW Medtech" or "we" | PW Medtech Group Limited (普华和顺集团公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on 13 May 2011 and except where the context indicated otherwise its subsidiaries |
| "DEHP" | Di-2-ethylhexyl phthalate, the most common member of the class of phthalates, which is used as plasticizers in polymer products to make plastic flexible |
| "Director(s)" | the director(s) of the Company |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Infusion Set Business" | the R&D, manufacturing and sale of advanced infusion set products |
| "IPO" | the Company's initial public offering of its Shares |
| "Listing Date" | 8 November 2013, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time) |
| "Model Code" | the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules |
| "Pre-IPO Share Option Scheme" | the pre-IPO share option scheme adopted by the Company on 3 July 2013 and amended on 14 October 2013 |
| "Prospectus" | the prospectus of the Company dated 28 October 2013 |

# DEFINITIONS

| | |
|---|---|
| "R&D" | research and development |
| "Relevant Period" | the six months ended 30 June 2019 |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Share(s)" | ordinary share(s) of par value US$0.0001 each in the issued share capital of our Company |
| "Share Option Scheme" | the share option scheme conditionally adopted by the Company on 14 October 2013 |
| "Shareholder(s)" | holder(s) of Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "%" | per cent |

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Director

Ms. Yue'e ZHANG *(Chairman and CEO)*

### Non-executive Directors

Mr. JIANG Liwei
Mr. LIN Junshan

### Independent Non-executive Directors

Mr. WANG Xiaogang
Mr. ZHANG Xingdong
Mr. CHEN Geng

## COMPANY SECRETARY

Mr. WONG Tin Yu, *ACS, ACIS*

## AUTHORISED REPRESENTATIVES UNDER THE LISTING RULES

Ms. Yue'e ZHANG
Mr. WONG Tin Yu

## AUDIT COMMITTEE

Mr. WANG Xiaogang *(Chairman)*
Mr. LIN Junshan
Mr. CHEN Geng

## REMUNERATION COMMITTEE

Mr. CHEN Geng *(Chairman)*
Mr. LIN Junshan
Mr. ZHANG Xingdong

## NOMINATION COMMITTEE

Ms. Yue'e ZHANG *(Chairman)*
Mr. WANG Xiaogang
Mr. ZHANG Xingdong

## AUDITOR

BDO Limited
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

## REGISTERED OFFICE

The Grand Pavilion Commercial Centre
Oleander Way, 802 West Bay Road
P.O. Box 32052
Grand Cayman KY1-1208
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Building 1, Courtyard 23
Panlong West Road, Mafang Industrial Park
Pinggu District
Beijing, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL BANKERS

China CITIC Bank
Wanliu Branch
5–32, Xing Biao Garden
Wanliu Central Road
Haidian District
Beijing, PRC

Agricultural Bank of China
Badachu Branch
1 Shixing Road
Shijingshan District
Beijing, PRC

## HONG KONG LEGAL ADVISOR

Wilson Sonsini Goodrich & Rosati
Suite 1509, 15/F, Jardine House
1 Connaught Place, Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
P.O. Box 1350
Clifton House, 75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## STOCK CODE AND BOARD LOT

Stock code: 1358
Board lot: 1,000

## WEBSITE

www.pwmedtech.com

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET AND BUSINESS REVIEW

In the first half of 2019, the global economic tension remained unresolved, bringing certain challenges to the economy of China. However, every challenge comes with opportunities. Currently, the development of China is at a key stage with strategic opportunities. Since the beginning of this year, the Chinese government has announced and implemented a series of significant reform and opening measures, which has accelerated the optimization and upgrade of its economic structure, enabling the formation of a strong domestic market and allowing China to maintain stable and progressive economic fundamentals. Benefitting from the steady and sound economic development of China, the increasingly prominent role of medical devices in the medical healthcare industry and medical device's becoming the most active economic growth point in the big health industry, the medical device market of China has been continuously expanding.

The demand for medical device products keeps increasing, attributable to the improving living standards and rising awareness of medical healthcare of Chinese residents, as well as the expanding coverage of medical insurances and surging aged population. Pursuant to the Research Report on Market Prospect and Investment Opportunity of China's Medical Device Industry (2018–2023) (《2018–2023年中國醫療器械行業市場情景及投資機會研究報告》), the medical device market size of China increased from RMB255.6 billion in 2014 to RMB530.4 billion in 2018, and is expected to exceed RMB700 billion by 2020, indicating that the whole domestic medical device industry is stepping into a fast-growing stage. Various favorable policies also created a positive environment for the development of domestic medical device producers. The Company will seize the opportunities arising from the high-speed growth of the medical device industry and maintain its industry-leading position.

As a leading medical device company in China, the Company focuses on the fast-growing and highly profitable medical device market in China. Currently, it is mainly engaged in the R&D, manufacturing and sales of advanced infusion sets and cannulas.

The Company has been committed to expanding new markets with great potentials for development and seizing every opportunity in the market to maintain its leading position in the industry. In the first half of 2019, the Group endeavored to expand its product portfolio and continued to improve its product innovation and R&D capability, while focusing on the organic business growth and expanding distribution network in a proactive manner.

For the first half of 2019, the Group's revenue from continuing operations was approximately RMB172.3 million, representing an increase of 20.5% over the corresponding period of the previous year. The Group recorded a gross profit from continuing operations of approximately RMB106.6 million during the Relevant Period, representing an increase of 21.4% over the corresponding period of the previous year. The overall gross profit margin of the Group during the Relevant Period was approximately 61.9%. For the Relevant Period, the Group's profit for the period from continuing operations and profit attributable to owners of the Company from continuing operations amounted to approximately RMB59.9 million and RMB59.9 million, respectively, representing an increase of 54.9% and 56.4% over the corresponding period of the previous year, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS STRATEGIES AND FUTURE OUTLOOK

With regard to the Infusion Set Business, in order to provide safer infusion sets with higher quality and reinforce its leading market position, the Group has been focusing on the continuous improvement of manufacturing materials and function of infusion sets to offer a safer and more reliable infusion treatment solution and mitigate the risk of infusion treatment. Over the years, the Group has maintained its leading position in the domestic advanced infusion sets market, particularly in those local markets of advanced infusion sets, like Beijing, Heilongjiang, Jiangsu and Hubei. Meanwhile, the Group's cannula business also recorded a fast growth, driven by the expanding medical device market. Up to the date of this report, the Group has obtained four and expects to further apply for three registration certificates of cannula products in the next twelve months. It is expected that the cannula market, in which the Group is conducting R&D activities, will continue to grow and the Group's market share will continue to increase.

Apart from focusing on the organic growth of its principal businesses, the Group also strives to realize the integration of resource advantages through mergers and acquisitions and maximizes synergies in order to establish the Group as a comprehensive platform for high-valued consumables in the medical device industry of China. As at 30 June 2019, the Group has been the single largest shareholder of CBPO and owns approximately 16.52% of its issued share capital. CBPO has a well-established plasma business with a good track record and is a leading producer in the plasma industry in China. The Group believes that CBPO will continue to maintain a leading position in the plasma product industry in China, which would enable the Company to diversify its business and further optimize the Group's business layout to improve its comprehensive competitiveness.

In April 2019, the relocation of the headquarter of the Group and Beijing Fert Technology Co., Ltd. (北京伏爾特技術有限公司), a subsidiary of the Company, to Mafang Industrial Park (馬坊工業園區) was completed. Mafang Industrial Park is located at the southwest of Pinggu District, Beijing, the PRC, a core district of Beijing-Tianjin-Hebei metropolitan area and a central location in Bohai Economic Rim.

Looking forward, as a leading enterprise in the medical device industry of China, the Group will continue to focus on the development of the advanced infusion set and cannula business while continuing to expand its market penetration and distribution network. Meanwhile, the Group will launch brand-new insulin injection needles and insulin injection pens to provide new insulin injection solutions for diabetes patients. Up to the date of this report, the Group has obtained one registration certificate for its insulin injection needle and will further apply for another for its insulin injection pen in the next six months. In addition, up to the date of this report, the Group has obtained one registration certificate for the disposable intestinal feeding device which is made from high-end plastic materials free from DEHP, expanding the Group's product lines to enteral feeding devices. Meanwhile, up to the date of this report, the Group has obtained one registration certificate for the disposable blood transfusion set with two-layer structure of the tube in which the inner layer is medical-grade polyurethane and the outer layer is made of plastic material free from DEHP. This is the first blood transfusion set with two-layer structure of the tube in China, expanding the Group's product lines to blood transfusion devices. The Group will be committed to expanding its business coverage and maximizing its competitive edge.

### Emphasis on Innovation and R&D

As an industry leader in the development of innovative products, the Group has a R&D team consisting of experienced members. The team closely cooperates with medical specialists, hospitals (especially Class III Grade A hospitals), first class university research centers and other research institutions. As of 30 June 2019, the Group owned 68 patents for advanced infusion set products and the Group has applied for 11 new patents. The Group will continue to invest in product innovation and R&D with an aim to maintain its leading position in the industry.

## Expansion of Distribution Network

The Group currently has an experienced 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, and approximately half of our sales and marketing team have medical training backgrounds, which enables us to communicate with doctors and nurses in a professional and effective manner.

## Strategic Acquisitions

Medical device industry develops continuously with the increasing healthcare needs of people and is regarded as a sunrise industry with considerable market potential in the future. According to *Made in China 2025* (《中國製造2025》), the field of new materials, biopharma and advanced medical devices is highlighted as one of the ten priority sectors for development. As stated in the *Blue Book of Medical Device Industry in China (2019 Edition)* (《中國醫療器械藍皮書(2019版)》), in the next three years, the medical device industry would, undoubtedly, witness a period of both risks and opportunities. There will be increasingly tightened industry regulation, expanded pilot program of two-invoice system of consumables, updated centralized purchasing and price reduction policy, normalized medical insurance expense control and intensified industry reform. Meanwhile, however, the demand for medical care is increasing rapidly due to the improving living standards and acceleration of ageing population; a series of policies have been launched by the government to encourage the innovation of domestically-made medical devices and import substitution; and mergers and acquisitions are significantly speeding up in the industry, providing significant opportunities for the development of medical device industry. In order to seize such business opportunities, the Group continues to seek for fast-growing and high-margin opportunities with considerable development potential within and outside its existing business segments, so as to expand its business scope and strengthen its leading position in the industry.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Overview

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| | **RMB'000** | RMB'000 | |
| **Continuing operations** | | | |
| Revenue | **172,309** | 142,993 | 20.5% |
| Gross profit | **106,578** | 87,798 | 21.4% |
| Profit for the period from continuing operations | **59,860** | 38,656 | 54.9% |
| **Discontinued operation** | | | |
| Gain on disposal of subsidiaries, net of tax | **—** | 1,549,486 | NA |

### Revenue from Continuing Operations

The revenue of the Group from continuing operations increased by 20.5% from approximately RMB143.0 million for the six months ended 30 June 2018 to approximately RMB172.3 million for the Relevant Period, as a result of the increase in sales of the Infusion Set Business in the continuing operations. Such increase was mainly due to: (i) an increase in sales volume of infusion sets; and (ii) an increase in sales of disposable intravenous cannula, which amounted to RMB8.5 million.

### Gross Profit from Continuing Operations

The Group's gross profit from continuing operations increased by 21.4% from approximately RMB87.8 million for the six months ended 30 June 2018 to approximately RMB106.6 million for the Relevant Period. The gross profit margin of continuing operations slightly increased from 61.4% for the six months ended 30 June 2018 to 61.9% for the Relevant Period.

### Selling and Marketing Expenses of Continuing Operations

Selling and marketing expenses of continuing operations increased by 59.0% from approximately RMB31.6 million for the six months ended 30 June 2018 to approximately RMB50.2 million for the Relevant Period. This increase was mainly attributable to the Group's continued efforts in expansion of distribution networks and production promotion.

### General and Administrative Expenses of Continuing Operations

General and administrative expenses of continuing operations increased by 199.2% from approximately RMB11.9 million for the six months ended 30 June 2018 to approximately RMB35.6 million for the Relevant Period. The increase was mainly because: (i) the Group accrued impairment allowance for trade receivables amounted to RMB4.8 million for the Relevant Period, while for the six months ended 30 June 2018, the Group reversed impairment allowance for trade receivables of RMB12.8 million, which caused a net increase of RMB17.6 million to general and administrative expenses; and (ii) the construction of properties located at the Mafang Industrial Park was completed and transferred from construction in progress to buildings in December 2018, which caused additional property tax expense of RMB2.6 million and increase in depreciation expenses for the Relevant Period.

## R&D Expenses of Continuing Operations

R&D expenses of continuing operations decreased by 19.7% from approximately RMB12.2 million for the six months ended 30 June 2018 to approximately RMB9.8 million for the Relevant Period, which was mainly because certain R&D activities previously scheduled to occur during the Relevant Period actually occurred either earlier or later than expected.

## Other Losses — Net, of Continuing Operations

Other losses — net, of continuing operations decreased by RMB25.6 million from approximately RMB27.0 million for the six months ended 30 June 2018 to approximately RMB1.4 million for the Relevant Period, which was mainly the net result of: (i) the loss the Group accrued on financial guarantee for the Relevant Period and for the six months ended 30 June 2018 was RMB1.2 million and RMB23.2 million respectively, which caused a decrease of RMB22.0 million; and (ii) a rental income of RMB5.7 million earned by the Group from its investment properties (for the six months ended 30 June 2018: nil).

## Finance Cost/Income — Net, of Continuing Operations

The Group had a net finance cost of continuing operations of RMB14.7 million for the Relevant Period, which decreased by approximately RMB15.9 million from a net finance income of RMB1.2 million for the six months ended 30 June 2018. The decrease was mainly due to the interest expenses on bank borrowings amounted to RMB15.2 million for the Relevant Period (for the six months ended 30 June 2018: nil).

## 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 RMB67.4 million (for the six months ended 30 June 2018: RMB39.7 million), after deducting amortization of intangible assets arising from the acquisition of RMB20.8 million for the Relevant Period (for the six months ended 30 June 2018: RMB21.3 million).

## Income Tax Expenses of Continuing Operations

Income tax expenses of continuing operations decreased by RMB4.8 million from approximately RMB7.2 million for the six months ended 30 June 2018 to RMB2.4 million for the Relevant Period, which was mainly due to the decrease of taxable profit.

## Gain on Disposal of Subsidiaries, Net of Tax

On 12 October 2017, the Company and CBPO entered into a share exchange agreement, pursuant to which the Company agreed to subscribe for a total of 5,521,000 new shares of CBPO in consideration of disposal of the entire issued share capital of Health Forward Holdings Limited, which in turn owns 80% equity interest in Tianxinfu (Beijing) Medical Appliance Co., Ltd. (天新福(北京)醫療器材股份有限公司). Upon the closing of such transaction on 1 January 2018, the Company became the single largest shareholder of CBPO. The gain arising from the disposal amounted to approximately RMB1,549.5 million for the six months ended 30 June 2018.

## Net Profit from Continuing Operations

For the foregoing reasons, the profit from continuing operations of the Group increased from approximately RMB38.7 million for the six months ended 30 June 2018 to RMB59.9 million for the Relevant Period.

The consolidated net profit of the Group decreased by RMB1,528.2 million from approximately RMB1,588.1 million for the six months ended 30 June 2018 to RMB59.9 million for the Relevant Period after taking into account the one-off effect of the gain on disposal of subsidiaries, net of tax in 2018.

## Trade and Other Receivables

The Group's trade receivables primarily comprised the outstanding payment from credit sales. As of 30 June 2019, the trade receivables of the Group was approximately RMB196.0 million, representing a decrease of approximately RMB7.8 million as compared to approximately RMB203.8 million as of 31 December 2018, which was mainly due to the collection of trade receivables and the increase of impairment allowance of trade receivables by RMB4.8 million.

## Inventories

Inventories remained stable at approximately RMB40.9 million as of 30 June 2019 compared to approximately RMB40.4 million as of 31 December 2018.

## Property, Plant and Equipment

Property, plant and equipment mainly include buildings and facilities, machinery and equipment and construction in progress. As of 30 June 2019, the property, plant and equipment of the Group amounted to approximately RMB723.6 million, representing an increase of approximately RMB14.3 million as compared to approximately RMB709.3 million as of 31 December 2018. The increase was mainly due to: (i) the construction of facilities to expand production capacities of continuing operations amounted to approximately RMB31.6 million; (ii) the disposal of property amounted to RMB5.5 million; and (iii) the depreciation for the Relevant Period amounted to RMB11.8 million.

## 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 30 June 2019, the net value of the Group's intangible assets was approximately RMB182.7 million, representing a decrease of approximately RMB1.7 million as compared to RMB184.4 million as of 31 December 2018. The decrease was primarily due to the amortisation charged during the Relevant Period.

## Financial Resources and Liquidity

As of 30 June 2019, the Group's cash and bank balances amounted to approximately RMB88.1 million (31 December 2018: RMB99.0 million) and the Group had no term deposits (31 December 2018: nil). As at 30 June 2019, the Group's bank borrowings balances were RMB577.6 million as disclosed in Note 20 to the condensed consolidated interim financial statements for the Relevant Period (31 December 2018: RMB567.7 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 RMB21.6 million, representing a decrease by RMB14.6 million as compared to RMB36.2 million for the six months ended 30 June 2018.

## 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 30 June 2019, the Group had a total capital commitment of approximately RMB9.5 million (31 December 2018: RMB8.1 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 RMB31.6 million (for the six months ended 30 June 2018: RMB66.3 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 30 June 2019 RMB'000** | As at 31 December 2018 RMB'000 |
|---|---|---|
| Total borrowing | **577,606** | 567,724 |
| Total equity | **4,560,507** | 4,494,137 |
| Total capital | **5,138,113** | 5,061,861 |
| Gearing ratio | **11.24%** | 11.22% |

## 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 30 June 2019, it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the Relevant Period by approximately RMB482,300 (for the six months ended 30 June 2018: 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 stated-owned enterprises or major customers with good repayment history. There was no material default of the balances in the past.

# SUPPLEMENTARY INFORMATION

## HUMAN RESOURCES

As at 30 June 2019, the Group had a total of 1,065 employees (31 December 2018: 1,079 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 receive 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 (six months ended 30 June 2018: 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 Shareholders as a whole. The Company has adopted the code provisions as set out in the CG Code 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 CEO. 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.

# SUPPLEMENTARY INFORMATION

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding dealings in the securities of the Company by 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.

## DISCLOSURE REQUIRED UNDER RULE 13.18 OF THE LISTING RULES

As at 30 June 2019, other than the loan agreement as disclosed in the announcement of the Company dated 20 September 2018 as required under Rule 13.18 of the Listing Rules, there were no other matters that gave rise to a disclosure required under Rule 13.18 of the Listing Rules. Details of the aforesaid loan agreement are set out in Note 20 to the condensed consolidated interim financial statements.

## REVIEW OF FINANCIAL INFORMATION

### Audit Committee

Audit Committee (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 statements 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 statements 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 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

## UPDATE ON DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Changes in information of the Directors since the date of the Annual Report 2018 of the Company which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Mr. JIANG Liwei resigned as the CEO and was re-designated from an executive Director to a non-executive Director with effect from 31 March 2019. Ms. Yue'e ZHANG was appointed in replacement of Mr. JIANG Liwei to act as (i) the CEO; (ii) agent for the service of process and notices on behalf of the Company in Hong Kong as required under Rule 19.05(2) of the Listing Rules; and (iii) authorized representative as required under Rule 3.05 of the Listing Rules, with effect from 31 March 2019.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 30 June 2019, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

### (A) Long position in ordinary Shares

| Name of Director | Capacity | Number of ordinary Shares interested | Approximate percentage+ of the Company's issued share capital |
|---|---|---|---|
| Ms. Yue'e ZHANG | Beneficial owner | 50,000 | 0.003% |
| Mr. JIANG Liwei | Beneficial owner | 2,638,714 | 0.17% |
| Mr. LIN Junshan | Beneficial owner | 1,673,427 | 0.11% |
| Mr. CHEN Geng | Beneficial owner | 636,943 | 0.04% |

### (B) Long position in underlying Shares — physically settled unlisted equity derivatives

| Name of Director | Capacity | Number of underlying Shares in respect of the share options granted | Approximate percentage+ of underlying Shares over the Company's issued share capital |
|---|---|---|---|
| Mr. WANG Xiaogang | Beneficial owner | 118,471 | 0.008% |

Note: Details of the above share options granted by the Company as required to be disclosed pursuant to the Listing Rules are set out in the section headed "Pre-IPO Share Option Scheme" below.

+ The percentage represents the number of ordinary Shares/underlying Shares interested divided by the number of the Company's issued Shares as at 30 June 2019.

Save as disclosed above and in the section headed "Pre-IPO Share Option Scheme and Share Option Scheme" and to the best knowledge of the Directors, as at 30 June 2019, none of the Directors or the chief executive of the Company had any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2019, the following corporations/persons had interests of 5% or more in the issued Shares according to the register of interests required to be kept by the Company under section 336 of the SFO:

### Long position in ordinary Shares

| Name | Note | Capacity | Number of ordinary Shares interested | Approximate percentage+ of the Company's issued share capital |
|---|---|---|---|---|
| Cross Mark Limited | | Beneficial owner | 575,061,863 | 36.65% |
| Ms. Yufeng LIU | 1 | Interest of a controlled corporation | 575,061,863 | 36.65% |
| Mr. ZHANG Zaixian | 2 | Interest of spouse | 575,061,863 | 36.65% |
| Right Faith Holdings Limited | | Beneficial owner | 393,385,962 | 25.07% |
| Mr. Marc CHAN | 3 | Interest of controlled corporations | 408,385,962 | 26.02% |

Notes:

(1) The entire issued share capital of Cross Mark Limited is legally and beneficially owned by Ms. Yufeng LIU. Under the SFO, Ms. Yufeng LIU is deemed to be interested in the same number of Shares in which Cross Mark Limited is interested.

(2) Mr. ZHANG Zaixian is the spouse of Ms. Yufeng LIU. Under the SFO, Mr. ZHANG Zaixian is deemed to be interested in the same number of Shares in which Ms. Yufeng LIU is interested.

(3) The entire issued share capital of Right Faith Holdings Limited is legally and beneficially owned by Mr. Marc CHAN. In addition, Amplewood Resources Limited, a company wholly owned by Mr. Marc CHAN, held 15,000,000 Shares. Under the SFO, Mr. Marc CHAN is deemed to be interested in the same number of Shares in which Right Faith Holdings Limited and Amplewood Resources Limited are interested.

+ The percentage represents the number of ordinary Shares interested divided by the number of the issued Shares as at 30 June 2019.

Save as disclosed above and to the best knowledge of the Directors, as at 30 June 2019, no person had registered an interest or a short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

## PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

### Pre-IPO Share Option Scheme

The Company conditionally approved and adopted the Pre-IPO Share Option Scheme pursuant to the resolutions of the Shareholders passed on 3 July 2013 and has amended the same pursuant to the resolutions of the Shareholders passed on 14 October 2013.

The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate employees and Directors, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of the Group, and to allow such employees and Directors to participate in the growth and profitability of the Group.

On 6 July 2013, options (exercisable for 10 years subject to vesting schedule as set out in the grant letter) to subscribe for an aggregate of 70,891,722 Shares were conditionally granted by the Company under the Pre-IPO Share Option Scheme to a total of 31 grantees, including one executive Director, two non-executive Directors, two independent non-executive Directors, five members of the senior management (excluding Directors) of the Group, one director of a subsidiary of the Company and 20 other employees of the Group. Such options were granted based on the performance of the grantees that have made important contributions or are important to the long term growth and profitability of the Group. Apart from the above share options, no options were granted under the Pre-IPO Share Option Scheme. In addition, no further options can be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. The total number of Shares currently available for issue under the Pre-IPO Share Option Scheme is 118,471 Shares, representing approximately 0.008% of the issued share capital of the Company as at the date of this interim report.

Details of the options granted under the Pre-IPO Share Option Scheme for the Relevant Period are as follows:

| | Number of options | | | | | |
|---|---|---|---|---|---|---|
| Name of option holder | Outstanding as at 1 January 2019 | Granted during the Relevant Period | Exercised during the Relevant Period (Note) | Cancelled during the Relevant Period | Lapsed during the Relevant Period | Outstanding as at 30 June 2019 |
| **Director** | | | | | | |
| Mr. WANG Xiaogang | 118,471 | — | — | — | — | 118,471 |
| Total | 118,471 | — | — | — | — | 118,471 |

Note: The exercise price per Share of the above options granted is RMB0.626.

The Directors and the director of the Company's subsidiary who have been granted options under the Pre-IPO Share Option Scheme, have undertaken to the Company that they will not exercise the options granted to them under the Pre-IPO Share Option Scheme if as a result of which the Company would not be able to comply with the public float requirements of the Listing Rules.

A detailed summary of the terms (including the terms of the Pre-IPO Share Option Scheme, the calculation method of the exercise price, exercise periods, and vesting periods and conditions) of the Pre-IPO Share Option Scheme has been set out in the section headed "D. Pre-IPO Share Option Scheme" in Appendix IV of the Prospectus.

The Pre-IPO Share Option Scheme does not fall within the ambit of, and is not subject to, the regulations under Chapter 17 of the Listing Rules.

## SHARE OPTION SCHEME

On 14 October 2013, the Company adopted the Share Option Scheme, which falls within the ambit of, and is subject to, the regulations under Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of the Group, and to allow such employees, Directors and other persons to participate in the growth and profitability of the Group.

Qualified participants of the Share Option Scheme include the Directors (including executive, non-executive and independent non-executive Directors) and employees (whether full-time or part-time) of the Company or any of its subsidiaries or any other person who in the absolute discretion of the Board has contributed or will contribute to the Group.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 160,000,000 Shares, representing 10% of the total number of issued Shares on the Listing Date, and approximately 10.20% of the total number of issued Shares as at the date of this interim report.

The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible person under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

The offer of a grant of share options under the Share Option Scheme may be accepted within 14 days from the date of offer upon payment of a consideration of HK$1 by the grantee.

The Share Option Scheme will remain in force for a period of 10 years from 14 October 2013 and the options granted have a 10-year exercise period. Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules.

The exercise price of share options under the Share Option Scheme is determined by the Board, but shall not be less than the higher of (i) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

No share option has been granted under the Share Option Scheme since its adoption and up to the date of this interim report.

A summary of the terms of the Share Option Scheme has been set out in the section headed "E. Share Option Scheme" in Appendix IV of the Prospectus.

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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**TO THE BOARD OF DIRECTORS OF PW MEDTECH GROUP LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of PW Medtech Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 21 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements is not prepared, in all material respects, in accordance with HKAS 34.

**BDO Limited**
*Certified Public Accountants*

**Ng Wai Man**
Practising Certificate Number P05309
Hong Kong, 28 August 2019

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

| | Notes | Unaudited<br>Six months ended 30 June<br>**2019**<br>**RMB'000** | <br><br>2018<br>RMB'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 5(b) | **172,309** | 142,993 |
| Cost of sales | | **(65,731)** | (55,195) |
| **Gross profit** | | **106,578** | 87,798 |
| Other losses — net | 6 | **(1,358)** | (27,030) |
| Selling and marketing expenses | | **(50,226)** | (31,586) |
| General and administrative expenses | | **(35,601)** | (11,897) |
| Research and development expenses | | **(9,781)** | (12,229) |
| **Operating profit** | | **9,612** | 5,056 |
| Finance (cost)/income — net | 7 | **(14,666)** | 1,174 |
| Share of result of an associate | | **67,355** | 39,651 |
| **Profit before income tax** | 8 | **62,301** | 45,881 |
| Income tax expenses | 9 | **(2,441)** | (7,225) |
| **Profit for the period from continuing operations** | | **59,860** | 38,656 |
| **Discontinued operation** | | | |
| Gain on disposal of subsidiaries, net of tax | | **—** | 1,549,486 |
| **Profit for the period** | | **59,860** | 1,588,142 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Currency translation differences | | **(1,235)** | (156) |
| Share of exchange differences reserve of an associate | | **7,764** | (10,923) |
| Reclassification from exchange differences reserve to profit or loss on disposal of subsidiaries | | **—** | (8,342) |
| Reclassification from exchange differences reserve to profit or loss on deemed disposal of an associate | | **(19)** | 33 |
| Other comprehensive income/(loss) for the period | | **6,510** | (19,388) |
| **Total comprehensive income for the period** | | **66,370** | 1,568,754 |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

| | Notes | Unaudited Six months ended 30 June 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Profit attributable to:** | | | |
| Owners of the Company | | **59,869** | 1,587,833 |
| Non-controlling interests | | **(9)** | 309 |
| | | **59,860** | 1,588,142 |
| **Profit attributable to owners of the Company arises from:** | | | |
| Continuing operations | | **59,869** | 38,347 |
| Discontinued operation | | **—** | 1,549,486 |
| | | **59,869** | 1,587,833 |
| **Total comprehensive income for the period attributable to:** | | | |
| Owners of the Company | | **66,379** | 1,568,445 |
| Non-controlling interests | | **(9)** | 309 |
| | | **66,370** | 1,568,754 |
| **Total comprehensive income attributable to owners of the Company arises from:** | | | |
| Continuing operations | | **66,379** | 18,959 |
| Discontinued operation | | **—** | 1,549,486 |
| | | **66,379** | 1,568,445 |
| **Earnings per share from continuing and discontinued operations attributable to owners of the Company for the period (expressed in RMB cents per share)** | | | |
| **Basic earnings per share** | | | |
| From continuing operations | 10 | **3.82** | 2.44 |
| From discontinued operation | 10 | **—** | 98.78 |
| | | **3.82** | 101.22 |
| **Diluted earnings per share** | | | |
| From continuing operations | 10 | **3.82** | 2.44 |
| From discontinued operation | 10 | **—** | 98.75 |
| | | **3.82** | 101.19 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

| | Notes | 30 June 2019 RMB'000 (Unaudited) | 31 December 2018 RMB'000 (Audited) |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Land use rights | 12 | — | 33,608 |
| Property, plant and equipment | 13 | 723,644 | 709,348 |
| Right-of-use assets | 14 | 29,603 | — |
| Investment properties | 15 | 278,683 | 278,143 |
| Intangible assets | 16 | 182,744 | 184,437 |
| Interest in an associate | 17 | 3,635,210 | 3,568,906 |
| Deferred income tax assets | | 3,227 | 2,514 |
| Long-term prepayments | | 14,055 | 13,403 |
| | | 4,867,166 | 4,790,359 |
| **Current assets** | | | |
| Inventories | | 40,893 | 40,365 |
| Amount due from an associate | | 27,505 | 27,497 |
| Trade and other receivables | 18 | 234,911 | 235,062 |
| Prepaid income tax | | 1,345 | 2,723 |
| Cash and cash equivalents | | 88,123 | 98,964 |
| | | 392,777 | 404,611 |
| **Total assets** | | 5,259,943 | 5,194,970 |
| **Current liabilities** | | | |
| Amount due to an associate | | 27,952 | 27,952 |
| Trade and other payables | 19 | 83,072 | 94,641 |
| Lease liabilities | | 2,611 | — |
| Bank borrowings | 20 | 577,606 | 567,724 |
| **Total current liabilities** | | 691,241 | 690,317 |
| **Net current liabilities** | | (298,464) | (285,706) |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

| | Notes | **30 June 2019 RMB'000 (Unaudited)** | 31 December 2018 RMB'000 (Audited) |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Lease liabilities | | **31** | — |
| Deferred income tax liabilities | | **7,381** | 9,633 |
| Deferred government grant | | **783** | 883 |
| **Total non-current liabilities** | | **8,195** | 10,516 |
| **NET ASSETS** | | **4,560,507** | 4,494,137 |
| **Equity** | | | |
| Share capital | 21 | **965** | 965 |
| Share premium | | **1,492,937** | 1,492,937 |
| Reserves | | **478,112** | 471,602 |
| Retained earnings | | **2,588,648** | 2,528,779 |
| **Equity attributable to owners of the Company** | | **4,560,662** | 4,494,283 |
| **Non-controlling interests** | | **(155)** | (146) |
| **TOTAL EQUITY** | | **4,560,507** | 4,494,137 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

| | 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 1 January 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 30 June 2019 (unaudited)** | 965 | 1,492,937 | 478,112 | 2,588,648 | 4,560,662 | (155) | 4,560,507 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

| | 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 31 December 2017 as originally presented** | 964 | 1,492,318 | 401,903 | 864,668 | 2,759,853 | 183,661 | 2,943,514 |
| Initial application of HKFRS 9, net of tax | — | — | — | (1,503) | (1,503) | — | (1,503) |
| **Balance at 1 January 2018** | 964 | 1,492,318 | 401,903 | 863,165 | 2,758,350 | 183,661 | 2,942,011 |
| **Comprehensive income** | | | | | | | |
| Profit for the period | — | — | — | 1,587,833 | 1,587,833 | 309 | 1,588,142 |
| Currency translation differences | — | — | (156) | — | (156) | — | (156) |
| Share of exchange differences reserve of an associate | — | — | (10,923) | — | (10,923) | — | (10,923) |
| Reclassification from exchange differences reserve to profit or loss on deemed disposal of an associate | — | — | 33 | — | 33 | — | 33 |
| Reclassification from exchange differences reserve to profit or loss on disposal of subsidiaries | — | — | (8,342) | — | (8,342) | — | (8,342) |
| **Total comprehensive income** | — | — | (19,388) | 1,587,833 | 1,568,445 | 309 | 1,568,754 |
| **Transactions with owners** | | | | | | | |
| Disposal of subsidiaries | — | — | — | — | — | (184,506) | (184,506) |
| **Balance at 30 June 2018 (unaudited)** | 964 | 1,492,318 | 382,515 | 2,450,998 | 4,326,795 | (536) | 4,326,259 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

| | Unaudited Six months ended 30 June 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash generated from operations | **25,661** | 41,081 |
| Income tax paid | **(4,028)** | (4,913) |
| **Net cash generated from operating activities** | **21,633** | 36,168 |
| **Cash flows from investing activities** | | |
| Purchases of property, plant and equipment | **(1,353)** | (2,705) |
| Payments for development costs of construction in progress | **(26,263)** | (63,619) |
| Proceeds from disposal of subsidiaries in orthopedic implant business | **—** | 2,500 |
| Net cash outflow from disposal of subsidiaries in regenerative medical biomaterial business | **—** | (247,501) |
| Proceeds from disposal of property, plant and equipment | **124** | 42 |
| Interest received | **550** | 821 |
| **Net cash used in investing activities** | **(26,942)** | (310,462) |
| **Cash flows from financing activities** | | |
| Proceeds from exercise of share options | **62** | — |
| Repayment of principal portion of lease liabilities | **(101)** | — |
| Increase in bank borrowings | **8,931** | — |
| Interest paid on bank borrowings | **(15,212)** | — |
| **Net cash used in financing activities** | **(6,320)** | — |
| **Net decrease in cash and cash equivalents** | **(11,629)** | (274,294) |
| Cash and cash equivalents at beginning of period | **98,964** | 364,259 |
| Exchange gains | **788** | 160 |
| **Cash and cash equivalents at end of period** | **88,123** | 90,125 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended 30 June 2019

## 1. GENERAL

PW Medtech Group Limited (the "**Company**") was incorporated in the Cayman Islands on 13 May 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 8 November 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**"). In prior years, the Group was also principally engaged in the development, manufacturing and sale of regenerative medical biomaterial products (the "**Regenerative Medical Biomaterial Business**"). On 1 January 2018, the Regenerative Medical Biomaterial Business was disposed of and was presented as a discontinued operation in the condensed consolidated interim financial statements for the six months ended 30 June 2018.

## 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 28 August 2019.

These condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2018 annual financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2019. This is the first set of the Group's financial statements in which HKFRS 16 has been adopted. Details of any changes in accounting policies are set out in Note 3.

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 have been prepared on a going concern basis which notwithstanding that the Group has a net current liabilities of RMB298,464,000 as at 30 June 2019 (31 December 2018: RMB285,706,000). The Directors of the Company have prepared the condensed consolidated interim financial statements based on a going concern, as they expect that the Company is able to extend the existing bank borrowing (Note 20(a)) for one more year, and moreover the Company is also capable of sourcing other new bank facilities, if necessary, after taking all relevant factors into consideration.

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 2018 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 2018 annual consolidated financial statements.

## 2. BASIS OF PREPARATION (Continued)

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. BDO Limited's independent review report to the board of directors is included on page 20.

## 3. 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 31 December 2018, 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.

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKFRS 3, Business Combinations |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKFRS 11, Joint Arrangements |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKAS 12, Income Taxes |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKAS 23, Borrowing Costs |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |

### HKFRS 16 — Leases

HKFRS 16 supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

## 3. ACCOUNTING POLICIES (Continued)

### HKFRS 16 — Leases (Continued)

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.35%.

| | **RMB'000**<br>(unaudited) |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 (audited) | 577 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | 565 |
| Add: payables for purchase of land use right recognised as at 31 December 2018 | 4,277 |
| (Less): short-term leases recognised on a straight-line basis as expense | (270) |
| Lease liabilities recognised as at 1 January 2019 (unaudited) | 4,572 |
| Of which are: | |
| Current lease liabilities (unaudited) | **4,470** |
| Non-current lease liabilities (unaudited) | **102** |
| | **4,572** |

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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

| | **1 January 2019**<br>RMB'000<br>(Unaudited) |
|---|---|
| Leasehold land and land use rights | 33,608 |
| Properties | 295 |
| Total right-of-use assets | 33,903 |

## 3. ACCOUNTING POLICIES (Continued)

### HKFRS 16 — Leases (Continued)

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

| | **1 January 2019**<br>RMB'000<br>(Unaudited) |
|---|---|
| Right-of-use assets — increase by | 33,903 |
| Trade and other payables — decrease by | 4,277 |
| Lease prepayment for land use right, net — decrease by | (33,608) |
| Lease liabilities — increase by | (4,572) |
| | — |

#### Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

— the use of a single discount rate to a portfolio of leases with reasonably similar characteristics

— reliance on previous assessments on whether leases are onerous

— the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

— the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application

— the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease, and

— to measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of transition to HKFRSs.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) 4 Determining whether an Arrangement contains a Lease.

The Group leases various offices. Rental contracts are typically made for fixed periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

## 3. ACCOUNTING POLICIES (Continued)

### HKFRS 16 — Leases (Continued)

#### Practical expedients applied (Continued)

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

— fixed payments (including in-substance fixed payments), less any lease incentives receivable

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

— the amount of the initial measurement of lease liability

— any lease payments made at or before the commencement date less any lease incentives received

— any initial direct costs, and

— restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the condensed consolidated interim financial statements 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 management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's consolidated financial statements for the year ended 31 December 2018, except for new significant judgements and key sources of estimation uncertainty related to the application of HKFRS 16 as described in Note 3.

## 5. SEGMENT REPORTING

### (a) Business segments

The chief operating decision-makers have been identified as the executive director of the Company. The executive director reviews 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 30 June** | |
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| **Customer segments** | | |
| Revenue from hospitals | **33,221** | 21,854 |
| Revenue from medical products distributors | **139,088** | 121,139 |
| | **172,309** | 142,993 |
| **Timing of revenue recognition** | | |
| Recognised at a point of time | **172,309** | 142,993 |

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

## 6. OTHER LOSSES — NET

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Government grants | **2,784** | 3,988 |
| Rental income | **5,745** | — |
| (Loss)/gain on disposal of property, plant and equipment | **(445)** | 36 |
| Loss on financial guarantee (Note) | **(1,190)** | (23,177) |
| Loss on deemed disposal of an associate | **(8,795)** | (7,805) |
| Fair value gain on investment properties | **540** | — |
| Others | **3** | (72) |
| Other net losses | **(1,358)** | (27,030) |

Note: 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**"). In 2016, a PRC intermediate people's court issued a civil judgement ("**First Instance Judgement**"), pursuant to which Xuzhou Yijia shall undertake joint guarantee liability with another independent guarantor (the "**Joint Guarantor**") for a loan granted by a bank (the "**Borrowing Bank**" or the "**Plaintiff**") to the original independent borrower (the "**Borrower**") with principal (RMB10 million) and interest thereon totalling approximately RMB15 million, as the loan has been default in repayment. The Directors of the Company and its appointed attorney agent analysed the case and considered that the Borrower is suspected of loan fraud and the Borrowing Bank may have grave fault in granting the loan to the Borrower. Accordingly, in August 2016, Xuzhou Yijia instituted an appeal to a PRC superior people's court on rejecting the First Instance Judgement.

On 10 July 2017, the litigation of second instance commenced and the Plaintiff submitted new evidence to support its ground to grant loan to the Borrower. On 24 November 2017, the litigation of second instance (the "**Second Instance Judgement**") completed, the Borrower shall undertake the principal and interest of the above loan, and Joint Guarantor shall undertake joint guarantee liability for it. Retrial application was proposed by the Group.

On 11 July 2018, the Group received a judgement from the Supreme People's Court of the PRC which rejected the Group's retrial application and affirmed the Second Instance Judgement. In the view of unfavourable judgement and significant amount of accumulated interest incurred for the above loan (24% of interest rate per annum), after assessing the risk relating to the joint guarantee liability, the Directors of the Company accrued a loss provision which included the principal and accumulated interest of the above loan as of 31 December 2018. At the date of approval of the consolidated financial statements for the year ended 31 December 2018, the Group is considering to make claims against the Joint Guarantor and the former owners of Xuzhou Yijia to claim such loss. The loss recognised during the period ended 30 June 2019 represents the interest for the period in respect of the guarantee liability.

## 7. FINANCE (COST)/INCOME — NET

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| **Finance income** | | |
| Net foreign exchange gain | **—** | 353 |
| Interest income on short-term bank deposits | **550** | 821 |
| | **550** | 1,174 |
| **Finance costs** | | |
| Interest expenses on lease liabilities | **(18)** | — |
| Interest expenses on bank borrowings | **(15,194)** | — |
| Net foreign exchange loss | **(4)** | — |
| | **(15,216)** | — |
| **Finance (cost)/income — net** | **(14,666)** | 1,174 |

## 8. PROFIT BEFORE INCOME TAX

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Provision for/(reversal of) impairment loss on trade receivables | **4,803** | (12,794) |
| Amortisation of land use rights | **—** | 522 |
| Amortisation of intangible assets | **1,693** | 1,681 |
| Depreciation of property, plant and equipment | **11,814** | 9,405 |
| Depreciation of right-of-use assets — properties | **97** | — |
| Depreciation of right-of-use assets — leasehold land and land use right | **367** | — |

## 9. TAXATION

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

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Current income tax | | |
| PRC Income Tax for the period | **5,406** | 5,534 |
| Deferred income tax | **(2,965)** | 1,691 |
| Income tax expense | **2,441** | 7,225 |

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 30 June 2018: 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 30 June 2018: 25%).

Two subsidiaries (six months ended 30 June 2018: 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 30 June 2018: 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 1 January 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 30 June 2019.

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Profit attributable to owners of the Company: | | |
| Continuing operations | **59,869** | 38,347 |
| Discontinued operation | **—** | 1,549,486 |
| | **59,869** | 1,587,833 |
| Weighted average number of ordinary shares in issue (thousands) | **1,569,246** | 1,568,632 |
| Basic earnings per share: | | |
| Continuing operations (RMB cents per share) | **3.82** | 2.44 |
| Discontinued operation (RMB cents per share) | **—** | 98.78 |
| | **3.82** | 101.22 |

### (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).

## 10. EARNINGS PER SHARE (Continued)

### (b) Diluted (Continued)

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Profit attributable to owners of the Company: | | |
| Continuing operations | **59,869** | 38,347 |
| Discontinued operation | **—** | 1,549,486 |
| | **59,869** | 1,587,833 |
| Weighted average number of ordinary shares in issue (thousands) | **1,569,246** | 1,568,632 |
| Adjustments for: | | |
| — Share options (thousands) | **23** | 424 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **1,569,269** | 1,569,056 |
| **Diluted earnings per share:** | | |
| Continuing operations (RMB cents per share) | **3.82** | 2.44 |
| Discontinued operation (RMB cents per share) | **—** | 98.75 |
| | **3.82** | 101.19 |

## 11. DIVIDENDS

The board of directors of the Company does not propose an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

## 12. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

| | **30 June 2019 RMB'000 (Unaudited)** | 31 December 2018 RMB'000 (Audited) |
|---|---|---|
| In the PRC, held on: | | |
| Leases of between 47 to 50 years | **—** | 33,608 |

| | **Unaudited Six months ended 30 June 2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| **At beginning of period** | **33,608** | 47,118 |
| Transfer to right-of-use asset (Note 3) | **(33,608)** | — |
| Amortisation charge | **—** | (522) |
| **At end of period** | **—** | 46,596 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | **Unaudited Six months ended 30 June 2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| **At beginning of period** | **709,348** | 837,820 |
| Additions | **31,617** | 66,324 |
| Disposals | **(5,507)** | (6) |
| Depreciation | **(11,814)** | (9,405) |
| **At end of period** | **723,644** | 894,733 |

## 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 (unaudited) | Properties RMB'000 (unaudited) | Total RMB'000 (unaudited) |
|---|---|---|---|
| **At 31 December 2018** | — | — | — |
| Initial adoption of HKFRS16 at 1 January 2019 | 33,608 | 295 | 33,903 |
| Depreciation for the period | (367) | (97) | (464) |
| Written off | (1,835) | — | (1,835) |
| Disposals | (2,001) | — | (2,001) |
| **At 30 June 2019** | 29,405 | 198 | 29,603 |

## 15. INVESTMENT PROPERTIES

| | RMB'000 |
|---|---|
| **FAIR VALUE** | |
| At 31 December 2018 (audited) | 278,143 |
| Fair value gain | 540 |
| **At 30 June 2019 (unaudited)** | 278,683 |

The above investment properties are located in the PRC. 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 30 June 2019 was approximately RMB278,683,000 (31 December 2018: RMB278,143,000).

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:

| | **2019** | 2018 |
|---|---|---|
| Growth rate of revenue | **4.0%** | 4.0% |
| Discount rate | **7.3%** | 7.3% |

The fair value of the investment property at 30 June 2019 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 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| **At beginning of period** | **184,437** | 187,811 |
| Amortisation charge | **(1,693)** | (1,681) |
| **At end of period** | **182,744** | 186,130 |

## 17. INTEREST IN AN ASSOCIATE

As at 31 December 2018, the Group held 16.06% equity interest in CBPO. CBPO is a Cayman Islands exempted company. 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 condensed consolidated interim financial statements using equity method.

During the period ended 30 June 2019, the equity interest held by the Group in CBPO was diluted from 16.06% to 16.02% 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 RMB8,795,000 is recognised in other losses-net in the condensed consolidated statement of comprehensive income.

Following a share purchase scheme approved by the board of directors of CBPO, the associate repurchased 1,196,228 shares at a total amount of US$111 million. The reduction of share in issue through share repurchase transaction results in an increase in ownership interest in CBPO for the Group. The interest increased from 16.02% to 16.52%, with no change in the carrying amount of interest in an associate.

| | **30 June 2019 RMB'000 (Unaudited)** | 31 December 2018 RMB'000 (Audited) |
|---|---|---|
| Share of net assets | **2,270,079** | 2,256,147 |
| Goodwill | **1,365,131** | 1,312,759 |
| | **3,635,210** | 3,568,906 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended 30 June 2019

## 17. INTEREST IN AN ASSOCIATE (Continued)

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

| Name of company | Form of business structure | Place of incorporation and operations | Percentage of ownership interest/ voting rights/ profit share | Principal activity |
|---|---|---|---|---|
| China Biologic Products Holdings, Inc. | Corporation | PRC | 16.52% (31 December 2018: 16.06%) | Research, development, manufacturing and sales of human plasma-based biopharmaceutical products |

## 18. TRADE AND OTHER RECEIVABLES

| | **30 June 2019 RMB'000 (Unaudited)** | 31 December 2018 RMB'000 (Audited) |
|---|---|---|
| Trade receivables | **210,383** | 213,352 |
| Less: Provision for impairment (i) | **(14,353)** | (9,550) |
| Trade receivables — net (ii) | **196,030** | 203,802 |
| Bills receivable (iii) | **2,019** | 1,650 |
| Prepayments and deposits | **10,148** | 8,679 |
| Receivables from disposal of Orthopaedic Implant Business | **1,966** | 1,966 |
| Value added tax recoverable | **17,033** | 16,750 |
| Other receivables | **7,715** | 2,215 |
| Trade and other receivables | **234,911** | 235,062 |

## 18. TRADE AND OTHER RECEIVABLES (Continued)

(i) Movement in provision for impairment in respect of trade receivables during the period/year is as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Balance at 1 January | 9,550 | 23,629 |
| Provision for/(reversal of) impairment losses during the period/year | 4,803 | (14,079) |
| **Balance at 30 June/31 December** | **14,353** | 9,550 |

(ii) 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:

| | 30 June 2019 RMB'000 (Unaudited) | 31 December 2018 RMB'000 (Audited) |
|---|---|---|
| Up to 3 months | 43,093 | 42,282 |
| 3 months to 6 months | 24,670 | 28,733 |
| 6 months to 12 months | 36,117 | 27,187 |
| 1 year to 2 years | 78,873 | 89,462 |
| 2 years to 3 years | 13,277 | 16,138 |
| | 196,030 | 203,802 |

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.

During the year ended 31 December 2018, the Group has entered into repayment agreements (the "**Agreements**") individually with three major customers (the "**Customers**") who owed total amount of approximately RMB125,865,000 to the Group. Pursuant to the Agreements, approximately RMB55,865,000 (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 RMB2,800,000 for a period within two years commencing from March 2018.

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

## 19. TRADE AND OTHER PAYABLES

| | 30 June 2019 RMB'000 (Unaudited) | 31 December 2018 RMB'000 (Audited) |
|---|---|---|
| Trade payables | 15,032 | 15,475 |
| Salary and staff welfare payables | 18,497 | 21,116 |
| Advances from customers | 8,456 | 11,370 |
| Deposits | 1,440 | 1,515 |
| Payables for purchase of land use rights | — | 4,277 |
| Value added tax and other taxes | 2,981 | 2,903 |
| Professional service fee | 2,403 | 4,036 |
| Liabilities arising from financial guarantee | 20,437 | 26,186 |
| Other payables | 13,826 | 7,763 |
| | 83,072 | 94,641 |

As at 30 June 2019 and 31 December 2018, except for the salary and staff welfare payables, advances from customers and value added tax and other taxes 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:

| | 30 June 2019 RMB'000 (Unaudited) | 31 December 2018 RMB'000 (Audited) |
|---|---|---|
| Up to 6 months | 11,717 | 12,981 |
| 6 months to 12 months | 1,952 | 1,383 |
| 1 year to 2 years | 528 | 442 |
| 2 years to 3 years | 745 | 621 |
| Over 3 years | 90 | 48 |
| | 15,032 | 15,475 |

## 20. BANK BORROWINGS

| | 30 June 2019 RMB'000 (Unaudited) | 31 December 2018 RMB'000 (Audited) |
|---|---|---|
| Current | | |
| Bank loan due for repayment within one year (Note (a)) | 568,675 | 567,724 |
| Trade finance borrowings due to repayment within one year which contained a repayable on demand clause (Note (b)) | 8,931 | — |
| | 577,606 | 567,724 |

Notes:

(a) On 20 September 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 RMB586,675,000) (the "**Loan**") for a term of one year. The Loan is extendable 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. As at the date of this report, Mrs. Liu Yufeng, directly or indirectly, owns approximately 36.65% of the issued share capital of the Company and is the controlling shareholder of the Company.

The loan is repayable on 20 September 2019 and the interest is charged at LIBOR plus 2.685% per annum. The Loan is secured by 3,162,854 shares of CBPO.

(b) The bank borrowings represent trade finance advanced from the Bank of Beijing. As at 30 June 2019, 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, of which RMB8,931,000 has been utilised by the Company as at 30 June 2019.

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 borrowings are secured by corporate guarantee, bears interest at 0.91% plus the prime rate of the Central Bank in the PRC and are stated at amortised cost.

## 21. SHARE CAPITAL

| | Number of ordinary shares | Share capital RMB'000 |
|---|---|---|
| **Issued and fully paid:** | | |
| Balance at 1 January 2018 | 1,568,632,086 | 964 |
| Proceeds from employee share option exercised (Note) | 614,012 | 1 |
| **Balance at 31 December 2018 and 30 June 2019** | 1,569,246,098 | 965 |

Note: Options exercised during the year ended 31 December 2018 resulted in 614,012 shares being issued, total proceeds amounted to HK$438,000 (equivalent to RMB384,000) of which HK$370,000 (equivalent to RMB324,000) were received in 2018 and the remaining were received during the period. The related weighted average price of the Company's share at the time of exercise was HK$1.46 per share. No share option was exercised during the period ended 30 June 2019.

## 22. CAPITAL COMMITMENTS

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

| | **30 June 2019 RMB'000 (Unaudited)** | 31 December 2018 RMB'000 (Audited) |
|---|---|---|
| Commitments for the acquisition of: | | |
| Property, plant and equipment | **9,532** | 8,111 |

## 23. RELATED PARTY DISCLOSURES

### Compensation of key management personnel

During the period ended 30 June 2019, 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 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Salaries and other allowances | **1,477** | 1,375 |

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:

| | **30 June 2019 RMB'000 (Unaudited)** | 31 December 2018 RMB'000 (Audited) |
|---|---|---|
| **Financial assets** | | |
| Financial assets at amortised cost | **340,391** | 352,844 |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost | **661,307** | 654,928 |

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.

## 24. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

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 31 December 2018 and 30 June 2019. 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.