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PW MEDTECH GROUP LIMITED

普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1358)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2019

FINANCIAL HIGHLIGHTS

- Revenue from continuing operations for the six months ended June 30, 2019 amounted to approximately RMB172.3 million, representing an increase of 20.5% from approximately RMB143.0 million for the corresponding period in 2018.
- Gross profit from continuing operations for the six months ended June 30, 2019 amounted to approximately RMB106.6 million, representing an increase of 21.4% from approximately RMB87.8 million for the corresponding period in 2018.
- Profit for the period from continuing operations for the six months ended June 30, 2019 amounted to approximately RMB59.9 million, representing an increase of 54.9% from approximately RMB38.7 million for the corresponding period in 2018.
- Profit attributable to owners of the Company arises from continuing operations for the six months ended June 30, 2019 amounted to approximately RMB59.9 million, representing an increase of 56.4% from approximately RMB38.3 million for the corresponding period in 2018.

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

The board (the “**Board**”) of directors (the “**Directors**”) of PW Medtech Group Limited (the “**Company**” and, together with its subsidiaries, collectively the “**Group**”) is pleased to announce the unaudited condensed consolidated interim financial results of the Group for the six months ended June 30, 2019 (the “**Relevant Period**”), together with the comparative figures for the corresponding period in 2018 or other date/period as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2019

		Unaudited	
		Six months ended June 30,	
		2019	2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Continuing operations			
Revenue	5(b)	172,309	142,993
Cost of sales		<u>(65,731)</u>	<u>(55,195)</u>
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		<u>(9,781)</u>	<u>(12,229)</u>
Operating profit		9,612	5,056
Finance (cost)/income — net	7	(14,666)	1,174
Share of result of an associate		<u>67,355</u>	<u>39,651</u>
Profit before income tax	8	62,301	45,881
Income tax expenses	9	<u>(2,441)</u>	<u>(7,225)</u>
Profit for the period from continuing operations		59,860	38,656
Discontinued operation			
Gain on disposal of subsidiaries, net of tax		<u>—</u>	<u>1,549,486</u>
Profit for the period		<u>59,860</u>	<u>1,588,142</u>

	Unaudited	
	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Currency translation differences	(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
	<u>6,510</u>	<u>(19,388)</u>
Other comprehensive income/(loss) for the period		
	<u>6,510</u>	<u>(19,388)</u>
Total comprehensive income for the period	<u>66,370</u>	<u>1,568,754</u>
Profit attributable to:		
Owners of the Company	59,869	1,587,833
Non-controlling interests	(9)	309
	<u>59,860</u>	<u>1,588,142</u>
Profit attributable to owners of the Company arises from:		
Continuing operations	59,869	38,347
Discontinued operation	—	1,549,486
	<u>59,869</u>	<u>1,587,833</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	66,379	1,568,445
Non-controlling interests	(9)	309
	<u>66,370</u>	<u>1,568,754</u>

Unaudited
Six months ended June 30,
2019 2018
RMB'000 *RMB'000*

Total comprehensive income attributable to owners of the Company arises from:

Continuing operations		66,379	18,959
Discontinued operation		<u>—</u>	<u>1,549,486</u>
		<u>66,379</u>	<u>1,568,445</u>

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	<i>10</i>	3.82	2.44
From discontinued operation	<i>10</i>	<u>—</u>	<u>98.78</u>
		<u>3.82</u>	<u>101.22</u>

Diluted earnings per share

From continuing operations	<i>10</i>	3.82	2.44
From discontinued operation	<i>10</i>	<u>—</u>	<u>98.75</u>
		<u>3.82</u>	<u>101.19</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2019

		June 30, 2019	December 31, 2018
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (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		<u>14,055</u>	<u>13,403</u>
		<u>4,867,166</u>	<u>4,790,359</u>
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		<u>88,123</u>	<u>98,964</u>
		<u>392,777</u>	<u>404,611</u>
Total assets		<u>5,259,943</u>	<u>5,194,970</u>
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	<u>577,606</u>	<u>567,724</u>
Total current liabilities		<u>691,241</u>	<u>690,317</u>
Net current liabilities		<u>(298,464)</u>	<u>(285,706)</u>

		June 30,	December 31,
		2019	2018
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Liabilities			
Non-current liabilities			
Lease liabilities		31	—
Deferred income tax liabilities		7,381	9,633
Deferred government grant		783	883
		<u> </u>	<u> </u>
Total non-current liabilities		8,195	10,516
		<u> </u>	<u> </u>
NET ASSETS		4,560,507	4,494,137
		<u> </u>	<u> </u>
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
		<u> </u>	<u> </u>
Equity attributable to owners of the Company		4,560,662	4,494,283
		<u> </u>	<u> </u>
Non-controlling interests		(155)	(146)
		<u> </u>	<u> </u>
TOTAL EQUITY		4,560,507	4,494,137
		<u> </u>	<u> </u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2019

	Attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2019	<u>965</u>	<u>1,492,937</u>	<u>471,602</u>	<u>2,528,779</u>	<u>4,494,283</u>	<u>(146)</u>	<u>4,494,137</u>
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	<u>—</u>	<u>—</u>	<u>6,510</u>	<u>59,869</u>	<u>66,379</u>	<u>(9)</u>	<u>66,370</u>
Balance at June 30, 2019 (unaudited)	<u><u>965</u></u>	<u><u>1,492,937</u></u>	<u><u>478,112</u></u>	<u><u>2,588,648</u></u>	<u><u>4,560,662</u></u>	<u><u>(155)</u></u>	<u><u>4,560,507</u></u>

Attributable to owners of the Company

	Share capital <i>RMB'000</i> <i>(Note 21)</i>	Share premium <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
Balance at December 31, 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 January 1, 2018	<u>964</u>	<u>1,492,318</u>	<u>401,903</u>	<u>863,165</u>	<u>2,758,350</u>	<u>183,661</u>	<u>2,942,011</u>
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	<u>—</u>	<u>—</u>	<u>(19,388)</u>	<u>1,587,833</u>	<u>1,568,445</u>	<u>309</u>	<u>1,568,754</u>
Transactions with owners							
Disposal of subsidiaries	—	—	—	—	—	(184,506)	(184,506)
Balance at June 30, 2018 (unaudited)	<u><u>964</u></u>	<u><u>1,492,318</u></u>	<u><u>382,515</u></u>	<u><u>2,450,998</u></u>	<u><u>4,326,795</u></u>	<u><u>(536)</u></u>	<u><u>4,326,259</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2019

	Unaudited	
	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	25,661	41,081
Income tax paid	<u>(4,028)</u>	<u>(4,913)</u>
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	<u>550</u>	<u>821</u>
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	<u>(15,212)</u>	<u>—</u>
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	<u>788</u>	<u>160</u>
Cash and cash equivalents at end of period	<u>88,123</u>	<u>90,125</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2019

1. GENERAL

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

The Company is an investment holding company. The Company and its subsidiaries (together referred to as the “**Group**”) are principally engaged in the development, manufacturing and sale of advanced infusion set products (the “**Infusion Set Business**”) in the People’s Republic of China (the “**PRC**”). 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 January 1, 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 June 30, 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 August 28, 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 January 1, 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 June 30, 2019 (December 31, 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.

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 December 31, 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
HKFRIC-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 supersedes 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 January 1, 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 January 1, 2019.

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 January 1, 2019. The lessee’s incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.35%.

	RMB’000 (unaudited)
Operating lease commitments disclosed as at December 31, 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 December 31, 2018	4,277
(Less): short-term leases recognised on a straight-line basis as expense	<u>(270)</u>
Lease liabilities recognised as at January 1, 2019 (unaudited)	<u><u>4,572</u></u>
Of which are:	
Current lease liabilities (unaudited)	4,470
Non-current lease liabilities (unaudited)	<u>102</u>
	<u><u>4,572</u></u>

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 January 1, 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:

	January 1, 2019 <i>RMB’000</i> (Unaudited)
Leasehold land and land use rights	33,608
Properties	<u>295</u>
Total right-of-use assets	<u><u>33,903</u></u>

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

	January 1, 2019
	<i>RMB'000</i>
	(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	<u>(4,572)</u>
	<u>—</u>

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 January 1, 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.

From January 1, 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 December 31, 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 June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Customer segments		
Revenue from hospitals	33,221	21,854
Revenue from medical products distributors	<u>139,088</u>	<u>121,139</u>
	<u>172,309</u>	<u>142,993</u>
Timing of revenue recognition		
Recognised at a point of time	<u>172,309</u>	<u>142,993</u>

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 June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
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 (<i>Note</i>)	(1,190)	(23,177)
Loss on deemed disposal of an associate	(8,795)	(7,805)
Fair value gain on investment properties	540	—
Others	<u>3</u>	<u>(72)</u>
Other net losses	<u>(1,358)</u>	<u>(27,030)</u>

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 July 10, 2017, the litigation of second instance commenced and the Plaintiff submitted new evidence to support its ground to grant loan to the Borrower. On November 24, 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 July 11, 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 December 31, 2018. At the date of approval of the consolidated financial statements for the year ended December 31, 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 June 30, 2019 represents the interest for the period in respect of the guarantee liability.

7. FINANCE (COST)/INCOME — NET

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

8. PROFIT BEFORE INCOME TAX

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

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

(a) Cayman Islands profits tax

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

(b) Hong Kong profits tax

Companies incorporated in Hong Kong are subject to the Hong Kong profits tax at a rate of 16.5% (six months ended June 30, 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 June 30, 2018: 25%).

Two subsidiaries (six months ended June 30, 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 June 30, 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 January 1, 2008 are generally subject to WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant WHT rate will be reduced from 10% to 5%.

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

10. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period ended June 30, 2019.

	Unaudited	
	Six months ended June 30,	
	2019	2018
	RMB’000	RMB’000
Profit attributable to owners of the Company:		
Continuing operations	59,869	38,347
Discontinued operation	<u>—</u>	<u>1,549,486</u>
	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)	<u>—</u>	<u>98.78</u>
	<u>3.82</u>	<u>101.22</u>

(b) Diluted

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

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

	Unaudited	
	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
Profit attributable to owners of the Company:		
Continuing operations	59,869	38,347
Discontinued operation	<u>—</u>	<u>1,549,486</u>
	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)	<u>23</u>	<u>424</u>
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)	<u>—</u>	<u>98.75</u>
	<u>3.82</u>	<u>101.19</u>

11. DIVIDENDS

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

	June 30, 2019	December 31, 2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
In the PRC, held on:		
Leases of between 47 to 50 years	<u>—</u>	<u>33,608</u>
	Unaudited	
	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of period	33,608	47,118
Transfer to right-of-use asset (<i>Note 3</i>)	(33,608)	—
Amortisation charge	<u>—</u>	<u>(522)</u>
At end of period	<u>—</u>	<u>46,596</u>

13. PROPERTY, PLANT AND EQUIPMENT

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

14. RIGHT-OF-USE ASSETS

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

	Leasehold land and land use rights	Properties	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)
At 31 December 2018	—	—	—
Initial adoption of HKFRS16 at January 1, 2019	33,608	295	33,903
Depreciation for the period	(367)	(97)	(464)
Written off	(1,835)	—	(1,835)
Disposals	(2,001)	—	(2,001)
	<u>29,405</u>	<u>198</u>	<u>29,603</u>
At 30 June 2019	<u>29,405</u>	<u>198</u>	<u>29,603</u>

15. INVESTMENT PROPERTIES

RMB'000

FAIR VALUE

At December 31, 2018 (audited)	278,143
Fair value gain	<u>540</u>
At June 30, 2019 (unaudited)	<u><u>278,683</u></u>

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 June 30, 2019 was approximately RMB278,683,000 (December 31, 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	<u><u>7.3%</u></u>	<u><u>7.3%</u></u>

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

17. INTEREST IN AN ASSOCIATE

As at December 31, 2018, the Group held 16.06% equity interest in China Biologic Products Holdings, Inc. (“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 June 30, 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.

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

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% (December 31, 2018: 16.06%)	Research, development, manufacturing and sales of human plasma-based biopharmaceutical products

18. TRADE AND OTHER RECEIVABLES

	June 30, 2019 <i>RMB'000</i> (Unaudited)	December 31, 2018 <i>RMB'000</i> (Audited)
Trade receivables	210,383	213,352
Less: Provision for impairment (i)	<u>(14,353)</u>	<u>(9,550)</u>
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	<u>7,715</u>	<u>2,215</u>
Trade and other receivables	<u><u>234,911</u></u>	<u><u>235,062</u></u>

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

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

- (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:

	June 30, 2019	December 31, 2018
	RMB'000	RMB'000
	(Unaudited)	(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 December 31, 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

	June 30, 2019	December 31, 2018
	RMB'000	RMB'000
	(Unaudited)	(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 June 30, 2019 and December 31, 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:

	June 30, 2019	December 31, 2018
	RMB'000	RMB'000
	(Unaudited)	(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
	<u>15,032</u>	<u>15,475</u>

20. BANK BORROWINGS

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

Notes:

- (a) On September 20, 2018, the Company, as borrower, entered into a loan agreement with Morgan Stanley Bank, N.A. (the “**Lender**”) (the “**Loan Agreement**”), pursuant to which the Lender agreed to make a loan to the Company in an amount of up to US\$82,720,000 (equivalent to 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 announcement, 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 September 20, 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 June 30, 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 June 30, 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 <i>RMB'000</i>
Issued and fully paid:		
Balance at January 1, 2018	1,568,632,086	964
Proceeds from employee share option exercised (<i>Note</i>)	<u>614,012</u>	<u>1</u>
Balance at December 31, 2018 and June 30, 2019	<u><u>1,569,246,098</u></u>	<u><u>965</u></u>

Note: Options exercised during the year ended December 31, 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 June 30, 2019.

22. CAPITAL COMMITMENTS

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

	June 30, 2019 <i>RMB'000</i> (Unaudited)	December 31, 2018 <i>RMB'000</i> (Audited)
Commitments for the acquisition of:		
Property, plant and equipment	<u><u>9,532</u></u>	<u><u>8,111</u></u>

23. RELATED PARTY DISCLOSURES

Compensation of key management personnel

During the period ended June 30, 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 June 30,	
	2019	2018
	RMB'000	RMB'000
Salaries and other allowances	<u>1,477</u>	<u>1,375</u>

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

24. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

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

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

- the fair value of investments held for trading with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market price; and
- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

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

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

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

All of the Group and the Company's financial assets and financial liabilities are measured at amortised cost as at December 31, 2018 and June 30, 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.

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 the People's Republic of China (the “**PRC**” or “**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 research and development (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.

Business Strategies and Future Outlook

With regard to the R&D, manufacturing and sale of advanced infusion set products (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 announcement, 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 June 30, 2019, the Group has been the single largest shareholder of China Biologic Products Holdings, Inc. (“**CBPO**”) (NASDAQ stock code: 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 announcement, 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 announcement, the Group has obtained one registration certificate for the disposable intestinal feeding device which is made from high-end plastic materials free from Di-2-ethylhexyl Phthalate (“**DEHP**”), expanding the Group’s product lines to enteral feeding devices. Meanwhile, up to the date of this announcement, 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 June 30, 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.

Financial Review

Overview

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

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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 2018. The decrease was mainly due to the interest expenses on banking borrowings amounted to RMB15.2 million for the Relevant Period (for the six months ended June 30, 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 June 30, 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 June 30, 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 June 30, 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 October 12, 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 January 1, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 December 31, 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 June 30, 2019 compared to approximately RMB40.4 million as of December 31, 2018.

Property, Plant and Equipment

Property, plant and equipment mainly include buildings and facilities, machinery and equipment and construction in progress. As of June 30, 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 December 31, 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 June 30, 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 December 31, 2018. The decrease was primarily due to the amortisation charged during the Relevant Period.

Financial Resources and Liquidity

As of June 30, 2019, the Group's cash and bank balances amounted to approximately RMB88.1 million (December 31, 2018: RMB99.0 million) and the Group had no term deposits (December 31, 2018: nil). As at June 30, 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 (December 31, 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 June 30, 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 June 30, 2019, the Group had a total capital commitment of approximately RMB9.5 million (December 31, 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 June 30, 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 June 30, 2019 RMB'000	As at December 31, 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 June 30, 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 June 30, 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 state-owned enterprises or major customers with good repayment history. There was no material default of the balances in the past.

HUMAN RESOURCES

As at June 30, 2019, the Group had a total of 1,065 employees (December 31, 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 June 30, 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 the shareholders of the Company (“**Shareholders**”) as a whole. The Company has adopted the code provisions as set out in the “Corporate Governance Code” (the “**CG Code**”) as contained in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) as its own code to govern its corporate governance practices.

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

REVIEW OF FINANCIAL INFORMATION

Audit Committee

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

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

APPRECIATION

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

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

Hong Kong, August 28, 2019

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