PW MEDTECH GROUP LIMITED
普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1358)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2019

KEY FINANCIALS

- Revenue for the year ended December 31, 2019 amounted to approximately RMB362.2 million, representing an increase of 16.5% from approximately RMB310.8 million recorded in 2018.
- Gross profit for the year ended December 31, 2019 amounted to approximately RMB222.1 million, representing an increase of 13.8% from approximately RMB195.2 million recorded in 2018.
- Profit attributable to owners of the Company arises from continuing operations for the year ended December 31, 2019 amounted to approximately RMB82.0 million, representing a decrease of 28.6% from approximately RMB114.8 million recorded in 2018.

MARKET AND BUSINESS REVIEW

In 2019, the global economy continued its hard time. With the escalated trade tensions and sluggish manufacturing activities at play, global economy saw a slowdown in growth. However, the medical device industry in the People's Republic of China (the "**PRC**" or "**China**") has maintained a generally positive development trend. Along with the continuous improvement of economy and living standard, the increasing concern over medical healthcare and the gradual rise of aging population in China, the market demand for medical device products continued to rise. Benefitted from the national policy support and the encouraging market demand, the medical device industry will sustain its development to fill the prominent gap in market demand for medical products. According to the *Analysis Report on the Consumption Survey and Investment Opportunity of China's Medical Device Industry (2020–2026)* (《2020–2026年中國醫療器械行業市場消費調查及投資機會分析報告》), the market size of the medical device industry in the PRC is expected to reach RMB628.5 billion in 2019, and may even exceed RMB900.0 billion in 2022, indicating that the whole domestic medical device industry has stepped into a fast-growing stage.

Despite the expansion of market capacity of the medical device industry, mid to low-end products still dominate the medical device industry in the PRC at the current stage due to obsolete basic technologies and manufacturing processes. Currently, high-end products account for approximately 25%, and mid to low-end products account for approximately 75% of the market share in the medical device industry in the PRC, respectively, while foreign brands occupy 70% of the market share of high-end products. In light of the above, the government has rolled out a series of innovation policies in relation to medical devices, such as the *Opinions on Deepening Reform of the Assessment and Approval System to Encourage Innovation of Drugs and Medical Devices* (《關於深化審評審批制度改革鼓勵藥品醫療器械創新的意見》) and the *Three-year Action Plan for Enhancing the Core Competitiveness of Manufacturing Industry (2018–2020)* (《增強製造業核心競爭力三年行動計劃(2018–2020年)》), with a view to focusing on expediting the approval of innovative medical devices and the development of high-end medical device industry. In recent years, the government has not only been continuously scaling up its investment in the industry, but also devoting greater efforts to prioritizing approval of advanced innovative medical devices. Furthermore, prioritized approval for advanced medical devices is expected to gradually become a common practice, which will fuel the rapid growth of the advanced medical devices sector.

PW Medtech Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") is a leading medical device company focusing on the fast-growing and high margin segments of medical device industry of the PRC. Currently, it is principally engaged in the research and development ("**R&D**"), manufacturing and sales of advanced infusion set and intravenous cannula products. Benefitted from the favorable national policy support, the Group will seize the opportunities arising from the burgeoning growth of the medical device industry and actively contribute to realizing the vision of achieving domestic production of high-end products with brand building and going global for the medical device industry of the PRC as a significant step toward tapping into the segment of those medical devices with higher technological barrier. The Group also endeavors to expand its product portfolio, enhance its product innovation and R&D capability, while expanding the distribution network in a proactive manner.

Besides, at the beginning of 2020, the COVID-19 epidemic in the PRC has taken a certain toll on the domestic economy in the short run. In light of the epidemic outbreak, we anticipate that the hospitals' demand for medical devices and supplies throughout China will see a further increase. To join force with all the Chinese people in fighting the epidemic and secure the supply of resources, Beijing Fert Technology Co., Ltd. ("**Fert Technology**"), a subsidiary of the Group, has resumed production early after the Chinese New Year holidays, and hence provided sufficient medical supplies to the frontline of this epidemic fight. To tackle the epidemic, the Group has capitalized on its competitive edges to actively make due contributions to the COVID-19 epidemic prevention and control.

For the year ended December 31, 2019, the Group's revenue was RMB362.2 million, representing an increase of 16.5% over 2018. The Group recorded a gross profit of RMB222.1 million for the year ended December 31, 2019, representing an increase of 13.8% over last year. As of December 31, 2019, the overall gross profit margin of the Group was 61.3%.

BUSINESS STRATEGIES AND FUTURE OUTLOOK

With regards to the advanced infusion set business segment, the Group has continuously made further R&D and focused on providing safer and more effective solutions for infusion therapy over the years. Subsidiaries of the Group under the brand name of "Fert" are domestic enterprises pioneering in R&D and production of precision filter infusion sets, and have participated in the formulation of national standards for these products. At the same time, the Group, as a leading enterprise in the field of infusion therapy, has marked a new milestone for the development of safe infusion in the PRC. Over the years, the Group has maintained its leading position in China's advanced infusion sets market in terms of market share, particularly in those local markets of advanced infusion sets, such as Beijing, Heilongjiang, Jiangsu and Hubei. In addition, the Group also focused on the R&D and sales of cannula products. Apart from the registration certificates obtained for the five existing cannula products, which commenced production in 2019, the Group will apply for seven registration certificates of cannula products in the coming year. It is expected that the cannula market, in which the Group participates with its R&D efforts, will continue to expand and the Group's market share will continue to increase.

In 2019, Fert Technology further expanded the Group's product line of infusion therapy and opened a new chapter for the R&D and production of diabetes-related products by broadening its R&D pipeline and initiating new projects. In terms of infusion therapy, in addition to expanding its current infusion set and cannula product series, the Group has developed a needleless connector with special materials and processes during the year, which is compatible with the majority of infusion set and cannula product models. Besides, as for intestinal feeding device, blood transfusion set and other areas, Fert Technology obtained registration certificate for both the Di-2-ethylhexyl phthalate (DEHP)-free intestinal feeding device and the double-layered blood transfusion set. This blood transfusion set with two-layer structure of the tube is the first double-layered blood transfusion set in the PRC, which has led to the expansion of the Group's product line into the field of blood transfusion devices. In respect of diabetes products, the Group launched new R&D products, such as insulin needles and insulin injection pens. The insulin injection needles, our new product, offers a wide range of specifications that can satisfy the needs of diabetes patients with different body features and can reduce their pain significantly. The insulin injection pens adopt medical polymer materials and are compatible with the mainstream needle models of insulin injection pens in the market. Following the R&D strategy of "produce and focus our R&D efforts for a leading next generation of products", the Group puts efforts in autonomous R&D and pursues innovation constantly, and thereby the technologies resulted from our project R&D are at the world's leading level.

Apart from focusing on the organic growth of its principal businesses, the Group also strived to effectively allocate resources to maximize corporate value and realise the integration of resource advantages through mergers and acquisitions. In September 2019, the Group entered into a share purchase agreement (the "**Share Purchase Agreement**") with Beachhead Holdings Limited ("**Centurium**"), pursuant to which the Group has conditionally agreed to sell 1 million shares in China Biologic Products Holdings, Inc. ("**CBPO**") (NASDAQ ticker: CBPO), an associate of the Company, to Centurium at a total consideration of US$101.0 million or higher, depending on whether the price adjustment terms in the Share Purchase Agreement will be triggered. In addition, as the second largest shareholder of CBPO, the Group has entered into a consortium agreement with Centurium and other consortium members for the formation of a consortium to proceed with the proposed privatization of CBPO. The Group believes that the privatization will be beneficial for CBPO to focus on long term benefit and sustainable development by reducing listing compliance cost, thus enhancing the investment value of CBPO held by the Group. CBPO is a leading biopharmaceutical company principally engaged in the research, development, manufacturing and sales of blood-related biopharmaceutical products, or blood products, in China as well as a biopharmaceutical enterprise for the epidemic prevention garrison of the People's Liberation Army to jointly manufacture military products for epidemic prevention. The pH4 manufactured by CBPO is also a crucial preventive and control drug during the current COVID-19 epidemic. Due to the outbreak of the COVID-19 epidemic, market demand for pH4 has been surging. The Group believes that CBPO will continue to maintain a leading position in the plasma product industry in China and with its strong comprehensive strength, CBPO will make the greatest contribution in the battle of COVID-19 epidemic prevention and control.

At the beginning of 2019, the relocation of the headquarter of the Group and Fert Technology, a subsidiary of the Company, to the new industrial park in Pinggu was completed successfully. The 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. The new plant will enhance the Group's production capacity in principal businesses and offer strong support in a view to coping with the huge demand in the future. In April 2019, the new sterilization station of the Group in Pinggu officially commenced operation and opened for business. The sterilization station is large in size and equipped with advanced environmental facilities. It occupies a site area of 5,600 square meters and has a sterilization capacity of 150 cubic meters. It is also equipped with spray and shower column for acidic cleaning, marking a crucial step towards enhancing the production capacity of the new plant.

Looking forward, by continuing to leverage its position as a leading enterprise in the medical device industry of China as well as its own strong R&D capabilities, the Group will continue to focus on the advanced infusion set and intravenous cannula business and is committed to providing safer and more efficient solutions for the market. At the same time, the Group will continue the research, development and expansion of the medical device in the diabetes therapy sector and other therapy sector. As of December 31, 2019, the Group has obtained six registration certificates for new products, namely one for insulin injection needles, one for insulin injection pen, one for needleless access adapters, two for disposable precision filter infusion sets with needles and one for the disposable blood transfusion set. The disposable blood transfusion set product is the first product of blood transfusion set with two-layer structure of the tube in China, expanding the Group's product lines to blood transfusion devices. In the future, the Group will continue to expand and optimize its business coverage to enhance the Group's comprehensive competitiveness, maintain its leading position in the industry and make proactive and essential contribution to the safety and effectiveness of medical therapy.

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 surgeons, hospitals (especially Class III Grade A hospitals), first class university research centers and other research institutions. As of December 31, 2019, the Group owned 68 patents for advanced infusion set products and the Group had applied for 26 new patents. In 2019, the technological areas under the R&D of the Group's new projects levelled with or even outperformed world leaders. Following the R&D strategy of "produce and focus our R&D efforts for a leading next generation of products", the Group will constantly focus on product research, development and innovation. The Group emphasizes on safety and effectiveness of the products and will continue to invest in product innovation and R&D with an aim to enhancing the Group's comprehensive competitiveness.

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 nearly half of our sales and marketing team have medical education backgrounds, which enables us to communicate with doctors and nurses in a professional and effective manner.

Strategic Acquisitions

As stated in the *2019-2022 Analysis Report of the Operation of Big Data and Top Companies in the Medical Device Market in China* (2019–2022中國醫療器械市場大數據及標杆企業運行監測報告), the positive trend of the industry prospects and the rapid growth in the scale of medical devices indicates a prime time for industrial development. The structure of the medical device market remained imbalanced despite being gradually optimized. Advanced medical device market will become a next growth driver. As mergers and reorganizations among enterprises are accelerating in recent years, market integration will expedite its pace accordingly, thereby increasing industry concentration which is beneficial for major medical device enterprises to gain more market share. By closely seizing the opportunities arising from market development, the Group will constantly better optimize and adjust its own businesses and continue to strategically seek opportunities with high-growth rate, high-profit margin and immense growth potential, so as to achieve balanced business coverage and accelerate the expansion of business presence.

The board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to announce the audited consolidated final results of the Group for the year ended December 31, 2019, together with the comparative figures for the year ended December 31, 2018, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
Continuing operations			
Revenue	*4(b)*	**362,183**	310,813
Cost of sales		**(140,056)**	(115,570)
Gross profit		**222,127**	195,243
Other losses — net	*5*	**(11,398)**	(19,732)
Fair value loss on investment properties	*11*	**(1,650)**	—
Selling and marketing expenses		**(101,157)**	(72,917)
General and administrative expenses		**(65,240)**	(58,086)
(Provision for)/reversal of impairment losses recognised in respect of trade receivables	*14*	**(15,497)**	14,079
Research and development expenses		**(25,514)**	(26,905)
Operating profit		**1,671**	31,682
Finance cost — net	*6*	**(28,684)**	(5,869)
Share of result of an associate		**112,821**	100,762
Profit before income tax	*7*	**85,808**	126,575
Income tax expenses	*8*	**(3,839)**	(11,064)
Profit for the year from continuing operations		**81,969**	115,511
Discontinued operations			
Gain on disposal of subsidiaries, net of tax		**—**	1,550,802
Profit for the year		**81,969**	1,666,313

	2019	2018
	RMB'000	*RMB'000*
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	**(10,062)**	(2,890)
Share of exchange differences reserve of an associate	**44,057**	80,741
Reclassification from exchange differences reserve to profit or loss on		
— disposal of subsidiaries	**—**	(8,342)
— deemed disposal of an associate	**(195)**	(2,150)
— deregistration of a subsidiary	**(1,417)**	—
Items that will not be subsequently reclassified to profit or loss		
Gain on revaluation of property, plant and equipment on transfer of investment properties	**—**	3,435
Deferred tax liability on recognition of revaluation of properties	**—**	(859)
Other comprehensive income for the year	**32,383**	69,935
Total comprehensive income for the year	**114,352**	1,736,248
Profit for the year attributable to:		
Owners of the Company	**81,982**	1,665,614
Non-controlling interests	**(13)**	699
	81,969	1,666,313
Profit attributable to owners of the Company arises from:		
Continuing operations	**81,982**	114,812
Discontinued operations	**—**	1,550,802
	81,982	1,665,614
Total comprehensive income for the year attributable to:		
Owners of the Company	**114,365**	1,735,549
Non-controlling interests	**(13)**	699
	114,352	1,736,248

	Note	**2019**	2018
		RMB'000	*RMB'000*
Total comprehensive income attributable to owners of the Company arises from:			
Continuing operations		**114,365**	184,747
Discontinued operations		**—**	1,550,802
		114,365	1,735,549
		RMB Cents	*RMB Cents*
Earnings per share from continuing and discontinued operations attributable to owners of the Company for the year	*10*		
Basic earnings per share			
From continuing operations		**5.22**	7.32
From discontinued operations		**—**	98.85
		5.22	106.17
Diluted earnings per share			
From continuing operations		**5.22**	7.32
From discontinued operations		**—**	98.85
		5.22	106.17

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Land use rights		**—**	33,608
Property, plant and equipment		**725,214**	709,348
Right-of-use assets	*18*	**23,027**	—
Investment properties	*11*	**276,493**	278,143
Intangible assets		**181,113**	184,437
Interest in an associate	*12*	**3,699,401**	3,568,906
Deferred income tax assets		**9,174**	2,514
Long-term prepayments		**23,552**	13,403
Trade receivables	*14*	**11,200**	—
		4,949,174	4,790,359
Current assets			
Inventories	*13*	**36,384**	40,365
Trade and other receivables	*14*	**206,225**	235,062
Amount due from an associate		**27,449**	27,497
Prepaid income tax		**—**	2,723
Cash and cash equivalents		**132,598**	98,964
Total current assets		**402,656**	404,611
Total assets		**5,351,830**	5,194,970

	Notes	**2019**	2018
		RMB'000	*RMB'000*
Current liabilities			
Trade and other payables	*15*	**98,498**	94,641
Amount due to an associate		**28,086**	27,952
Lease liabilities	*16*	**2,545**	—
Bank borrowings	*16*	**587,071**	567,724
Tax payables		**5,925**	—
Total current liabilities		**722,125**	690,317
Net current liabilities		**(319,469)**	(285,706)
Non-current liabilities			
Deferred tax liabilities		**3,727**	9,633
Deferred government grants		**17,489**	883
Total non-current liabilities		**21,216**	10,516
NET ASSETS		**4,608,489**	4,494,137
EQUITY			
Equity attributable to owners of the Company			
Share capital	*17*	**965**	965
Share premium		**1,492,937**	1,492,937
Retained earnings		**2,610,761**	2,528,779
Reserves		**503,985**	471,602
		4,608,648	4,494,283
Non-controlling interests		**(159)**	(146)
TOTAL EQUITY		**4,608,489**	4,494,137

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company						
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Restated balance as 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 year	—	—	—	1,665,614	1,665,614	699	1,666,313
Other comprehensive income							
Currency translation differences	—	—	(2,890)	—	(2,890)	—	(2,890)
Share of other comprehensive income of an associate	—	—	80,741	—	80,741	—	80,741
Exchange differences reclassified to profit or loss upon disposal of subsidiaries	—	—	(8,342)	—	(8,342)	—	(8,342)
Exchange differences reclassified to profit or loss upon deemed disposal	—	—	(2,150)	—	(2,150)	—	(2,150)
Gain on revaluation of investment properties	—	—	3,435	—	3,435	—	3,435
Deferred tax liability on recognition of revaluation of properties	—	—	(859)	—	(859)	—	(859)
Total comprehensive income for the year	—	—	69,935	1,665,614	1,735,549	699	1,736,248
Exercise of employee share option	1	619	(236)	—	384	—	384
Disposal of subsidiaries	—	—	—	—	—	(184,506)	(184,506)
At 31 December 2018	965	1,492,937	471,602	2,528,779	4,494,283	(146)	4,494,137
Comprehensive income							
Profit for the year	**—**	**—**	**—**	**81,982**	**81,982**	**(13)**	**81,969**
Other comprehensive income							
Currency translation differences	**—**	**—**	**(10,062)**	**—**	**(10,062)**	**—**	**(10,062)**
Deregistration of a subsidiary	**—**	**—**	**(1,417)**	**—**	**(1,417)**	**—**	**(1,417)**
Share of other comprehensive income of an associate	**—**	**—**	**44,057**	**—**	**44,057**	**—**	**44,057**
Exchange differences reclassified to profit or loss upon deemed disposal	**—**	**—**	**(195)**	**—**	**(195)**	**—**	**(195)**
Total comprehensive income for the year	**—**	**—**	**32,383**	**81,982**	**114,365**	**(13)**	**114,352**
At 31 December 2019	**965**	**1,492,937**	**503,985**	**2,610,761**	**4,608,648**	**(159)**	**4,608,489**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES			
Profit before income tax including discontinued operations		**85,808**	1,677,377
Adjustments for:			
Depreciation of property, plant and equipment		**25,198**	16,824
Depreciation of right-of-use assets		**881**	—
Amortisation of intangible assets		**3,324**	3,390
Amortisation of land use rights		**—**	1,045
Loss on disposal of property, plant and equipment		**11,177**	58
Gain on disposal of subsidiaries, net of tax		**—**	(1,550,802)
Share of results from associated company	*12*	**(112,821)**	(100,762)
Loss on deemed disposal of an associate	*12*	**26,188**	3,882
Fair value loss on investment properties	*11*	**1,650**	—
Loss on financial guarantee	*5*	**1,592**	26,186
Interest expense	*6*	**30,124**	8,609
Interest income	*6*	**(1,626)**	(1,399)
Unrealised exchange (gains)/losses		**(1,605)**	1,846
Provision for/(reversal of) impairment of trade receivables		**15,497**	(14,079)
Operating cash flows before movements in working capital		**85,387**	72,175
Decrease in inventories		**3,981**	5,001
Decrease in trade and other receivables		**9,340**	16,471
Increase/(decrease) in deferred government grants		**16,606**	(200)
(Decrease)/increase in trade and other payables		**(7,564)**	13,838
Cash generated from operations		**107,750**	107,285
Income taxes paid		**(7,757)**	(9,580)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**99,993**	97,705

	Note	2019	2018
		RMB'000	*RMB'000*
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(22,174)**	(4,249)
Payments for development costs of construction in progress		**(25,212)**	(119,456)
Interest received		**1,626**	1,399
Purchases of intangible assets		**—**	(16)
Purchases of financial assets at fair value through profit or loss		**—**	(5,900)
Proceeds from disposal of subsidiaries		**—**	9,043
Increase in interest in associated company		**—**	(551,778)
Income tax paid for disposal of subsidiaries		**—**	(247,501)
Proceeds from disposal of property, plant and equipment		**—**	754
NET CASH USED IN INVESTING ACTIVITIES		**(45,760)**	(917,704)
FINANCING ACTIVITIES	*21*		
Payment for lease liabilities		**(202)**	—
Proceeds from exercise of employee share options		**62**	324
Increase in bank borrowings		**10,000**	567,724
Interest paid on bank borrowings		**(30,114)**	(8,609)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		**(20,254)**	559,439
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**33,979**	(260,560)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(345)**	(4,735)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**98,964**	364,259
CASH AND CASH EQUIVALENTS AT END OF YEAR represented by bank balances and cash		**132,598**	98,964

NOTES TO FINANCIAL INFORMATION

For the year ended 31 December 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, the "Group") are principally engaged in the development, manufacturing and sale of advanced infusion set products (the "Infusion Set Business").

These financial information are presented in Renminbi ("RMB"), unless otherwise stated.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs — effective 1 January 2019

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 2015–2018 Cycle	Amendments to HKFRS 3, Business Combinations
Annual Improvements to HKFRSs 2015–2018 Cycle	Amendments to HKFRS 11, Joint Arrangements
Annual Improvements to HKFRSs 2015–2018 Cycle	Amendments to HKAS 12, Income Taxes
Annual Improvements to HKFRSs 2015–2018 Cycle	Amendments to HKAS 23, Borrowing Costs

A. *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 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 consolidated statement of financial position on 1 January 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 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.35%.

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	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	4,572
Of which are:	
Current lease liabilities	4,470
Non-current lease liabilities	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 consolidated statement of financial position as at 31 December 2018. 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:

	RMB'000
Leasehold land and land use rights	33,608
Properties	295
Total right-of-use assets	33,903

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

	RMB'000
Right-of-use assets — increase by	33,903
Lease prepayment for land use right, net — decrease by	(33,608)
Trade and other payables — decrease by	4,277
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 consolidated 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 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.

B. ***HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments***

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

— how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty

— that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored

— that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment

— that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and

— that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements. While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial information.

Except for the abovementioned, in the current year, the Group has applied a number of amendments to HKFRS Standards and Interpretations that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial information.

(b) Potential impact arising on HKFRSs not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 3	Definition of a Business[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2019. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

HKFRS 17 Insurance Contracts

HKFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4 Insurance Contracts.

HKFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to HKFRS 17 addresses concerns and implementation challenges that were identified after HKFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of HKFRS 17 by one year to annual periods beginning on or after 1 January 2022.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

HKFRS 10 and HKAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

Amendments to HKFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

Amendments to HKAS 1 and HKAS 8 Definition of material

The amendments are intended to make the definition of material in HKAS 1 easier to understand and are not intended to alter the underlying concept of materiality in HKFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in HKAS 8 has been replaced by a reference to the definition of material in HKAS 1. In addition, the HKICPA amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial information.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial information requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Provision for taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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 a 10% PRC withholding tax ("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 withholding tax rate will be reduced from 10% to 5%.

During the year, 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 year.

(b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

According to the valuations results produced by the management of the Company based on the assumptions, management considered that no impairment charge was required against goodwill arising from acquisitions during the year.

In the opinion of the Company's directors, regarding Infusion Set Business had the gross profit margin been 2% lower with other assumptions held constant, or had the terminal growth rate been 2% lower with other assumptions held constant, or had the discount rate been 1% higher with other assumptions held constant, no impairment charge would be required against goodwill of the Group for the year.

(c) Useful lives of property, plant and equipment

The Group determines the estimated useful lives for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(d) Fair value of measurement

The Group's investment properties are measured at fair value.

The fair value measurement of the Group's financial assets utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures investment properties at fair value.

A more detailed information in relation to the fair value measurement of these assets is disclosed in Note 11.

4. 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.

For the year ended 31 December 2019, 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.

	2019	2018
	RMB'000	*RMB'000*
Customer segments		
Revenue from hospitals	**69,678**	58,736
Revenue from medical products distributors	**292,505**	252,077
	362,183	310,813
Timing of revenue recognition		
Recognised at a point of time	**362,183**	310,813

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

(c) Concentration of customers

Revenues of approximately RMB27,692,000 (2018: RMB22,547,000) are derived from a single external customer.

5. OTHER LOSSES — NET

	2019	2018
	RMB'000	*RMB'000*
Government grants	**7,838**	9,533
Gain on deregistration of a subsidiary	**1,417**	—
Rental income	**10,624**	—
Rental management income	**7,144**	—
Loss on disposal of property, plant and equipment	**(11,177)**	(58)
Loss on financial guarantee *(Note)*	**(1,592)**	(26,186)
Loss on deemed disposal of an associate *(Note 12)*	**(26,188)**	(3,882)
Others	**536**	861
Other losses — net	**(11,398)**	(19,732)

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 2018, 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 2019. At the date of approval of the financial information, 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 year represents the interest for the year in respect of the guarantee liability.

6. FINANCE COST — NET

	2019	2018
	RMB'000	*RMB'000*
Finance income		
Net foreign exchange gain	**—**	1,341
Interest income on short-term bank deposits	**1,626**	1,399
	1,626	2,740
Finance costs		
Interest on bank loan	**(30,114)**	(8,609)
Net foreign exchange loss	**(186)**	—
Interest on lease liabilities	**(10)**	—
	(30,310)	(8,609)
Finance cost — net	**(28,684)**	(5,869)

7. PROFIT BEFORE TAXATION

	2019	2018
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' emoluments	**2,562**	3,410
Staff costs (excluding directors' emoluments):		
Wages, salaries and bonuses	**82,731**	74,394
Staff welfare	**5,986**	4,879
Social security costs	**9,598**	7,525
Housing fund	**1,651**	1,189
Total staff costs	**99,966**	87,987
Auditor's remuneration:		
— Audit services	**1,200**	1,200
— Non-audit services	**381**	253
Provision for/(reversal of) impairment of trade receivables	**15,497**	(14,079)
Depreciation of property, plant and equipment	**25,198**	16,824
Depreciation of right-of-use assets *(Note 18)*		
— Properties	**197**	—
— Leasehold land and land use right	**684**	—
Amortisation of intangible assets	**3,324**	3,390
Amortisation of land use rights	**—**	1,045
Raw materials and consumable used	**61,775**	48,085

8. TAXATION

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

	2019	2018
	RMB'000	*RMB'000*
Current income tax		
PRC Income Tax for the year	**16,405**	8,615
Deferred income tax	**(12,566)**	2,449
Income tax expense	**3,839**	11,064

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

(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% (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% (2018: 25%).

Two subsidiaries (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 year (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.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2019	2018
	RMB'000	*RMB'000*
Profit before taxation from continuing operations	**85,808**	126,575
Tax calculated at statutory tax rates applicable to profits in the respective countries	**22,085**	31,644
Tax effect of:		
Preferential income tax rates applicable to subsidiaries	**(5,067)**	(8,071)
Additional deductible allowance for research and development expenses *(note (i))*	**(1,185)**	(1,995)
Tax effect of expenses not deductible for tax purpose	**12,006**	7,188
Tax effect of temporary differences	**(2,790)**	445
Tax effect of share of profits from an associate	**(28,205)**	(25,191)
Tax effect of estimated tax losses not recognised	**7,333**	7,027
Adjustment in respect of prior years	**(338)**	17
Income tax expense for the year	**3,839**	11,064

(i) Pursuant to the CIT Law, an additional tax deduction is allowed based on the actual research and development expense charged to the consolidated statement of comprehensive income calculated at 50% of such expenses incurred if approved by tax authorities.

9. DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

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 year ended 31 December 2019.

	2019	2018
	RMB'000	*RMB'000*
Profit attributable to owners of the Company:		
Continuing operations	**81,982**	114,812
Discontinued operations	**—**	1,550,802
	81,982	1,665,614
Weighted average number of ordinary shares in issue (thousands)	**1,569,246**	1,568,771
Basic earnings per share:		
Continuing operations (RMB cents per share)	**5.22**	7.32
Discontinued operations (RMB cents per share)	**—**	98.85
	5.22	106.17

(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).

	2019	2018
	RMB'000	*RMB'000*
Profit attributable to owners of the Company:		
Continuing operations	**81,982**	114,812
Discontinued operations	**—**	1,550,802
	81,982	1,665,614
Weighted average number of ordinary shares in issue (thousands)	**1,569,246**	1,568,771
Adjustments for:		
— Share options (thousands)	**46**	61
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,569,292**	1,568,832
Diluted earnings per share:		
Continuing operations (RMB cents per share)	**5.22**	7.32
Discontinued operations (RMB cents per share)	**—**	98.85
	5.22	106.17

11. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
At 1 January 2018	—
Additions — transferred from property, plant and equipment and land use right	278,143
At 31 December 2018	278,143
Fair value adjustments	(1,650)
At 31 December 2019	276,493

On 31 December 2018, the Group transferred certain of its property interest held under operating leases with carrying value of approximately RMB262,243,000 from property, plant and equipment, and RMB12,465,000 from land use rights to investment properties. The property interest with the land use right were revalued to RMB278,143,000 as initial cost value while the resulting revaluation surplus of approximately RMB3,435,000 at the date of transfer was credited to the revaluation reserves in equity.

The fair value of the Group's investment properties at 31 December 2019 was approximately RMB276,493,000. The fair value of the Group's investment properties at 31 December 2018 and 2019 have been arrived at on market value basis carried out by Beijing Guorongxinghua Assets Appraisal Co., Ltd., an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

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	**7.1%**	7.3%

The fair value of the investment property at 31 December 2018 and 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 year.

12. INTEREST IN AN ASSOCIATE

As at 31 December 2019, the Group held 16.44% (2018:16.06%) equity interest in CBPO. CBPO is a limited liability company incorporated in the Cayman Islands. Its shares are listed on NASDAQ Stock Market. CBPO and its subsidiaries are principally engaged in the research, development, manufacturing and sales of human plasma-based biopharmaceutical products.

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

During the year ended 31 December 2019, the equity interest held by the Group in CBPO changes as below:

(a) 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 16.06% to 16.52%, with no change in the carrying amount of interest in an associate.

(b) During the year ended 31 December 2019, the equity interest held by the Group in CBPO was diluted from 16.52% to 16.44% 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 RMB26,188,000 is recognised in "Other losses — net" in the consolidated statement of comprehensive income.

	2019	2018
	RMB'000	*RMB'000*
Share of net assets	**2,311,883**	2,256,147
Goodwill	**1,387,518**	1,312,759
	3,699,401	3,568,906

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

Name of company	**Form of business structure**	**Place of incorporation/ operations**	**Percentage of ownership interest/voting rights/profit share**	**Principal activity**
China Biologic Products Holdings, Inc.	Corporation	Cayman Islands/ PRC	16.44% (December 31, 2018: 16.06%)	Research, development, manufacturing and sales of human plasma-based biopharmaceutical products

Summarised financial information of the associate, adjusted for any difference in accounting policies:

	2019	2018
	RMB'000	*RMB'000*
As at 31 December		
Current assets	**9,056,120**	9,306,410
Non-current assets	**6,589,597**	6,820,261
Current liabilities	**(835,227)**	(846,061)
Non-current liabilities	**(304,846)**	(291,197)
Net assets	**14,505,644**	14,989,413
Net assets attributable to owners of the equity	**13,990,365**	14,189,709
Group's share of the net assets of the associate	**2,311,883**	2,256,147

	2019	2018
	RMB'000	*RMB'000*
Year ended 31 December		
Revenues	**3,473,019**	3,089,525
Profit for the year	**874,006**	745,830
Other comprehensive income	**(140,534)**	(420,908)
Total comprehensive income	**733,472**	324,922
Profit for the year attributable to owners of the equity	**695,685**	613,080
Other comprehensive income attributable to owners of the equity	**(117,835)**	(375,609)
Total comprehensive income attributable to owners of the equity	**577,850**	237,471
Dividends received from the associate	**—**	—

13. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**15,369**	15,750
Work in progress	**6,541**	10,197
Finished goods	**14,474**	14,418
	36,384	40,365

14. TRADE AND OTHER RECEIVABLES

	2019	2018
	RMB'000	RMB'000
Trade receivables	**188,686**	213,352
Less: Provision for impairment *(i)*	**(25,047)**	(9,550)
Trade receivables — net *(ii)*	**163,639**	203,802
Bills receivable *(iii)*	**6,303**	1,650
Prepayments and deposits	**7,127**	8,679
Receivables from disposal of Orthopaedic Implant Business	**—**	1,966
Value added tax recoverable	**15,970**	16,750
Other receivables	**24,386**	2,215
	217,425	235,062
Trade receivables — non-current	**(11,200)**	—
Trade and other receivables — current portion	**206,225**	235,062

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

	2019	2018
	RMB'000	*RMB'000*
Balance at January 1	**9,550**	23,629
Provision for/(reversal of) impairment losses recognised during the year	**15,497**	(14,079)
Balance at December 31	**25,047**	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.

	2019	2018
	RMB'000	*RMB'000*
Up to 3 months	**42,948**	42,282
3 months to 6 months	**28,249**	28,733
6 months to 12 months	**28,245**	27,187
1 year to 2 years	**20,096**	89,462
2 years to 3 years	**44,101**	16,138
	163,639	203,802

The Group and the Company recognised impairment loss based on the accounting policy.

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

Non-current portion of the trade receivables

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

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

15. TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**13,348**	15,475
Salary and staff welfare payables	**22,545**	21,116
Advances from customers	**13,266**	11,370
Deposits received	**2,411**	1,515
Payables for purchase of land use rights	**—**	4,277
Value added tax and other taxes	**4,038**	2,903
Professional service fee	**3,269**	4,036
Loss from financial guarantee *(Note 5)*	**17,744**	26,186
Deferred government grant — current portion	**442**	—
Other payables	**21,435**	7,763
	98,498	94,641

As at 31 December 2019 and 2018, except for the advances from customers, deposits received, value added tax and other taxes and deferred government grant 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:

	2019	2018
	RMB'000	*RMB'000*
Up to 6 months	**10,592**	12,981
6 months to 12 months	**1,015**	1,383
Over 1 year	**804**	442
2 years to 3 years	**361**	621
Over 3 years	**576**	48
	13,348	15,475

16. LOANS AND BORROWINGS

	2019	2018
	RMB'000	*RMB'000*
Current liabilities		
Bank loan due for repayment within one year *(Note (a))*	**577,071**	567,724
Trade finance borrowings due to repayment within one year which contained a repayable on demand clause *(Note (b))*	**10,000**	—
Total bank borrowings	**587,071**	567,724
Lease liabilities — current portion	**2,545**	—
Loans and borrowings — repayable within one year	**589,616**	567,724

Note:

(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 RMB577,071,000) (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 21 September 2020 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 represents trade finance advanced from the Bank of Beijing. As at 31 December 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 RMB10,000,000 is utilised by the Company as at 31 December 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 borrowing is secured by corporate guarantee and bears interest at 0.91% plus the prime rate of the Central Bank in the PRC. The loan is carried at amortised cost.

Lease liabilities

	Properties *RMB'000*	**Leasehold land** *RMB'000*	**Total** *RMB'000*
At 1 January 2019			
Addition	**295**	**4,277**	**4,572**
Interest expense	**10**	**—**	**10**
Lease payments	**(202)**	**—**	**(202)**
Disposal	**—**	**(1,835)**	**(1,835)**
At 31 December 2019	**103**	**2,442**	**2,545**

Future lease liabilities are payable as follows:

	Minimum lease payments *RMB'000*	**Interest** *RMB'000*	**Present value** *RMB'000*
At 1 January 2019			
Not later than one year	**4,480**	**(10)**	**4,470**
Later than one year and not later than five years	**103**	**(1)**	**102**
	4,583	**(11)**	**4,572**

	Minimum lease payments *RMB'000*	**Interest** *RMB'000*	**Present value** *RMB'000*
At 31 December 2019			
Not later than one year	**2,546**	**(1)**	**2,545**

The present value of future lease payments are analysed as:

	2019 *RMB'000*
Current liabilities	**2,545**

17. 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 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 RMB322,000) were received in 2018 and the remaining have been received during the year. The related weighted average price of the Company's share at the time of exercise was HK$1.46 per share. No options were exercised during the year ended 31 December 2019.

18. LEASES

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in Note 2(a)A.

(a) Leases as lessee

The Group leases warehouse and factory facilities. The leases typically run for a period of one to two years. Lease payments are renegotiated every one to two years to reflect market rentals. For certain leases, the Group is restricted from entering into any sub-lease arrangements.

The warehouse and factory leases were entered into many years ago as combined leases of land and buildings. Previously, these leases were classified as operating leases under HKAS 17. Information about leases for which the Group is a lessee is presented below.

(i) *Right-of-use assets*

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as Right-of-use assets.

	Properties *RMB'000*	Leasehold land and land use rights *RMB'000*	Total *RMB'000*
2019			
Balance at 1 January	295	33,608	33,903
Depreciation charge for the year	(197)	(684)	(881)
Disposal	—	(9,995)	(9,995)
Balance at 31 December	98	22,929	23,027

(ii) ***Amounts recognised in profit or loss***

	RMB'000
2019 — Leases under HKFRS 16	
Interest on lease liabilities	10
Expenses relating to short-term leases	864
	874
Aggregate undiscounted commitments for short term leases	151

(iii) ***Operating leases under HKAS 17 (2018)***

	2018 RMB'000
Minimum leases payments	1,614

The total future minimum lease payments are due as follows:

	2018 RMB'000
Within one year	448
In the second to fifth years inclusive	129
	577

(iv) ***Amounts recognised in statement of cash flows***

	RMB'000
2019	
Total cash outflow for leases	(202)

(b) Leases as lessor

The Group leases out its investment properties which are its owned commercial properties. All leases are classified as operating leases from a lessor perspective. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognised by the Group during 2019 was RMB10,624,000.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

	2019
	RMB'000
Within one year	**16,929**
One to two years	**12,076**
In the third to fifth years inclusive	**23,532**
	52,537

19. CAPITAL COMMITMENTS

	2019	2018
	RMB'000	*RMB'000*
Commitments for the acquisition of:		
Property, plant and equipment	**30,416**	8,111

20. RELATED PARTY DISCLOSURES

(a) Compensation of key management personnel

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

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

	2019	2018
	RMB'000	*RMB'000*
Short-term benefits	**3,465**	5,001
Post-employment benefits	**203**	319
	3,668	5,320

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.

(b) Amount due from/(to) an associate

The amount due from/(to) an associate and related companies are interest-free, unsecured and repayable on demand, arising from balances due from CBPO and balances due to a CBPO's subsidiary.

21. NOTES SUPPORTING CASH FLOW STATEMENT

Reconciliation of liabilities arising from financing activities:

	Bank borrowings *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At 1 January 2018	—	—	—
Changes from financing cash flows			
Proceeds from new borrowings	567,724	—	567,724
At 31 December 2018	567,724	—	567,724
Initial application of HKFRS16	—	4,572	4,572
Restated balance at 1 January 2019	567,724	4,572	572,296
Changes from financing cash flows			
Proceeds from new bank borrowings	10,000	—	10,000
Payment of lease liabilities	—	(202)	(202)
Interest paid	(30,114)	—	(30,114)
Total changes from financing cash flows	(20,114)	(202)	(20,316)
Other changes			
Interest expense	30,114	10	30,124
Exchange differences	9,347	—	9,347
Disposal of land use right	—	(1,835)	(1,835)
Total liability-related other changes	39,461	(1,825)	37,636
At 31 December 2019	587,071	2,545	589,616

22. 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:

	2019 ***RMB'000***	2018 *RMB'000*
Financial assets		
Loans and receivables at amortised cost (including bank balances and cash)	**354,375**	696,043
Financial liabilities		
Financial liabilities at amortised cost	**696,043**	654,928

23. EVENTS AFTER THE REPORTING PERIOD

The Assessment of the Impact of the Coronavirus Disease 2019

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, the prevention and control of the COVID-19 has been going on throughout the country. The Group will earnestly implement the requirements of the Notice on Further Strengthening Financial Support for Prevention and Control of COVID-19, which was issued by the People's Bank of China, the Ministry of Finance, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and State Administration of Foreign Exchange, and strengthen financial support for the epidemic prevention and control. The COVID-19 has certain impacts on the business operation and overall economy in some areas or industries, including in Beijing and all major cities in the PRC. This may affect the revenue for the Group's operation on sales of infusion set products and the associate's financial performance as those businesses located in the PRC, and the degree of the impact depends on the situation of the epidemic preventive measures, the duration of the epidemic and the implementation of regulatory policies. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of this announcement, the assessment is still in progress.

FINANCIAL REVIEW

Overview

	Year ended December 31,		
	2019	2018	Change
	RMB'000	*RMB'000*	
Continuing operations			
Revenue	**362,183**	310,813	16.5%
Gross profit	**222,127**	195,243	13.8%
Profit attributable to owners of the Company arises from continuing operations	**81,982**	114,812	(28.6%)
Discontinued operations			
Gain on disposal of subsidiaries, net of tax	**—**	1,550,802	N/A

REVENUE

The revenue of the Group increased by 16.5% from approximately RMB310.8 million in 2018 to approximately RMB362.2 million in 2019, as a result of the increase in sales of the R&D, manufacturing and sale of advanced infusion set products (the "**Infusion Set Business**"). The sales increase in the Infusion Set Business was mainly due to (i) an increase in sales volume of precision filter infusion sets by 12%; and (ii) an increase in sales of disposable intravenous cannula, which amounted to RMB42.7 million, representing an increase by 125%.

GROSS PROFIT

The Group's gross profit increased by 13.8% from approximately RMB195.2 million in 2018 to approximately RMB222.1 million in 2019. The gross profit margin decreased from 62.8% in 2018 to 61.3% in 2019, which was mainly due to the product mix changes with higher proportion of the sales of lower margin products.

SELLING AND MARKETING EXPENSES

Selling and marketing expenses increased by 38.8% from approximately RMB72.9 million in 2018 to approximately RMB101.2 million in 2019. This increase was mainly attributable to the expansion of distribution networks and production promotion.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased by 12.2% from approximately RMB58.1 million in 2018 to approximately RMB65.2 million in 2019. The increase was mainly due to an increase of totalling approximately RMB12.1 million in the property tax and depreciation expense, offset by a decrease of approximately RMB5.7 million in legal and other services fee.

PROVISION FOR/REVERSAL OF IMPAIRMENT LOSSES RECOGNISED IN RESPECT OF TRADE RECEIVABLES

The detailed information regarding the impairment loss recognised in respect of trade receivables could be found in Note 14 to the financial information for the year ended December 31, 2019.

R&D EXPENSES

R&D expenses decreased by 5.2% from approximately RMB26.9 million in 2018 to approximately RMB25.5 million in 2019, mainly due to the decrease of direct materials used during the R&D programs, since some newly launched programs have not entered into the testing process.

OPERATING PROFIT

Operating profit decreased by RMB30.0 million from RMB31.7 million in 2018 to RMB1.7 million in 2019, mainly due to the loss on deemed disposal of an associate amounted RMB26.2 million in 2019 (2018: RMB3.9 million), which was charged to the profit and loss when the Group's equity interest in CBPO was diluted due to exercise of CBPO share options. Excluding the loss on deemed disposal of an associate as discussed above, the operating profit in 2019 would have decreased by 21.7% compared to that in 2018. The decrease was also mainly contributed by the accrual of impairment allowance for trade receivables as discussed above in the section of provision for/reversal of impairment losses recognised in respect of trade receivables.

FINANCE COST — NET

The Group had a net finance cost of RMB28.7 million for the year ended December 31, 2019, increased by approximately RMB22.8 million from RMB5.9 million in 2018. During the year ended December 31, 2019, the Group had incurred interest expense for bank borrowings of RMB30.1 million (2018: RMB8.6 million), which caused an increase in finance cost. As disclosed in Note 16 to the financial information for the year ended December 31, 2019, the Company entered into a loan agreement with Morgan Stanley Bank, N.A. in an amount of up to US$82,720,000 on September 20, 2018. The Group accrued for 12 months of interest expense under the aforesaid loan agreement for the year ended December 31, 2019, while accrued for approximately 3 months of interest expense for the year ended December 31, 2018.

SHARE OF RESULT OF AN ASSOCIATE

As disclosed in Note 12 to the financial information for the year ended December 31, 2019, the investment in CBPO is classified as interest in an associate and has been accounted for in the consolidated financial statements using equity method, and share of result of CBPO during the year ended December 31, 2019 amounted to RMB112.8 million, after deducting amortization of intangible assets arising from the acquisition of RMB41.9 million during the year ended December 31, 2019.

OTHER LOSSES — NET

Other losses — net in 2019 amounted to approximately RMB11.4 million, decreased by approximately RMB8.3 million as compared to other losses — net of approximately RMB19.7 million in 2018, mainly due to (i) the loss on deemed disposal of an associate increased by approximately RMB22.3 million; (ii)the loss on financial guarantee decreased by approximately RMB24.6 million; (iii) rental and property management income of the investment property amounted to RMB17.8 million incurred for the first time in 2019; and (iv) the loss on disposal of property, plant and equipment increased by approximately RMB11.2 million.

INCOME TAX EXPENSES

For the year ended December 31, 2019, income tax expenses amounted to approximately RMB3.8 million, decreased by approximately RMB7.3 million as compared with approximately RMB11.1 million in 2018.

NET PROFIT FROM CONTINUING OPERATIONS

For the foregoing reasons, the profit from continuing operations of the Group in 2019 decreased by RMB33.5 million from approximately RMB115.5 million in 2018 to RMB82.0 million, which was mainly due to: (i) the increase of the incurred interest expense for the bank borrowing by RMB21.5 million; (ii) the increase of the accrued impairment allowances for trade receivables by RMB29.6 million; (iii) the increased loss on deemed disposal amounted to RMB26.2 million caused by the dilution of equity interest in CBPO held by the Group for the year 2019, while the loss in 2018 was amounted to RMB3.9 million; and (iv) a loss on the disposal of property, plant and equipment of RMB11.2 million.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY FROM CONTINUING OPERATIONS

Profit attribute to owners of the Company arises from continuing operations for the year ended December 31, 2019 amounted to approximately RMB82.0 million, representing a decrease of 28.6% from approximately RMB114.8 million recorded in 2018.

PROFIT FOR THE YEAR

The profit for the year ended December 31, 2019 amounted to RMB 82.0 million, representing a decrease by 29.0% as compared to that for the year ended December 31, 2018 (excluding the one-off gain from the disposal of the subsidiaries in 2018).

TRADE AND OTHER RECEIVABLES

The Group's trade receivables primarily comprised the outstanding payment from credit sales. As of December 31, 2019, the trade receivables of the Group was approximately RMB163.6 million, representing a decrease of approximately RMB40.2 million as compared to approximately RMB203.8 million as of December 31, 2018, which was mainly due to the enhancement of account receivable management and the accrual of impairment allowance of trade receivables, which amounted to RMB15.5 million.

INVENTORIES

Inventories decreased by approximately 9.9%, from approximately RMB40.4 million as of December 31, 2018 to approximately RMB36.4 million as of December 31, 2019. The decrease of inventories was mainly due to the effectiveness of the purchase process and inventory management.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment mainly include buildings and facilities, machinery and equipment and construction in progress. As of December 31, 2019, the property, plant and equipment of the Group amounted to approximately RMB725.2 million, representing an increase of approximately RMB15.9 million as compared to approximately RMB709.3 million as of December 31, 2018. The increase was mainly due to the completion of the construction of facilities to expand production capacities of continuing operations.

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 December 31, 2019, the net value of the Group's intangible assets was approximately RMB181.1 million, representing a decrease of approximately RMB3.3 million as compared to RMB184.4 million as of December 31, 2018. The decrease was primarily due to the amortisation charged during the year ended December 31, 2019.

INTEREST IN AN ASSOCIATE

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

FINANCIAL RESOURCES AND LIQUIDITY

As of December 31, 2019, the Group's cash and bank balances amounted to approximately RMB132.6 million (2018: RMB99.0 million). As at December 31, 2019, the Group's bank borrowing balances was RMB587.1 million as disclosed in Note 16 to the financial information for the year ended December 31, 2019 (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.

PLEDGE OF ASSETS

Save as those disclosed in Note 16 to the financial information for the year ended December 31, 2019, during the year ended December 31, 2019, 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 or R&D or other services with it.

COMMITMENTS

As of December 31, 2019, the Group had a total capital commitment of approximately RMB30.4 million (2018: RMB8.1 million), comprising mainly contracted capital expenditure for construction or acquisition of property, plant and equipment.

CAPITAL EXPENDITURE

During the year ended December 31, 2019, the Group incurred expenditure of RMB39.3 million on the construction in progress including facilities and production lines and expenditure of RMB12.0 million on the purchase of property, plant and equipment.

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 consolidated statement of financial position. Total capital is calculated as "total equity" as shown in the consolidated statement of financial position plus total borrowing.

	As at December 31	
	2019	2018
	RMB'000	*RMB'000*
Total borrowing	**587,071**	567,724
Total equity	**4,608,489**	4,494,137
Total capital	**5,195,560**	5,061,861
Gearing Ratio	**11.30%**	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 Hong Kong dollar. Foreign exchange risk arises from bank deposits and borrowings of the Group denominated in foreign currencies. The Group did not hedge against any fluctuation in foreign currency during the year ended December 31, 2019. 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 borrowing. Borrowing issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest risk, respectively.

As of December 31, 2019, it is 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 year by approximately RMB490,200 (2018: RMB474,000).

The sensitivity analysis above has been determined by assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 100 basis point increase or decrease 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.

EMPLOYEES

The Group had approximately 1,022 employees as at December 31, 2019, as compared to 1,079 employees as at December 31, 2018. 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 emolument policy for the employees of the Group is set up by the Board based on their merit, qualification and competence.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities during the year ended December 31, 2019.

FINAL DIVIDEND

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2019 (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 its shareholders as a whole. The Company has adopted the code provisions as set out in the "Corporate Governance Code" (the "**Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") 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 Code during the year ended December 31, 2019, with the exception of code provision A.2.1 of the Code.

According to code provision A.2.1 of the 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 code of conduct regarding dealings in the securities of the Company by each of the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the year ended December 31, 2019. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the year ended December 31, 2019.

REVIEW OF FINANCIAL STATEMENTS

Audit Committee

The Audit Committee of the Company (comprising Mr. Wang Xiaogang, Mr. Chen Geng and Mr. Lin Junshan) has reviewed with the Group's management the consolidated financial information of the Group for the year ended December 31, 2019, including accounting principles and practices adopted by the Group, and discussed risk management and internal controls and financial reporting matters.

Review of Preliminary Announcement of Results by the Independent Auditor

The figures in respect of the Group's results for the year ended December 31, 2019 as set out in this announcement have been agreed by the Company's independent auditor, BDO Limited, in relation to the amounts set out in the Group's consolidated financial statements for the year ended December 31, 2019. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by BDO Limited on this announcement.

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 partners for their trust and support.

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

Hong Kong, March 27, 2020

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