PW MEDTECH GROUP LIMITED

普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01358.HK)

ANNUAL REPORT 2020

A True Pioneer In the Chinese Medical Device Industry

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

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Corporate Profile

PW Medtech is a leading medical device company with the focus on fast-growing and high-margin segments of China's medical device industry. The Group has a leading market position in its current business segment of advanced infusion sets, with strong R&D capabilities and well-established distribution networks.

The Shares were successfully listed on the Main Board of the Stock Exchange on November 8, 2013, which enabled PW Medtech's access to the international capital market and created a platform for its rapid development.

Currently the Group has a leading market position in advanced infusion set business. The Group's products including non-PVC-based infusion sets, precision filter infusion sets, light resistant infusion sets, intravenous cannula products and insulin needles and pens. The Group is one of the first manufacturers which obtained the approval of the CFDA to manufacture precision filter infusion sets, and one of the first three manufacturers approved by the CFDA to manufacture non-PVC-based infusion sets. The Group also holds patented double-layer tubing design for non-PVC-based infusion sets.

Definitions

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

"2021 AGM"	the AGM to be held on June 3, 2021
"AGM"	annual general meeting of the Company
"Articles"	the articles of association of the Company
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"Cayman Islands Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"CBPO"	China Biologic Products Holdings, Inc., a Cayman Islands exempted company, which changed its domicile from Delaware to the Cayman Islands on July 21, 2017 and has been listed on the NASDAQ Stock Market since 2009 (NASDAQ stock code: CBPO)
"Centurium"	Beachhead Holdings Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands and the principal business activity of which is investment holding
"CEO"	chief executive officer of the Company
"CFDA"	the China Food and Drug Administration (中華人民共和國國家食品藥品監督管理總局)
"CG Code"	the "Corporate Governance Code" as contained in Appendix 14 to the Listing Rules
"Chairman"	the chairman of the Board
"China" or "PRC"	the People's Republic of China, which for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
"Company", "Group", "PW Medtech" or "we"	PW Medtech Group Limited (普华和顺集团公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on May 13, 2011 and except where the context indicated otherwise its subsidiaries
"Company Secretary"	the secretary of the Company
"DEHP"	Di-2-ethylhexyl phthalate, the most common member of the class of phthalates, which is used as plasticizers in polymer products to make plastic flexible
"Director(s)"	the director(s) of the Company
"Fert Technology"	Beijing Fert Technology Co., Ltd. (北京伏爾特技術有限公司), a limited liability company established under the laws of the PRC on September 23, 1997 and indirectly wholly owned by the Company

"Guide"	the "Environmental, Social and Governance Reporting Guide" as contained in Appendix 27 to the Listing Rules
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Infusion Set Business"	the R&D, manufacturing and sale of advanced infusion set, intravenous cannula products, insulin needles etc.
"IPO"	the Company's initial public offering of its Shares
"Listing Date"	November 8, 2013, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Company
"Orthopedic Implant Business"	the R&D, manufacturing and sale of orthopedic implant products
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Company on July 3, 2013 and amended on October 14, 2013
"Prospectus"	the prospectus of the Company dated October 28, 2013
"R&D"	research and development
"Regenerative Medical Biomaterial Business"	the R&D, manufacturing and sale of regenerative medical biomaterial products
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of par value US$0.0001 each in the issued share capital of the Company
"Share Exchange Agreement"	the share exchange agreement entered into between the Company and CBPO on October 12, 2017
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on October 14, 2013
"Shareholder(s)"	holder(s) of Shares

"Shenzhen Bone"	Shenzhen Bone Medical Device Co., Ltd. (深圳市博恩醫療器材有限公司), a limited liability company established under the laws of the PRC on November 12, 2002, in which the equity interests of the Company were disposed of in December 2016
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tianxinfu"	Tianxinfu (Beijing) Medical Appliance Co., Ltd. (天新福(北京)醫療器材股份有限公司), a joint stock company established in the PRC on January 18, 2002, in which the equity interests of the Company were disposed of in January 2018
"US$"	United States dollars, the lawful currency of the United States of America
"Walkman Biomaterial"	Tianjin Walkman Biomaterial Co., Ltd. (天津市威曼生物材料有限公司), a limited liability company established under the laws of the PRC on November 8, 2001, in which the equity interests of the Company were disposed of in December 2016
"Xuzhou Yijia"	Xuzhou Yijia Medical Device Co., Ltd. (徐州一佳醫療器械有限公司), a limited liability company established under the laws of the PRC on June 30, 2003 and directly wholly owned by Fert Technology
"%"	per cent

Corporate Information

BOARD OF DIRECTORS

Executive Director

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

Non-executive Directors

Mr. JIANG Liwei
Mr. LIN Junshan

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. WONG Tin Yu, *ACG, ACS*

AUTHORISED REPRESENTATIVES UNDER THE LISTING RULES

Ms. Yue'e ZHANG
Mr. WONG Tin Yu

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITOR

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

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Building 1, No. 23 Panlong West Road
Pinggu District
Beijing, PRC 101204

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

Morgan Stanley & Co International PLC
31/F, International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

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

HONG KONG LEGAL ADVISOR

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE AND BOARD LOT

Stock code: 1358
Board lot: 1,000

WEBSITE

www.pwmedtech.com

Milestones

2020

Entered into agreements to dispose all equity interests in CBPO achieving high returns, and declared a special dividend in the amount of half of the proceeds

2019

The controlling shareholder increased its shareholding in PW Medtech in January

2018

Immediately upon the completion of the Share Exchange Agreement with CBPO, the Group became the single largest shareholder of CBPO, and Tianxinfu became a subsidiary of CBPO

2017

Entered into the Share Exchange Agreement with CBPO to subscribe for CBPO shares by way of exchanging the Group's equity interest in Tianxinfu with CBPO

2016

Disposed of equity interests in Walkman Biomaterial and Shenzhen Bone, two subsidiaries engaging in Orthopedic Implant Business

2014

Acquired Tianxinfu and entered into Regenerative Medical Biomaterial Business

2013

- Acquired Xuzhou Yijia and further expanded into Infusion Set Business
- Acquired Shenzhen Bone and expanded into joint products
- Listed on The Main Board of the Stock Exchange on November 8, 2013

2011

Acquired Fert Technology and entered into Infusion Set Business

2008

Acquired Walkman Biomaterial and entered into Orthopedic Implant Business

1997

Fert Technology was founded

Key Financials

- Revenue for the year ended December 31, 2020 amounted to approximately RMB247.4 million, representing a decrease of 31.7% from approximately RMB362.2 million recorded in 2019.

- Gross profit for the year ended December 31, 2020 amounted to approximately RMB148.6 million, representing a decrease of 33.1% from approximately RMB222.1 million recorded in 2019.

- Profit attributable to owners of the Company for the year ended December 31, 2020 amounted to approximately RMB631.8 million, representing an increase of 670.7% from approximately RMB82.0 million recorded in 2019.

- Basic earnings per share and diluted earnings per share in 2020 were RMB40.26 cents and RMB40.26 cents (2019: RMB5.22 cents and RMB5.22 cents), respectively, representing an increase of 671.3% and 671.3% from 2019 respectively.

Financial Summary

RESULTS

	For the Year Ended December 31,				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
Revenue	319,583	286,913	310,813	362,183	247,352
Profit before income tax	127,843	45,081	126,575	85,808	626,599
Profit for the year	107,633	33,777	115,511	81,969	631,811
Profit attributable to:					
Owners of the Company	109,136	33,119	114,812	81,982	631,814
Non-controlling interests	(1,503)	658	699	(13)	(3)

ASSETS AND LIABILITIES

	As at December 31,				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
Total assets	2,487,111	3,168,653	5,194,970	5,351,830	5,283,595
Total liabilities	153,109	225,139	700,833	743,341	175,316
Equity attributable to the owners of the Company	2,334,338	2,759,853	4,494,283	4,608,648	5,108,441

Chairman's Statement

It is a great honor for me, on behalf of the Board, to present the annual report of the Company for the financial year ended December 31, 2020.

In 2020, in view of the spread of the novel coronavirus ("COVID-19") pandemic worldwide, the global economy witnessed a general slowdown. Coupled with the lingering US-China trade frictions, international trade underwent significant contraction. The economy in China was also under immense pressure and various industries were confronted with unprecedented difficulties and changes. In the first half of the year, the partial suspension of public transport system, as well as inter-region travel restrictions resulted in the steep decline in travel volumes in various cities. The number of patients visiting medical healthcare institutions nationwide also decreased drastically, leading to a delay of daily general diagnosis and treatment. The pandemic not only posed certain impacts on the financial conditions of hospitals, but also exerted severe pressure on the medical device segment market, which brought daunting challenges to the core business segments of the Group during the first half of 2020. Given that the pandemic was brought generally under effective control in China during the second half of the year, the medical demand suppressed by the pandemic released successively, underpinning the economic recovery in the medical industry. Aside from negative impacts brought by the resurgence of the pandemic in some regions for a short period, the decline in revenue of the overall business operation of the Group gradually narrowed.

Under the current condition of regular pandemic prevention and control and ongoing trade friction, the medical device industry remained vibrant with robust development, notwithstanding the existing challenges. The global medical industry will sustain an upward trend in the medium to long-term future. Benefiting from the accelerated aging population worldwide and the increasing health awareness of the general public, the medical industry characterized by inelastic demand still has huge development potential. In recent years, in order to provide a sound sociopolitical environment for the rapid development of the medical device industry in the PRC, the government promulgated a series of policies, such as the "13th Five-Year Plan for Projects of Science and Technology Innovation for the Medical Devices" (《「十三五」醫療器械科技創新專項規劃》) and "Healthy China 2030" Planning Outline (《"健康中國2030"規劃綱要》). These development outlines contributed to the acceleration of the shift of the medical device industry as a whole to innovation-driven development and optimization of the research, development and innovation chains of medical devices, which fueled the leapfrog development of the medical device industry in the PRC. The implementation of a series of initiatives, including, among other things, the system of the registration of medical device, centralized bulk procurement and Unique Device Identifiers, facilitated the division of works, as well as collaboration between upstream and downstream enterprises along the medical device industry chain, which effectively boosts the penetration rate of the medical device market and expedites the replacement of imports with domestic products.

The Chinese government will continue to improve the regulations and policies in respect of the medical device industry, and deepen the reform of the review and approval system with consistent efforts, which in turn will expedite the emergence of innovative medical devices. It is expected that more innovative medical devices, in particular medical devices for the prevention and treatment of COVID-19, will be approved for registration and commercialization when the pandemic is over. Embracing the continuance of the "Golden Age", China's medical device industry maintained a strong momentum of healthy development in general.

As a leader in China's medical device industry, the Group will take the initiative to cope with the existing challenges in the industry. Leveraging the strong market demand and favorable policies, the Group seizes development opportunities to actively promote industrial upgrade, enhance its product innovation and R&D capabilities, and expand production capacities portfolio. The medical device industry is a pivotal player in addressing major public health emergency. Under the normalization of the pandemic, the Group will place emphasis on the safety and efficiency of its medical devices and fully demonstrate its role in technological support, with a view to offering key protection for the medical device industry.

BUSINESS REVIEW

For the year ended December 31, 2020, the Group's revenue was RMB247.4 million, representing a decrease of 31.7% from 2019. For the year ended December 31, 2020, the Group's gross profit amounted to RMB148.6 million, decreased by 33.1% as compared with 2019. The gross profit margin for the year was 60.1%. The decrease in revenue of the Group was mainly attributable to the loss arising from the pandemic. Along with the gradual resumption of medical services, the medical consultation demand also recovered progressively, thus gradually narrowing the decline in the Group's revenue from business operation for the second half of the year. The future operating revenue of the Group is expected to demonstrate a promising growth trend.

PW Medtech is principally engaged in R&D, manufacturing and sales of various medical device products, including infusion set products, intravenous cannula products and insulin injection needles, with a focus on fast-growing and high-margin segments of China's medical device market. 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, Jiangsu Province and Heilongjiang Province. The Company has taken proactive measures in response to the impacts caused by the pandemic on the industry in the past year. In terms of sales and marketing, the Company continued to optimize its sales structure and marketing strategies, and made flexible adjustment to its tendering strategies guided by the governments' centralized procurement policy of medical industry. Regarding production, adhering to the strategy of "low cost and high quality", the Company has pushed forward and implemented certain innovative and effective solutions for cost reduction and quality enhancement. In respect of management, the Group also further improved its decision-making process by optimizing its organizational structure, hence enhancing its management efficiency.

In terms of products, apart from continuing efforts in enhancing R&D of advanced infusion set products, the Group will also focus more on R&D and sales of cannula products. Currently, given that the Group's intravenous cannula business is in a mature stage and ongoing R&D will be carried out, it believes that there remains a huge room for growth in this business line in the future. For the diabetes therapy sector, the Group has obtained registration certificates for insulin injection pen and insulin injection needle products, which are in the stage of preparing for the launch and promotion. Meanwhile, the Group also continued the research and expansion of medical devices in other therapy sectors.

Facing the volatile COVID-19 pandemic situation in the PRC, the Group has continued to reinforce management of its own industrial park and stayed vigilant for this pandemic fight at all times to ensure the safe and stable operation of the Group. In order to provide better services to companies operating in the industrial park, the Company initiated a comprehensive upgrade and transformation project in the park in October 2020, including the addition of landscaping area, car park spaces and greenery area at the central garden, staff dormitory and living and recreational zone for the staff, etc., striving to provide a more scientific and reasonable distribution of the functions in the park and enhance the daily work quality and living standard of companies operating in the park.

In terms of capital management, the Group strengthened control and management of cash flow and optimized its system and mechanism for the prevention and control of the epidemic, thereby guaranteeing sufficient working capital for adapting to the possibility of normalization of the pandemic. In 2020, in addition to focusing on the organic growth of its principal businesses, the Group also strived to effectively allocate resources to maximize corporate value. During the year of 2020, the Group entered into agreements to transfer its entire holding of the shares in CBPO, an associate of the Company, to independent third parties. All the above transactions were completed in December 2020 and January 2021. The total proceeds amounted to US$638.52 million, of which approximately 50% had been used for distribution of special dividends as a reward to the Shareholders while the remaining approximately US$319.2 million will be used primarily for capital expenditure, long-term investment, the Group's general corporate and working capital purposes in the future, future investment opportunities in the medical industry or other purposes. In the future, the Group will further optimize its business layout and realise the integration of resource advantages through acquisitions and mergers.

FUTURE PROSPECTS

As the negative impacts of the pandemic gradually subsided with the increasing public awareness of diseases, it is expected that more medical companies will strengthen their R&D and manufacturing of medical devices, leading to an increasing market size of the medical device market. As a leading company in China's medical device industry, the Company will continue to focus on fast-growing and high-margin segments of China's medical device market in the future by leveraging the benefits driven by the favorable policy environment and market potential. In addition, the Company will continue to devote considerable efforts in infusion set and intravenous cannula business, and at the same time actively push forward the sales of products and R&D of new products in the diabetes therapy sector, carry out R&D and expansion of medical devices in other therapy sectors and seek to have more exposure to other new business segments that are synergistic with its exiting business in terms of clinical application and sales channel. To this end, we intend to continuously expand our medical product offering, optimize the business layout, enhance competitive edges and expand market penetration and distribution network, with a view to contributing to the development of China's medical industry. Following the R&D strategy of "produce and focus our R&D efforts for a leading next generation of products", the Group will consolidate its leading position in the market and realize rapid growth through the R&D of safe and reliable products and the expansion of product portfolio.

APPRECIATION

On behalf of the Board, I would like to extend my heartfelt gratitude to all the respected Shareholders. PW Medtech will seize the opportunities presented by the development of the medical device industry. Capitalizing on supporting policy benefits, the Group will strive to promote sustainable business growth and operation efficiency and fulfill its corporate social responsibility, with a view to maximizing the return to the Shareholders in the long run.

Chairman of the Board
Yue'e ZHANG

March 30, 2021

Profile of Directors and Senior Management

Below are the brief profiles of the current Directors and senior management of the Group.

DIRECTORS

The Board currently consists of six Directors, comprised of one executive Director, two non-executive Directors and three independent non-executive Directors. The following table sets forth information regarding the Directors.

Name	Age	Position	Date of Appointment as Director
Executive Director			
Ms. Yue'e ZHANG (張月娥)	57	CEO, Chairman and executive Director	May 13, 2011
Non-executive Directors			
Mr. JIANG Liwei (姜黎威)	53	Non-executive Director	June 21, 2013
Mr. LIN Junshan (林君山)	58	Non-executive Director	June 21, 2013
Independent Non-executive Directors			
Mr. WANG Xiaogang (王小剛)	47	Independent non-executive Director	October 14, 2013
Mr. ZHANG Xingdong (張興棟)	82	Independent non-executive Director	October 14, 2013
Mr. CHEN Geng (陳庚)	50	Independent non-executive Director	October 14, 2013

Executive Director

Ms. Yue'e ZHANG (張月娥), aged 57, is the CEO, the Chairman, an executive Director and the chairman of the Nomination Committee. She is also a director of certain subsidiaries of the Company. In addition to her roles with the Group, Ms. ZHANG currently serves as the executive director of WP Medical Technologies, Inc and was a director of CBPO (NASDAQ: CBPO) from January 1, 2018 till January 6, 2021. She is also one of the early founders of Lepu Medical Technology (Beijing) Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300003). Ms. ZHANG has worked in the medical device industry for nearly 30 years and has accumulated considerable experience in product design, R&D, and management and investment. Ms. ZHANG graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in materials science and engineering in July 1985, and later received two master's degrees relating to materials science and management from Xi'an University of Technology (西安理工大學) and Florida International University in July 1988 and April 1996, respectively. Ms. ZHANG is the daughter of Ms. Yufeng LIU (the ultimate controlling Shareholder who wholly owns Cross Mark Limited, the controlling Shareholder).

Non-executive Directors

Mr. JIANG Liwei (姜黎威), aged 53, is a non-executive Director. Mr. JIANG has over 20 years of management experience in the medical device industry. Mr. JIANG currently serves as the Chairman and the CEO of Shenzhen Futurtec Medical Co., Ltd. (深圳市鑫君特智能醫療器械有限公司). He was the CEO and executive Director of the Group from February 2013 to March 2019. Prior to joining the Group, Mr. JIANG was the head of China for Biomet China Co., Ltd. (邦美(上海)商貿有限公司) from 2008 to 2013 and the general manager of Trauson (China) Medical Instrument Co., Ltd. (創生醫療器械(中國)有限公司) from 2005 to 2008. He also held various management positions with Zimmer (Shanghai) Medical International Trading Co., Ltd. (捷邁(上海)醫療國際貿易有限公司) from 1999 to 2005 and Smith & Nephew Medical (Shanghai) Limited (施樂輝醫用產品國際貿易(上海)有限公司) from 1997 to 1999. Mr. JIANG was a resident doctor for a few years upon graduation from Shanghai Second Medical University (上海第二醫科大學) (now School of Medicine, Shanghai Jiaotong University (上海交通大學醫學院)) with a bachelor's degree in clinical medicine in July 1991.

Mr. LIN Junshan (**林君山**), aged 58, is a non-executive Director and a member of both the Audit Committee and the Remuneration Committee. Mr. LIN joined the Group in April 2010. He is also a director of a subsidiary of the Company. In addition to his roles with the Group, Mr. LIN currently serves as the general manager of Beijing Guanshengyun Medical Technology Co., Ltd. (北京冠生雲醫療技術有限公司). Before joining the Group, Mr. LIN was a chief engineer and professoriate senior engineer of CSR Qingdao Sifang Co., Ltd. (南車青島四方機車車輛股份有限公司) (formerly known as "CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.") from January 2007 to June 2013. After his graduation from Xi'an Jiaotong University (西安交通大學) with a doctorate degree in materials science and engineering in March 1990, Mr. LIN held various research positions in Shanghai Jiaotong University (上海交通大學), Osaka University (Japan) and Hitachi Mechanical Engineering Research Laboratory (now Hitachi Research Laboratory), Hitachi Ltd. from April 1990 to December 2006.

Independent Non-executive Directors

Mr. WANG Xiaogang (王小剛), aged 47, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee. Mr. WANG is a founder and the chief executive director of Beijing HuiTong Education Technology Co., Ltd. Mr. WANG served as a managing director of China Aerospace Industry Investment Fund Management (Beijing) Co., Ltd. (航天產業投資基金管理(北京)有限公司) from February 2011 to August 2014. He was previously a partner at PricewaterhouseCoopers Consulting (Shenzhen) Co., Ltd. (普華永道諮詢(深圳)有限公司), where his work focused primarily on financial advisory on investment, merger and acquisition related transactions. He joined PricewaterhouseCoopers Consulting (Shenzhen) Co., Ltd. in 1997. Mr. WANG obtained the qualification of Certified Public Accountant from Beijing Institute of Certified Public Accountants (北京註冊會計師協會) in June 1997 and the qualification to practice law in the PRC from the Ministry of Justice (司法部) in February 2007. Mr. WANG graduated from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) (now known as Hangzhou Dianzi University (杭州電子科技大學)) with a bachelor's degree in accounting in July 1995, and later received a master's degree in investment management from Sir John Cass Business School of The City University London in March 2004.

Mr. ZHANG Xingdong (張興棟), aged 82, is an independent non-executive Director and a member of both the Remuneration Committee and the Nomination Committee. Mr. ZHANG is a professor at Sichuan University (四川大學), and an Academician of the Chinese Academy of Engineering (中國工程院院士). He also serves as Director of the CFDA Executive Committee on the Classification of Medical Devices, director of National Technical Committee 248 on Biological Evaluation on Medical Device of Standardization. From May 2016 to December 2020, he served as the President of the International Union of Societies for Biomaterials Science and Engineering (IUSBSE). He has more than 10 honorary titles, including Foreign Member of the U.S. National Academy of Engineering (美國國家工程院外籍院士), IUSBSE Fellow of Biomaterials Science and Engineering, Fellow of the American Institute of Medical and Biological Engineering etc. Mr. ZHANG has been dedicated to the R&D, and commercialization of tissue inducing biomaterials products and medical implants such as dental implants, osteoinductive synthetic bone, and artificial hip joints for more than 30 years. His research has received numerous awards, such as National Science and Technology Progress Award, National Natural Science Award, and Clemson Award for Applied Research. Mr. ZHANG graduated from Sichuan University with a bachelor's degree in solid state physics in 1960.

Mr. CHEN Geng (陳庚), aged 50, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee. Mr. CHEN served in the following positions in Peking University Resources (Holdings) Company Limited (name changed from "EC-Founder (Holdings) Company Limited" on October 25, 2013; a company listed on the Main Board of the Stock Exchange, stock code: 618): executive president from 2005 to 2006, executive director from 2006 to May 2013 and vice president from May 2013 to September 2019. He was also an executive director of Founder Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 418) from 2006 to 2011 and the vice president of New Auto Group (新奧特集團) from 2004 to 2005, and had worked in various investment firms in the PRC, garnering extensive experience in finance and management. Mr. CHEN has obtained the qualification of senior economist (高級經濟師) from China State Construction Engineering Corporation Limited (中國建築工程總公司) in October 2010. He graduated from Northwest University (西北大學) with a bachelor's degree in administrative management in July 1993 and later received an EMBA degree from Guanghua School of Management, Peking University (北京大學光華管理學院) in January 2005.

SENIOR MANAGEMENT

Ms. Yue'e ZHANG (張月娥), aged 57, is the CEO, Chairman and an executive Director. Her biographical details are set out above under the section headed "Profile of Directors and Senior Management — Executive Director" in this annual report.

Mr. HUA Wei (華煒), aged 50, is the Company's vice president. Prior to joining the Group in April 2011 as Fert Technology's general manager, Mr. HUA had served as an executive assistant general manager and general manager of Zhongguancun Development Hi-Tech Incubator Co., Ltd (中關村興業(北京)高科技孵化器股份有限公司) from 2002 to 2011. Mr. HUA also held various managing positions with the branch companies of Xinjiang Securities Corporation Limited (新疆證券有限責任公司) from 1995 to 2001. Mr. HUA started his career with the Shihezi branch of the People's Bank of China (中國人民銀行石河子市分行) in 1991. Mr. HUA graduated from Changchun College of Finance (長春金融專科學校) with a diploma in finance in July 1991, and received an MBA degree from Renmin University of China (中國人民大學) in January 2009.

Mr. CHEN Yikun (陳怡琨), aged 44, is the Company's vice president. Prior to joining the Group in January 2014, Mr. CHEN was a senior manager at PricewaterhouseCoopers LLP and he has over 10 years of experience in assurance and advisory practice. From 2005 to 2006, Mr. CHEN served as a project manager in merger and acquisition in China Resources Petrochems (Group) Co., Ltd. (華潤石化(集團)有限公司) before he rejoined PricewaterhouseCoopers LLP in 2006. Before joining PricewaterhouseCoopers LLP in 2001, Mr. CHEN served as an accounting supervisor of Hutchison Whampoa Properties (Shenzhen) Co., Ltd. (和記黃埔地產(深圳)有限公司) from 1998 to 2001. Mr. CHEN is a fellow member of the Association of Chartered Certified Accountants, and a member of the Chinese Institute of Certified Public Accountants. Mr. CHEN graduated from Shantou University (汕頭大學) with a bachelor's degree in economics in July 1998.

Ms. Tian Tian (田甜), aged 38, is the Company's financial director. Prior to joining the Group in January 2020, Ms. Tian served as the chief financial officer in Sinowel Wealth Management Group from 2017 to 2020. She served as the financial controller in Century Sage Scientific Holdings Limited from 2014 to 2017. She started her career with PricewaterhouseCoopers Zhong Tian LLP from 2006 and has over 8 years of experience in assurance and advisory practice. Ms. Tian is a member of the Chinese Institute of Certified Public Accountants and a member of the Hong Kong Institute of Chartered Secretaries. Ms. Tian received a bachelor's degree from Wuhan University (武漢大學) in management in July 2004 and a master's degree in accounting from University of International Business and Economics (對外經濟貿易大學) in July 2006, respectively.

Management Discussion and Analysis

MARKET AND BUSINESS REVIEW

In 2020, despite the daunting challenges arising from the COVID-19 pandemic as well as complicated domestic and overseas environment, the economy in China gradually recovered from the unprecedented impact of the pandemic, showing restorative growth and the momentum of steady economic recovery. However, certain economic indicators which remained in decline and losses caused by the pandemic are yet to be compensated.

In the first half of the year, severely impacted by the pandemic, residents across China reduced outdoor activities and the overall medical demand dropped sharply due to the partial suspension of public transport system, stringent community management and inter-region travel restrictions during the pandemic. In the first quarter of 2020, according to the statistics from the National Health Commission, the number of persons receiving medical consultation and treatment in medical and health institutions in China recorded a huge decline. From January to March 2020, the total number of persons receiving medical consultation and treatment in medical and health institutions in China only amounted to 1.48 billion. In the second half of 2020, despite the gradual recovery in the medical industry, medical device markets such as infusion set segment market were still under a huge pressure. In addition, due to the recurring pandemic in certain regions, such as Beijing and Heilongjiang, the Group’s core business segment was still faced with immense pressure.

For the year ended December 31, 2020, the Group’s revenue was RMB247.4 million, representing a decrease of 31.7% from 2019. The Group recorded a gross profit of RMB148.6 million, representing a decrease of 33.1% from 2019. The overall gross profit margin for the period was 60.1%. The operating profit attributable to owners of the Company amounted to RMB631.8 million, representing an increase of 670.7% over the same period of last year.

The decrease in the Group’s revenue during the year was mainly due to the decline in the number of persons receiving medical consultation in certain regions in the first half of 2020, especially a significant decline in hospital traffic and in daily medical consultation demand in the major sale areas of the Group’s Infusion Set Business, such as Beijing, Hubei Province and Heilongjiang Province and hence a significant decrease in the Group’s revenue of the Infusion Set Business. In the second half of the year, as residents gradually resumed outdoor activities and medical demand slowly rebounded, the decline in the Group’s operating revenue gradually diminished.

In comparison, as the impact of the pandemic on the sale areas of the Group’s intravenous cannula business was relatively limited, the revenue of intravenous cannula business remained relatively stable. The Group’s intravenous cannula business is currently in the mature development stage and its research and development is still ongoing, with vast room for growth in the future. Meanwhile, with backlog orders of intravenous cannula business secured in 2020, it is expected that the revenue of the Group’s intravenous cannula business in the future will be on a positive growth trend. In 2020, the financial position and cash flow of the Group have remained stable and sound.

Under the current condition of normalized pandemic prevention and control and trade frictions, the medical device industry still possesses huge development potential. The government has promulgated a series of policies to effectively accelerate the rapid development of the medical device industry in China. In 2020, benefited from the industry growth potential arising from the strengthening of weaknesses in the public health system, the government launched negotiation on medical insurance reimbursement basis and centralized procurement regime, which could not only further increase the market penetration of medical device products, but also facilitate the acceleration of the industry concentration towards enterprises with economics of scale, well-developed technology and strong innovation capability. So that quality domestic devices will replace imported products, thereby increasing industry concentration. Such regimes have brought enormous development prospects to quality domestic medical devices with high cost-effectiveness. However, centralized procurement regime can cause significant price reduction of industrial products which can also affect sales price and has brought about numerous challenges to the Group. With a profound knowledge of and active response to the new norm of medical industry, the Group adjusted bidding strategies on a case-by-case basis and has achieved encouraging results. In 2020, the Group's infusion set products successfully won the bid in six different regions including Fujian province, Henan province and Beijing. In addition, with the strategic approach of "low cost, high quality" adopted at the beginning of the year, the Group conducted holistic corporate review ranging from daily management to corporate strategy levels, launched various innovation proposals and measures and implemented them effectively on an ongoing basis. The automation improvement in product equipment was in a smooth progress. In response to the changes of products and market, the Group has also optimized its organizational structures and shortened decision-making processes and thus increased management efficiency.

Under the current condition of normalized pandemic prevention and control, the Group has been closely monitoring the market conditions and seizing the policy benefits to adjust its business strategies when appropriate so as to mitigate the negative impact.

The Group also strived to optimize resource allocation to maximize the corporate value. Pursuant to the share purchase agreement entered into between the Company and Centurium in September 2019 and subsequent amendments to certain share agreements in 2020, the Company completed its disposal of 1 million CBPO shares to Centurium in 2020, with an adjusted total consideration of US$120 million. Subsequently, the Company entered into three share purchase agreements with independent third parties on October 26, 2020 to dispose all the remaining 5.321 million CBPO shares held by it at US$120 per share. The closing of the above transactions took place on December 30, 2020 and January 6, 2021, respectively. The total proceeds from the disposal were US$638.52 million. Half of the gross proceeds from the disposal was used for distributing special dividend to the Shareholders and the remaining half was reserved as corporate funds which was intended to be mainly used to satisfy the needs for future corporate strategic development.

As a leader in China's medical device industry, PW Medtech has been focusing on China's fast-growing and high-margin medical device market and actively promotes industrial upgrade, enhances its product innovation and R&D capabilities, and expands production capacities portfolio. The Group will also upgrade quality control of its own products and continue to expand products' R&D, with a view to enhancing its own strengths and actively providing strong support for the industry.

BUSINESS STRATEGIES AND FUTURE OUTLOOK

In early 2020, it was proposed at the conference of the Politburo of the Chinese Communist Party to step up efforts in the support of R&D in reagents, drugs and vaccines to promote the development of, among others, biopharmaceutical industry and medical equipment industry, providing a sound social and political environment for the rapid development of the medical device industry. As the internal momentum of the innovation and R&D by medical device manufacturing enterprises significantly increases, innovative medical device products will emerge at a faster pace and medical device is becoming a national strategic emerging industry. According to Next Golden Decade — White Book on Medical Industry in China (《下一個黃金十年—中國醫療產業白皮書》), due to the COVID-19 pandemic, there will be a boom in demand for strengthening the weaknesses in the medical industry, which will be an unprecedented opportunity for medical devices. Overall, medical device industry is in its golden era of development.

In 2021, the first year of the 14th Five-year Plan, with strong economic resilience and development vitality, China's economy is expected to show a positive development trend. With the resumption of normal medical services and the relaxation of relevant domestic travel restrictions, the residents' medical consultation demand will gradually rebound. The recovery of medical demand will effectively boost the demand for products of medical device market segment.

The Group will continue to leverage its leading position in the medical device industry of China. In addition to its main businesses of infusion set and intravenous cannula, the Group will continue to expand its business in the diabetes therapy sector and actively facilitate the marketing and promotion of insulin injection needles and pens, as well as continue the R&D and expansion of the medical devices in other therapy sectors to expand the Group's revenue sources, create business synergies and further optimize its business coverage. As of December 31, 2020, the Group had obtained 35 registration certificates for products, covering, among others, infusion set, intravenous cannula, intestinal feeding device, insulin injection pen, insulin injection needle and blood transfusion set.

The Group will make essential contribution to the safety and effectiveness of medical devices proactively and continuously optimize business coverage to enhance its competitive strengths.

Emphasis on Innovation and R&D

As an industry leader in the development of innovative products, the Group has an R&D team consisting of experienced members. The team closely cooperates with surgeons, hospitals (especially Class III Grade A hospitals), first class university research centers and other research institutions. In 2020, the R&D team streamlined and upgraded the standardized R&D process management in a comprehensive manner and continued to optimize its work flow in, among others, product inception, model inspection, clinical trial and registration to further enhance R&D efficiency under standardized inspection system.

In 2020, the Group not only expanded its business presence in the dialysis sector, but also invested significant funds in the R&D of diabetes, in addition to stepping up its effort in R&D of the original product lines, including infusion set and cannula, with a view to facilitating the expansion and further R&D of new products in such sector.

As of December 31, 2020, the Group had owned 95 patents for products and the Group had applied for 29 new patents. The Group will continue its investment in product innovation and R&D. Following the R&D strategy of "produce and focus our R&D efforts for a leading next generation of products", the Group will focus on the safety and effectiveness as well as R&D and innovation of medical devices so as to enhance the Group's overall competitiveness in the industry.

Expansion of Distribution Network

The Group has an experienced, strong and dedicated team of professional sales and marketing staff to support and consolidate its distribution networks in 31 provinces, municipalities and autonomous regions in China, and enhance the promotion of products from all business segments. The Group continued to optimize its sales channels and expand its distribution network, actively promoted the Company's strategic product layout in centralized procurement market and non-centralized procurement market, closely monitored national medical policies so as to timely and flexibly adjust the bidding strategies. Meanwhile, through multi-channel and multi-sector expansion of sales network in hospitals in key provinces, the Group strived to promote business development and expand network layout.

The Group's core salesmen have an average of ten years of experience in their respective fields. Nearly half of our sales and marketing team have medical education backgrounds, which enables them to communicate with doctors and nurses in a professional and effective manner. In 2020, following the principle of "being simple and effective", the Group optimized its organizational structure of sales department, shifting its core philosophy from being product-oriented to customer-oriented. Focusing on market and customers' needs, the Group strived to provide quality products and services. The Group combined and optimized the regional business of the sales department to reduce organizational costs, thereby realizing more effective and convenient decision-making processes and increasing working efficiency within the organization.

Strategic Acquisitions

The unexpected pandemic in 2020 has brought profound changes to the medical device industry. As people become more health conscious and pay more and more attention to diseases, it is expected that more medical enterprises will strengthen their R&D and manufacturing efforts in innovative drugs and medical devices. As stated in the Blue Book of Medical Device Industry: Annual Report on the Development of Medical Device Industry in China (2020), the medical device industry in China will still be in the golden era. The Group will promptly seize the strategic development opportunities in the medical device industry and make full use of sufficient funds generated from the successful exit of previous strategic acquisitions and actively carry out strategic layout projects through various means. Among the cash consideration received from the Group's disposal of CBPO shares in 2020 and 2021, nearly US$310 million could be used for, among others, capital expenditure, long-term future investment and M&A opportunities in medical and related industries. The Group will continue to seek opportunities with high-growth, high-profit margin and immense growth potential within its existing business segments and other medical sectors in a proactive manner. Guided by the overall strategy, the Group will launch forward-looking and sustainable M&A and investments and seek targets with synergy for investment, merger and acquisition. Through various investment means such as acquisitions and mergers, the Group strives to realize satisfactory investment return and optimization of resource allocation and expand business footprint with a view to increasing its strategic presence in the medical device industry in China.

Financial Review

REVENUE

The revenue of the Group decreased by 31.7% from approximately RMB362.2 million in 2019 to approximately RMB247.4 million in 2020, as a result of the decrease in sales of the Infusion Set Business. Such decrease was mainly due to the outbreak of COVID-19 pandemic starting in early 2020, which caused significant decline in hospital traffic in the PRC and led to the decrease of sales volume of infusion set, especially in the major sales areas of the Group, such as Beijing, Hubei province and Heilongjiang province. The decrease was partially offset by an increase in sales of disposable intravenous cannula by 22.7% to RMB52.4 million.

GROSS PROFIT

The Group's gross profit decreased by 33.1% from approximately RMB222.1 million in 2019 to approximately RMB148.6 million in 2020. The gross profit margin decreased from 61.3% in 2019 to 60.1% in 2020, which was mainly due to the increase of the unit fixed cost as the sales volume declined.

SELLING AND MARKETING EXPENSES

Selling and marketing expenses decreased by 18.3% from approximately RMB101.2 million in 2019 to approximately RMB82.7 million in 2020. This decrease was mainly attributable to the decrease of the travelling and logistical expenses as well as the business entertainment and promotion cost as a result of the imposition of travel restrictions during the COVID-19 pandemic period.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses decreased by 13.3% from approximately RMB65.2 million in 2019 to approximately RMB56.5 million in 2020. The decrease was mainly due to the decrease of legal and other services fee and energy expenses, which partially offset by an increase of approximately RMB4.7 million in trade receivable write off.

PROVISION FOR IMPAIRMENT LOSSES RECOGNISED IN RESPECT OF TRADE RECEIVABLES

For the year ended December 31, 2020, provision for impairment losses recognised in respect of trade receivables amounted to approximately RMB9.8 million, decreased by approximately RMB5.7 million from approximately RMB15.5 million in 2019. The detailed information regarding the impairment loss recognised in respect of trade receivables could be found in Note 35(b) to the consolidated financial statements for the year ended December 31, 2020.

R&D EXPENSES

R&D expenses increased by 79.4% from approximately RMB25.5 million in 2019 to approximately RMB45.8 million in 2020, mainly due to the increase of direct materials and research expenses used during the R&D programs, since some new R&D activities had been launched during this year.

OTHER LOSSES — NET

Other losses — net in 2020 amounted to approximately RMB21.5 million, increased by approximately RMB10.1 million from a net other losses of approximately RMB11.4 million in 2019, mainly due to that (i) the loss on deemed disposal of an associate increased by approximately RMB8.6 million; (ii) the increase of the net foreign exchange loss amounted to RMB5.9 million, which was caused by the change of the exchange rate for the US dollar deposits denominated in RMB; (iii) the loss on the disposal of property, plant and equipment decreased by approximately RMB9.6 million; and (iv) the government grants decreased by approximately RMB3.1 million.

GAIN ON DISPOSAL OF INTEREST IN AN ASSOCIATE

The Group had a gain on disposal of interest in an associate of RMB587.7 million, being the capital gain from the disposal of 2,571,000 CBPO shares completed in 2020, as disclosed in Note 17 to the consolidated financial statements for the year ended December 31, 2020. After the disposal, the Company's equity interest in CBPO decreased from 16.4% to 9.7% as of 31 December 2020. The capital gain from the disposal of the remaining 3,750,000 CBPO shares on Jan 6, 2021, will be recognized in the consolidated income statement in year 2021.

FAIR VALUE LOSS ON INVESTMENT PROPERTIES

The Group had a fair value loss on investment properties of RMB1.8 million in 2020, which was increased by RMB0.1 million from RMB1.7 million in 2019. The increased loss was mainly due to the decline in the rental market in an epidemic environment.

OPERATING PROFIT

Operating profit increased by RMB516.6 million from RMB1.7 million in 2019 to RMB518.3 million in 2020, mainly due to the gains on the transactions of disposal of 2,571,000 CBPO shares completed in 2020 amounted to RMB587.7 million. It was partially offset by (i) the loss on deemed disposal of an associate amounted to RMB34.8 million in 2020 (2019: RMB26.2 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; (ii) the impact of the COVID-19 pandemic which led to the decrease of the sales of infusion sets; (iii) the increased investment in the R&D activities; and (iv) the accrual of impairment allowance for trade receivables.

FINANCE COST — NET

The Group had a net finance cost of RMB5.1 million for the year ended December 31, 2020, decreased by approximately RMB23.6 million from RMB28.7 million in 2019. As disclosed in Note 23 to the consolidated financial statements for the year ended December 31, 2020, the decrease was mainly due to the early repayment of bank borrowing of US$ 82,720,000 in May 2020, so that the Group only accrued approximately 4 months interest expense of RMB10.7 million for 2020, while in 2019, the Group had incurred interest expense for bank borrowings of RMB30.1 million. The remaining decrease was mainly due to the interest income recognized in 2020.

SHARE OF RESULT OF AN ASSOCIATE

As disclosed in Note 17 and 18 to the consolidated financial statements for the year ended December 31, 2020, the investment in CBPO is classified as interest in an associate in 2019 and had been accounted for in the consolidated financial statements using equity method. In 2020, after entering into the agreements to dispose of the Group's holding of CBPO shares, the remaining investment in CBPO had been reclassified as assets classified as held for sale as at December 31, 2020. Share of result of CBPO during the year ended December 31, 2020 amounted to RMB113.4 million, after deducting amortization of intangible assets arising from the acquisition of RMB37.9 million during the year ended December 31, 2020.

INCOME TAX CREDITS/ (EXPENSES)

For the year ended December 31, 2020, income tax credits amounted to approximately RMB5.2 million, as compared with the income tax expenses of approximately RMB3.8 million in 2019. The change was mainly due to the decrease of taxable profit as well as the record of the deferred income tax assets related to impairment loss of trade receivables and fair value loss on investment properties.

NET PROFIT

In view of the foregoing reasons, the net profit of the Group in 2020 increased by RMB549.8 million from approximately RMB82.0 million in 2019 to RMB631.8 million, which was mainly due to the gains on the transactions of disposal of 2,571,000 CBPO shares completed in 2020 amounted to RMB587.7 million and the decrease of the finance cost by RMB19.4 million. The increase was partially offset by the decrease of the infusion set sales due to the impact of the COVID-19 pandemic.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company for the year ended December 31, 2020 amounted to approximately RMB631.8 million, representing an increase of 670.7% from approximately RMB82.0 million recorded in 2019.

PROFIT FOR THE YEAR

The profit for the year ended December 31, 2020 amounted to RMB631.8 million, representing an increase by 670.8% as compared to that for the year ended December 31, 2019.

TRADE AND OTHER RECEIVABLES

The Group's trade and other receivables primarily comprised the outstanding payment from credit sales. As of December 31, 2020, the trade and other receivables of the Group was approximately RMB151.4 million, representing a decrease of approximately RMB54.8 million as compared to approximately RMB206.2 million as of December 31, 2019, which was mainly due to the decrease of the revenue and the provision for impairment losses on trade receivables of RMB9.8 million.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and established a provision matrix that was based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The details are disclosed in Note 20 and 35(b) to the consolidated financial statements for the year ended December 31, 2020.

The Group reviews the financial performance of the customers with long aging receivables periodically and revises the credit terms granted to the customers based on credit risk analysis. Besides review of account receivables, the management may also use letter of collection and lawyer's letter to collect receivables. The Group would also negotiate with customer to explore the use of debt agreement if there are higher risk of recoverability. In some circumstance, the internal legal department of the Group would be involved in collection of receivables to explore the availability of legal actions, and to issue formal communication to the customer before escalating the actions. Out of the trade receivable aged over 6 months amounted to RMB92.4 million at December 31, 2019, a total of RMB54.6 million was subsequently received up to December 31, 2020.

As at December 31, 2020, the Group had made loss allowances of RMB34.8 million (as at December 31, 2019: RMB25.0 million) on the trade receivables with a gross amount of RMB142.7 million (as at December 31, 2019:RMB188.6 million).

INVENTORIES

Inventories increased by approximately 7.3%, from approximately RMB36.4 million as of December 31, 2019 to approximately RMB39.0 million as of December 31, 2020. The increase of inventories was mainly due to the increase of the raw materials stock to address the risk of inefficient traffic during the pandemic period.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment mainly include buildings and facilities, machinery and equipment and construction in progress. As of December 31, 2020, the property, plant and equipment of the Group amounted to approximately RMB698.4 million, representing a decrease of approximately RMB26.8 million as compared to approximately RMB725.2 million as of December 31, 2019. The decrease was mainly due to the depreciation of the property, plant and equipment during the year ended December 31, 2020.

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, 2020, the net value of the Group's intangible assets was approximately RMB177.9 million, representing a decrease of approximately RMB3.2 million as compared to RMB181.1 million as of December 31, 2019. The decrease was primarily due to the amortisation charged during the year ended December 31, 2020.

INTEREST IN AN ASSOCIATE AND ASSETS CLASSIFIED AS HELD FOR SALE

As at December 31, 2020, our share of the net assets of CBPO amounted to RMB2,166 million, representing 41.0% of our total assets as at December 31, 2020. Such interest in CBPO is classified as held for sale on the consolidated statement of financial positions as at December 31, 2020 and is subsequently disposed off on January 6, 2021.

FINANCIAL RESOURCES AND LIQUIDITY

As of December 31, 2020, the Group's cash and bank balances amounted to approximately RMB1,701.8 million (2019: RMB132.6 million). As of December 31, 2020, the Group's bank borrowing balances was RMB28.0 million as disclosed in Note 23 to the consolidated financial statements for the year ended December 31, 2020 (2019: RMB587.1 million).

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

PLEDGE OF ASSETS

Save as those disclosed in Note 7 and 23 to the consolidated financial statements for the year ended December 31, 2020, during the year ended December 31, 2020, 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, 2020, the Group had a total capital commitment of approximately RMB28.6 million (2019: RMB30.4 million), comprising mainly contracted capital expenditure for construction or acquisition of property, plant and equipment.

CAPITAL EXPENDITURE

During the year ended December 31, 2020, the Group incurred expenditure of RMB15.2 million on the construction in progress including facilities and production lines and expenditure of RMB2.0 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 and non-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,	
	2020 RMB'000	2019 RMB'000
Total borrowing	28,000	587,071
Total equity	5,108,279	4,608,489
Total capital	5,136,279	5,195,560
Gearing Ratio	0.55%	11.30%

FOREIGN EXCHANGE RISK

The Group mainly operates its business in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar and 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, 2020. 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, 2020, 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 RMB210,000 (2019: RMB490,200).

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.

Corporate Governance Report

The Board has committed to maintaining good corporate governance standards. The Board believes that good corporate governance standards are essential in providing framework for the Group to safeguard the interests of Shareholders and to enhance corporate value and accountability.

The Board considers that during the year ended December 31, 2020, the Company has applied the principles and complied with the code provisions set out in the CG Code, except for code provision A.2.1. Key corporate governance principles and practices of the Company as well as the foregoing deviation are summarized below.

A. THE BOARD

A1. Responsibilities and Delegation

The Board is responsible for the leadership, control and management of the Company and oversees the Group's business, strategic decision and performances in the attainment of the objective of ensuring effective functioning and growth of the Group and enhancing value to investors. All the Directors carry out their duties in good faith, take decisions objectively and act in the interests of the Company and Shareholders at all times.

The Board reserves for its decision on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, risk management and internal control systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have timely access to all relevant information as well as the advice and services of the senior management and the Company Secretary, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any Director may request for independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

The senior management is delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management. The Board has the full support of the senior management to discharge its responsibilities.

A2. Board Composition

The composition of the Board during the year ended December 31, 2020 and up to the date of this report is as follows:

Executive Director:

Ms. Yue'e ZHANG	*(Chairman of the Board, CEO and Chairman of the Nomination Committee)*

Non-executive Directors:

Mr. JIANG Liwei	
Mr. LIN Junshan	*(Member of both the Audit Committee and the Remuneration Committee)*

Independent non-executive Directors:

Mr. WANG Xiaogang	*(Chairman of the Audit Committee and Member of the Nomination Committee)*
Mr. ZHANG Xingdong	*(Member of both the Remuneration Committee and the Nomination Committee)*
Mr. CHEN Geng	*(Chairman of the Remuneration Committee and Member of the Audit Committee)*

Throughout the year ended December 31, 2020, the Board has met the requirements of the Listing Rules 3.10 and 3.10A of having a minimum of three independent non-executive Directors (representing at least one-third of the Board) with one of them, being Mr. WANG Xiaogang, possessing appropriate professional qualifications and accounting and related financial management expertise.

The members of the Board have skills and experience appropriate for the business requirements and objectives of the Group. The executive Director is responsible for the businesses and functional divisions of the Group. The non-executive Directors scrutinize the performance of management in achieving agreed corporate goals and objectives and monitor the Group's performance reporting. The independent non-executive Directors bring different businesses and financial expertise, experiences and independent judgement to the Board and they constitute the majority of each of the Board committees of the Company. Through participation in Board meetings and taking the lead in managing issues involving potential conflicts of interests, the independent non-executive Directors have made contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the Shareholders.

To the best knowledge of the Directors, the Directors and senior management have no financial, business, family or other material/relevant relationships with one another. The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent with reference to the independence guidelines set out in the Listing Rules.

A3. Chairman and Chief Executive

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Ms. Yue'e ZHANG performs both the roles of the Chairman of the Board and the CEO currently. 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.

A4. Appointment and Re-election of Directors

All Directors are appointed for a specific term, subject to renewal upon expiry of the existing term. Ms. Yue'e ZHANG and Mr. JIANG Liwei are currently appointed for a term of 3 years commencing from February 3, 2021 and March 31, 2019, respectively, pursuant to their respective appointment letters. All the other Directors are currently appointed for a term of 3 years from October 15, 2019 pursuant to their letters of appointment.

According to the Articles, one-third of the Directors for the time being (if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each AGM provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors should be eligible for re-election at the relevant AGM. In addition, any new Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his/her appointment, whereas any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM. The Director appointed by the Board as aforesaid shall be eligible for re-election at the relevant general meeting.

At the forthcoming 2021 AGM, Mr. CHEN Geng and Mr. WANG Xiaogang shall retire by rotation pursuant to the Articles provisions as stated in the foregoing paragraph. Both of the above two retiring Directors, being eligible, will offer themselves for re-election at the 2021 AGM. The Board and the Nomination Committee recommended their re-election. The Company's circular, sent together with this annual report, contains detailed information of the above two Directors as required by the Listing Rules.

A5. Training and Continuing Development for Directors

Each newly appointed Director will receive formal induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

The existing Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Trainings and professional development for Directors are arranged whenever necessary. In addition, reading material on new or changes to salient laws and regulations applicable to the Group are provided to Directors from time to time for their studying and reference.

The Directors are required to submit to the Company details of the training they received in each financial year for the Company's maintenance of proper training records of the Directors. According to the training records currently maintained by the Company, during the year ended December 31, 2020, the Directors have complied with the code provision A.6.5 of the CG Code on participation in continuous professional training as follows:

	Type of training/education	
	Attending training on regulatory development, directors' duties or other relevant topics	Reading regulatory updates or corporate governance related materials or materials relevant to directors' duties
Ms. Yue'e ZHANG	✓	✓
Mr. JIANG Liwei	✓	✓
Mr. LIN Junshan	✓	✓
Mr. WANG Xiaogang	✓	✓
Mr. ZHANG Xingdong	✓	✓
Mr. CHEN Geng	✓	✓

A6. Directors' Attendance Records at Meetings

The attendance records of each Director at the Board and Board committee meetings and the general meetings of the Company held during the year ended December 31, 2020 are set out below:

	Attendance/Number of Meetings					
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting	Extraordinary General Meeting
Executive Director:						
Ms. Yue'e ZHANG	6/6	N/A	N/A	1/1	1/1	1/1
Non-executive Directors:						
Mr. LIN Junshan	6/6	3/3	1/1	N/A	1/1	1/1
Mr. JIANG Liwei	6/6	N/A	N/A	N/A	1/1	1/1
Independent non-executive Directors:						
Mr. WANG Xiaogang	6/6	3/3	N/A	1/1	1/1	1/1
Mr. ZHANG Xingdong	6/6	N/A	1/1	1/1	0/1	0/1
Mr. CHEN Geng	6/6	3/3	1/1	N/A	1/1	1/1

In addition, the Chairman held a meeting with the independent non-executive Directors without the presence of other Directors during the year ended December 31, 2020.

A7. Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of their office or employment, are likely to possess inside information of the Company and/or securities. Specific enquiry has been made of all the Directors and they have confirmed their compliance with the Model Code throughout the year ended December 31, 2020. In addition, no incident of non-compliance of the Model Code by the senior management of the Group was noted during the year ended December 31, 2020.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and senior management in advance.

A8. Corporate Governance Functions

The Board is responsible for performing the corporate governance functions set out in the code provision D.3.1 of the CG Code.

During the year under review, the Board has performed corporate governance functions as follows: (i) reviewed and developed the Company's corporate governance policies and practices; (ii) reviewed and monitored the training and continuous professional development of Directors and senior management; (iii) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements; (iv) reviewed and monitored the compliance of the Model Code; and (v) reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

B. BOARD COMMITTEES

The Company has three Board committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference which are available on the Stock Exchange's website (www.hkexnews.hk) and on the Company's website. All the Board committees should report to the Board on their decisions or recommendations made.

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

B1. Remuneration Committee

The Remuneration Committee comprises a total of three members, being one non-executive Director, namely Mr. LIN Junshan, and two independent non-executive Directors, namely Mr. CHEN Geng (chairman of the Committee) and Mr. ZHANG Xingdong. Throughout the year ended December 31, 2020, the Company has met the Listing Rule requirements of having the majority of the Remuneration Committee members being independent non-executive directors as well as having the Committee chaired by an independent non-executive director.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure and on the remuneration packages of Directors and members of senior management (i.e. the model described in the code provision B.1.2(c)(ii) of the CG Code is adopted). The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by the Board with reference to the performance of the individual and the Company as well as market practice and conditions.

During the year ended December 31, 2020, the Remuneration Committee has held one meeting, in which the existing remuneration policy and structure of the Company and the remuneration packages of Directors and senior management were reviewed and relevant recommendations were made to the Board.

The attendance records of each Committee member in the above meeting are set out in section A6 above.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended December 31, 2020 is set out below:

Remuneration band (HK$)	Number of individual
Nil–1,000,000	3

The amount of remuneration includes the amortisation of the fair value of share-based compensation, wages, salaries, bonus, contribution to social securities and housing fund. Details of the remuneration of each Director for the year ended December 31, 2020 are set out in Note 10 to the consolidated financial statements contained in this annual report.

B2. Nomination Committee

The Nomination Committee comprises a total of three members, being one executive Director and the Chairman of the Board, namely Ms. Yue'e ZHANG (chairman of the Committee), and two independent non-executive Directors, namely Mr. ZHANG Xingdong and Mr. WANG Xiaogang. Throughout the year ended December 31, 2020, the Company has met the code provision A.5.1 of the CG Code of having a majority of the Committee members being independent non-executive directors and having the Committee chaired by the chairman of the Board.

The principal responsibilities of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and recommending any changes to the Board; identifying qualified and suitable individuals to become Board members and selecting and making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive Directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular, the chairman and the chief executive of the Company.

In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, the diversity on the Board, the integrity, experience, skills and professional knowledge of the candidate and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. External recruitment professionals might be engaged to carry out selection process when necessary.

The Company also recognizes and embraces the benefit of having a diverse Board to enhance the quality of its performance. To comply with Rule 13.92 of the Listing Rules, a Board diversity policy was adopted by the Company, pursuant to which the Nomination Committee is responsible for monitoring the implementation of the Board diversity policy and assessing the Board composition under diversified perspectives (including but not limited to gender, age, cultural and educational background, or professional experience). The Nomination Committee shall report its findings and make recommendation to the Board, if any. Such policy and objectives will be reviewed from time to time to ensure their appropriateness in determining the optimum composition of the Board.

The Company has adopted the director nomination policy. Such policy, devising the criteria and process of selection and performance evaluation, provides guidance to the Board on nomination and appointment of Directors. The Board believes that the defined selection process is good for corporate governance in ensuring the Board continuity and appropriate leadership at Board level, and enhancing better Board effectiveness and diversity as well as in compliance with the applicable rules and regulations.

During the year ended December 31, 2020, the Nomination Committee has held one meeting and performed the following major works:

— Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group;

— Recommendation of the re-appointment of the retiring Directors standing for re-election at the AGM held on June 16, 2020 (the "2020 AGM"); and

— Assessment of the independence of all the independent non-executive Directors.

In assessing the Board composition, the Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy. The attendance records of each Committee member in the above meeting are set out in section A6 above.

B3. Audit Committee

The Company has met the Listing Rule requirements regarding the composition of the Audit Committee throughout the year ended December 31, 2020. The Audit Committee comprises a total of three members, being one non-executive Director, namely Mr. LIN Junshan, and two independent non-executive Directors, namely Mr. WANG Xiaogang and Mr. CHEN Geng. The chairman of the Audit Committee is Mr. WANG Xiaogang who possesses the appropriate professional qualification, and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditor before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditor and making relevant recommendations to the Board; and reviewing the Company's financial reporting system, risk management and internal control systems and the effectiveness of the internal audit function.

During the year ended December 31, 2020, the Audit Committee has held three meetings and performed the following major works:

— Review and discussion of the annual financial statements, results announcement and report for the year ended December 31, 2019, the related accounting principles and practices adopted by the Group and the relevant audit findings, the report from the management on the Company's financial reporting system, internal control and risk management review and processes; and the major internal audit issues for the year ended December 31, 2019 and the existing internal audit function of the Company;

— Consideration and recommendation of the re-appointment of BDO Limited as the external auditor of the Company at the 2020 AGM;

— Review and discussion of the interim financial statements, results announcement and report for the six months ended June 30, 2020 and the related accounting principles and practices adopted by the Group;

— Discussion of the nature, plan and scope of the Group's audit and the audit fee for the year ended December 31, 2020; and

— Review of the arrangements for employees of the Group to raise concerns about possible improprieties in the Group's financial reporting, internal control or other matters and the investigation process on the reported cases.

The external auditors has attended all of the above meetings and discussed with the Audit Committee members on issues arising from the audit and financial reporting matters. Besides, there is no disagreement between the Board and the Audit Committee regarding the appointment of external auditor.

The attendance records of each Committee member in the three meetings are set out in section A6 above.

C. DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Group for the year ended December 31, 2020.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports and other financial disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

D. RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems. The Board reviews the effectiveness of the risk management and internal control systems as well as the internal audit function of the Company on an annual basis through the Audit Committee.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including production, procurement, marketing, finance, human resources, and information technology. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. The management, in coordination with department heads, assesses the likelihood of risk occurrence, provides treatment plans, and monitors the risk management progress. The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended December 31, 2020.

The Company's internal auditor is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. During the year under review, the internal auditor examined key issues in relation to the accounting practices and all material controls and provided its findings to the Audit Committee.

During the year ended December 31, 2020, the Board, as supported by the Audit Committee as well as the report from the management and the internal audit findings, reviewed the effectiveness of the Group's risk management and internal control systems, including the financial, operational and compliance controls, and considered that such systems are effective and adequate.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

E. COMPANY SECRETARY

Mr. WONG Tin Yu ("Mr. WONG") of Tricor Services Limited ("Tricor"), an external service provider, acts as the Company Secretary. The primary contact person at the Company with Mr. WONG and Tricor is Mr. CHEN Yikun, the vice president of the Company.

Mr. WONG and Tricor are responsible for providing advice to the Board on corporate governance matters. Mr. WONG has confirmed that he has taken no less than 15 hours of relevant professional training during the year ended December 31, 2020.

F. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company, BDO Limited, about their reporting responsibilities on the Company's financial statements for the year ended December 31, 2020 is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to BDO Limited in respect of audit services and non-audit services for the year ended December 31, 2020 are analyzed below:

Type of services provided by the external auditor	Fees paid/ payable (RMB'000)
Audit services	1,160
Non-audit services	
— Review on interim results for the six months ended June 30, 2020	200
— Advising on working capital sufficiency and indebtedness	179
TOTAL:	1,539

G. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparent and timely disclosure of corporate information, which enables Shareholders and investors to make informed investment decision.

The Company maintains a website at www.pwmedtech.com as a communication platform with Shareholders and investors, where information and updates on the Company's business developments and operations and other information are available for public access. Shareholders and investors may send their written enquiries or requests to the Company via the following contact details:

Address:	Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Email:	ir@pwmedtech.com
Fax number:	(86) 10 84783657

Enquiries and requests will be dealt with by the Company in an informative and timely manner.

Besides, Shareholders' meetings provide an opportunity for communication between the Board and the Shareholders. It is the Company's general practice that the chairman of the Board as well as chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, their duly appointed delegates will be available to answer questions at the AGM and other general meetings of the Company. In addition, the Company will invite representatives of the auditor to attend its AGM to answer Shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence, if any.

H. SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at Shareholders' meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company (www.pwmedtech.com) and the Stock Exchange after each Shareholders' meeting. The Articles allow a Shareholder entitled to attend and vote at a general meeting to appoint a proxy, who need not be a Shareholder, to attend the meeting and vote thereat on his/her/its behalf.

Pursuant to the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

There is no provision allowing Shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

With respect to the Shareholders' right in proposing persons for election as Directors, please refer to the procedures available on the website of the Company.

During the year under review, the Company has not made any changes to the Articles. An up-to-date version of the Articles is available on the websites of the Company and the Stock Exchange.

Shareholders may refer to the Articles for further details of the rights of Shareholders.

Environmental, Social and Governance Report

ABOUT THIS REPORT

This is the fifth environmental, social and governance report issued by the Group (the "Report"), which will continue to report to the stakeholders[1] the Group's latest performance in environmental, social and governance aspects to facilitate their understanding of the performance of the Group in terms of environmental, social and governance issues. This Report is prepared in Chinese and English and has been uploaded to websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Group at www.pwmedtech.com.

Scope of Report

The scope of the Report will continue to cover the environmental, social and governance performance of the Beijing-based plant related to the "Medical Device Business" of the Group (referred to as the "Fert Plant" or the "Plant") from January 1, 2020 to December 31, 2020 (the "Year"). The relevant business accounts for approximately 98.3% of the Group's revenue.

Reporting Standards

The Report is prepared in accordance with the four reporting principles, namely materiality, quantitative, balance and consistency, specified in the Environmental, Social and Governance Reporting Guide (the "Guide") as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Meanwhile, certain contents under "Recommended Disclosure" have also been included in the Report to provide a more comprehensive disclosure on the Group's performance.

Reporting Principles	Definition	Response
Materiality	Environmental, social and governance issues having great influences on the Group and various stakeholders should be highlighted.	The Group communicated with the stakeholders through various means during the Year and the relevant disclosure has been highlighted in the Report.
Quantitative	Key performance data needs to be measurable and compared where appropriate.	Key Performance Indicators (KPIs) of the Social part of the Group are derived from relevant departments' statistics. In addition, to ensure the accuracy of the environmental KPIs, the Group has entrusted Carbon Care Asia, a professional consulting company, to carry out carbon assessment by referring to different international standards.
Balance	Issuers should objectively and truthfully report its environmental, social and governance performance during the Year.	During the preparation of the Report, the Group not only focuses on elaborating the environmental, social and governance results, but also describes the difficulties encountered and solutions in such regard.
Consistency	Disclosure in the Report should adopt consistent methodologies to allow for meaningful comparisons of environmental, social and governance KPIs and thus obtaining more knowledge on the corporate performance.	The methodologies adopted in the Report are the same as that of last year and the Group has compared some of the environmental, social and governance data this year with that of last year. Please refer to the section headed "Overview of Key Performance Indicators" for details.

1 "Stakeholders", also referred to as "stake holders" or "equity holders", are the groups and individuals having great influences on or being affected by the company's businesses, including the board of directors, management, executives and general staff within the organisation; and external shareholders, business partners, customers, governmental and regulatory institutions, banks and investors and community groups.

Confirmation and Approval

The Group undertook to use its best endeavour to ensure the accuracy and reliability of all information presented in the Report, and will manage such information by establishing internal monitoring and formal review procedures. The Report was confirmed and approved by the Board on March 30, 2021.

Feedbacks

The Group welcomed the opinions or recommendations from the stakeholders on the environmental, social and governance performance of the Group. Please contact the Group by the following means:

Address:	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
E-mail:	ir@pwmedtech.com

MESSAGE FROM DIRECTOR

In view of the rising public awareness towards environmental and social issues, coupled with increasingly stringent disclosure requirements of regulatory authorities on environmental, social and governance performance of companies, the Group will actively respond to these changes and fulfil its commitments to sustainable development of the Company.

As a production enterprise producing medical devices, the Group had been promoting the well-being of different patients through the research, development and production of various medical products. With the outbreak of the COVID-19 at the beginning of this year, residents avoided or postponed going out for non-urgent medical consultation and treatment, which posed challenges to the Infusion Set Business, the Group's core business, to a certain extent. Under such circumstances, upholding its sense of corporate social responsibility, the Group ensured the hygiene and safety of its production through various measures and promptly respond to the national policies of resumption of work and production. Despite the severe shortage of labor force and sterilization capacity for medical masks/protective suits, the Group resolutely shouldered the responsibility as a medical device enterprise and provided sterilization services for a number of medical masks/protective suits manufacturers, which helped mitigate the shortage of anti-pandemic supplies early at the outbreak. In recognition of the Group's contributions during the pandemic, the Group received the commendation from the Beijing Pandemic Prevention Supplies Security Team (北京市疫情防控物資保障組), and was awarded the honour title of Advanced Unit for COVID-19 Pandemic Prevention and Control 2020 (二零二零年新冠肺炎疫情防控工作先進集體) by the Medical Device Supply Chain Association of China Federation of Logistics & Purchasing. Meanwhile, leveraging the technological expertise in sterilization of medical masks and protective suits, the Group joined hands with Tsinghua University, Beijing Municipal Research Institute of Labour Protection and Chinese PLA Center for Disease Control and Prevention to undertake the "Development of Face Mask Inspection Platform" project organized by the Beijing Municipal Commission of Science and Technology. On the other hand, through reinforcing the management of its own industrial park, the Group stayed ready for this pandemic fight at all times by actively carrying out proper corporate pandemic prevention measures and further enhancing prevention awareness of and health protection for its employees.

Innovation capability also plays an essential role in the long-term corporate development. The Group has established a research and development team consisting of experienced members to closely cooperates with surgeons, hospitals, university research centers and other research institutions. As of December 31, 2020, the Group had owned 95 patents for products in total and had applied for 29 new patents. Looking forward, the Group will continue its investment in research and development of new products with an aim to create more comfortable products for the patients.

Looking ahead, the Group will continue to incorporate the principle of sustainable development into its business systems, and integrate its action plans with the climate change policies and sustainable development goals. As such, the Group will further optimize its environmental and social management systems on top of responding to the requirements of the regulatory departments.

Chairman of the Board and CEO
Yue'e ZHANG

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Governance Structure and Risk Management

The Board is responsible for matters related to environmental, social and governance of the Group and ensuring the establishment of effective and sound internal control and risk management systems. Currently, the Group is actively studying matters related to forming an environmental, social and governance taskforce, for which details are expected to be disclosed next year.

In addition, the Board has the overall responsibility for evaluating and determining the nature and extent of the risks which are acceptable in achieving the Group's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. The Audit Committee will assist the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems. The Board reviews the effectiveness of the risk management and internal control systems as well as the internal audit function of the Group annually through the Audit Committee. During the Year, the Group has identified the following environmental, social and governance risks through the risk management and internal control systems:

Environmental,Social and Governance Risks	Impact	Responding Measures
Labor standards	The Group pays great attention to the potential labor issues arising from staff recruitment, management and other employment matters. In case of any misuse of child labor or forced labor, the Group's brand image will be negatively affected and we will also be exposed to corresponding legal risks, which will all cause an adverse impact on the Group's operations.	• The Group strictly complies with relevant national laws and regulations, and has formulated various internal policies and multilevel approval systems within the Group, so as to ensure the employment procedures are in compliance with the standards set out in national and local laws and regulations.
Health and safety	Health and safety of employees is a key focus of the Group. If any issue related to employees' health and safety arises, their personal rights and interests as well as the relevant interests of the Group will be affected.	• The Group has formulated various policies regarding employees' health protection and production safety to effectively safeguard employees' rights in terms of health and safety; • The Group is committed to raising employees' awareness by adopting measures such as employee safety training and daily safety inspections, and thus creating a healthy and safe working environment; and • In the course of the pandemic prevention and control, the Group strictly complied with pandemic containment requirements of the local governments. The Group procured pandemic prevention supplies through different channels and took various effective pandemic tighting measures with a view to effectively safeguarding employees' health and safety.

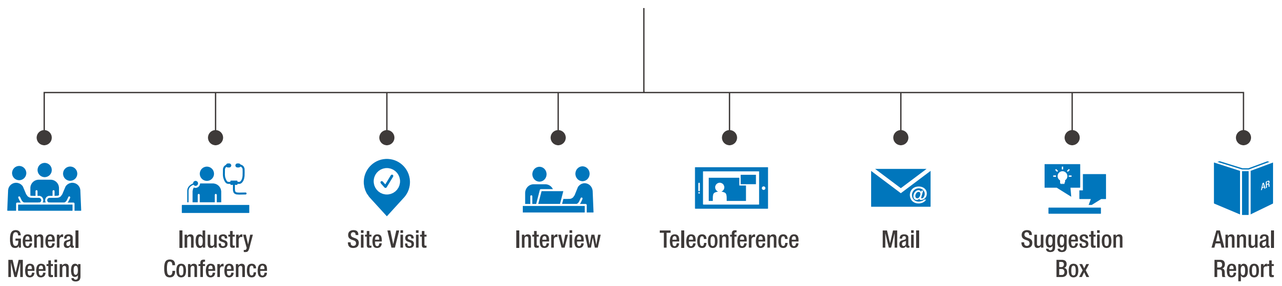
Environmental,Social and Governance Risks	Impact	Responding Measures
Product quality	Product quality is a core issue of the Group's operation. If there is any risk relating to product quality, the Group's image and consumer confidence will be affected while we will also be subject to legal and other risks arising therefrom as well as economic losses.	• To guarantee product safety, the quality system department of the Group has established a quality management system and corresponding corporate systems and standards; • The product research, development and technology department shall design and develop products according to the requirements of the National Medical Products Administration (NMPA), and the Group can carry out mass production of such products only after obtaining the registration certificate; and • The procurement department shall strictly screen out qualified suppliers to ensure the quality of raw materials procured.

COMMUNICATION WITH THE STAKEHOLDERS

The Group has always attached great importance to communication with stakeholders. During the Year, the Group organized different activities to obtain stakeholders' opinions and recommendations on the Group's environmental, social and governance practices. The Group believes that stakeholder participation could help the Group better identify risks and opportunities in different aspects of environment, society and governance, and facilitate the Group to formulate more comprehensive management policies and measures. Methods of communication with stakeholders during the Year are as follows:

Internal stakeholders	External stakeholder
Board of directors, management, executives and staff	Shareholders, investors, suppliers, dealers, hospitals, medical staff, patients, community groups or other cooperating organizations

Methods of communication with stakeholders



Through the different methods of communication with stakeholders mentioned above, the Group has determined the substantive issues for the Year, the details of which are as follows:

Substantive Issues	Reasons for Selection	Corresponding Section
Use of resources	The Group consumes a certain amount of raw materials and natural resources during its daily operations.	Promoting Green Production
Employment	As a responsible enterprise, protecting the rights and interests of the employees is the cornerstone of the Group's development.	Upholding the People-oriented Principle
Health and safety	Health and safety of our employees has always been the focus of the Group while the Group aims at constructing healthy and safe plants.	Upholding the People-oriented Principle
Development and training	Skill cultivation of the employees significantly fuels corporate development and guarantees on their career development.	Upholding the People-oriented Principle
Labor standards	Precluding child labor and forced labor has significant impact on the Group's brand image and sustainable development performance.	Upholding the People-oriented Principle
Product responsibility	As a company specializing in the manufacture of infusion sets, the core of the Group's development lies on product quality.	Achieving Efficient Operation

UPHOLDING THE PEOPLE-ORIENTED PRINCIPLE

Relevant Policies

"Staff Manual" and "Measures for Prevention and Rectification of Misuse of Child Labor".

Safeguarding the legitimate rights and interests of employees, creating a safe employment environment and nurturing outstanding talents are not only the foundations for the accomplishment of corporate operational targets, but also the key criteria for assessing its environmental, social and governance performance. The Group has formulated a series of policies to set out measures in respect of areas such as employee's remuneration, recruitment, dismissal, training, safety and labor standards.

Comprehensive Employment System

Remuneration and dismissal

- The remuneration structure of the Plant adopts the position-based salary system, which consists of two parts, namely basic salary and performance-based salary.
- If employees are found to provide false information, be absent from work continuously or commit other illegal acts, the Group has the right to terminate the employment.

Recruitment and promotion

- The human resources department of the Plant is responsible for formulating recruitment plans according to the employment needs of each department, and implementing the same upon approval of the general manager.
- The Plant conducts regular performance appraisal on employees, the results of which shall be used as the basis for assessing their future promotion.

Working hours

The Plant adopts a working system of five days per week and eight hours per day.

Holidays

The Plant offers employees with personal leave, sick leave, marriage leave, maternity leave and other leaves.

Equal opportunities and anti-discrimination

Complying with the relevant national laws and regulations, the Plant undertakes to provide equal opportunities to all employees in aspects such as recruitment, training and career development, regardless of their gender, age, nationality or colour, etc. Meanwhile, the Plant is committed to creating an anti-discrimination working environment internally where the Plant maintains a zero tolerance policy towards any form of discrimination.

Diversity

The Plant encourages the establishment of a diversified working environment. Currently, the Plant has employed 11 ethnic minority employees and 6 disabled employees.

Other benefits and welfare

The Plant provides employees with additional benefits including canteens, fitness and entertainment centers, staff accommodation and communication allowance.

Child labor

Strictly complying with the relevant national laws and regulations, the Plant undertakes to prohibit the employment of child labor by inspecting the candidates' identification documents during the recruitment process to confirm their ages. Candidates who fail to meet the age requirement shall be disqualified immediately.

Forced labor

The Plant strictly implements the relevant national laws and regulations during the course of work of the employees, and respects the employees' rights to resign on their own will.

Guarantee on Health and Safety

COVID-19 pandemic

Health and safety of employees have always been a key focus of the Group, In particular, during the COVID-19 pandemic within the Year, the Group once adopted a flexible working practice, allowing some employees to choose to work from home in order to minimize gathering of people. Meanwhile, as of the end of 2020, the Group has procured a large amount of sanitation materials for employees to use for free to ensure good sanitary conditions in the workplace.

During the pandemic, the industrial park where the Group is located immediately established an emergency team to be responsible for commanding, coordinating and implementing various pandemic management tasks in the industrial park. Whenever symptoms like fever of unknown cause (above 37.5°C) and breathing difficulties are found in employees in the industrial park, the emergency team should immediately close the park and prohibit the entry and exit of employees and vehicles, and at the same time assist each unit of the industrial park to carry out lockdown, quarantine and disinfection works.

Case study

Fire Safety

The Group conducts training campaigns including fire safety promotion and education for employees on a regular basis to help cultivate their fire safety awareness, and learn the operating skills of fire equipment. In addition, the Group has established a designated voluntary fire-fighting team to perform fire safety responsibilities in different fire safety areas under the guidance of the general manager.

Emergency Handling

In case of a safety emergency, such as fire or explosion, the relevant responsible personnel shall immediately evacuate the staff in a timely manner and promptly report to police. If the situation is within control, the Group may extinguish the fire with fire equipment by itself. Information of the location of all fire equipment is available in the "Fire Equipment Management Ledger".

During this Year, the Group has experienced one work-related injury accident in total, involving an employee who bumped into a glass door and injured the forehead. To this end, the Group has applied reflective tapes on the door for identification purpose. In addition, in order to further enhance safety awareness among employees, the Group has organized 30 occupational safety training programs for employees, involving all 425 employees.

Provision of Development and Training Opportunities

The Group acknowledges the importance of staff training in improving their work skills. The human resources department is responsible for the overall planning and management of the Group's training, with each functional division responsible for, among others, mapping out the training plan and conducting training assessment of the respective department. The Group has divided the staff training into two parts, i.e. internal training and external training. By leveraging internal lecturers and external professional technology such as third party online professional training platforms acquired by the Group, the Group aimed to enhance the required work knowledge and skills of the staff corresponding to their job position.

During the Year, the Group organized more than 200 training programs in total, covering topics including knowledge of infusion microbiology, mold maintenance and human resources management.

PROMOTING GREEN PRODUCTION

Relevant Policies
"Regulations on the Management of Hazardous Chemicals".

With increasingly more stringent requirements on the environmental performance of enterprise from the public and regulatory authorities at all levels, environmental sustainability has become one of the essential aspects for a corporate to perform its social responsibility. As a medical device manufacturing enterprise, the Group has been striving to mitigate the impact on the environment during the entire product cycle. In terms of waste gases, greenhouse gases, non-hazardous wastes and use of resources, the Group strictly complies with the relevant national laws and regulations.

Management of emissions and resources

Waste Gas Emission

The waste gases arising from operation of the Group's Fert Plant are mainly the ethylene oxide exhaust gas arising from sterilization of advanced infusion sets, and nitrogen oxides, sulfur oxides and respirable suspended particles generated from combustion of fossil fuels by vehicles.

The emission of nitrogen oxides, sulfur oxides and respirable suspended particles during the Year all decreased by 10% as compared with those of the previous year, and the total distance travelled and fuel consumption of vehicles did not vary significantly from those in 2019.

	Type	Emission for the Year	Emission in 2019
Waste gas emission	Nitrogen oxides (kg)	8.28	9.20
	Sulfur oxides (kg)	1.47	1.64
	Respirable suspended particles (kg)	0.78	0.86

Greenhouse Gas (GHG) Emission

The Group entrusted Carbon Care Asia, a professional consulting company, to assess the GHG emission. The quantification process of the GHG emission was carried out by referring to the guidelines[2] issued by the National Development and Reform Commission of China, ISO14064-1, Greenhouse Gas Protocol, and other international standards.

The total carbon emission generated by the Group's Fert Plant in Beijing during the Year amounted to approximately 1,794.4 tons of carbon dioxide equivalent. In particular, the moving source of direct GHG emission under Scope 1, the energy indirect GHG emission under Scope 2 and the GHG emission from business trip by airplane under Scope 3 accounted for 2.5%, 96.2% and 1.3% of the total GHG emission, respectively.

2 Accounting Methods and Reporting Guidelines for Greenhouse Gas Emissions by Enterprises in Other Business Lines of industries (Trial)《工業其他行業企業溫室氣體排放核算方法與報告指南(試行)》

Compared with the previous year, the total carbon emission generated during the Year decreased by approximately 22.1% and GHG density (carbon dioxide equivalent in tons/m^2) also decreased by approximately 22.1%, Due to the COVID-19 pandemic and the Group's measures on energy conservation and consumption reduction such as replacing the motion sensor lightings and controlling the temperature of ground source heat pumps, the energy indirect GHG emission generated by Fert Plant arising from electricity consumption during the Year experienced a significant drop of 20.4%. In addition, the GHG emission from business trip by aircraft during the Year also recorded a corresponding decline of approximately 72.6%

	Scope	Emission for the Year	Emission in 2019
GHG emission	Scope 1: Direct GHG emission (carbon dioxide equivalent in tons)	44.9	49.9
	Scope 2: Energy indirect GHG emission (carbon dioxide equivalent in tons)	1,726.3	2,167.8[3]
	Total GHG emissions (Scope 1 and 2, carbon dioxide equivalent in tons)	1,771.2	2,217.7
	GHG density (Scope 1 and 2, carbon dioxide equivalent in tons/m2)	0.11	0.14
	Scope 3: Other indirect GHG emission (carbon dioxide equivalent in tons)	23.2	84.6
	Total GHG emissions (Scope 1, 2 and 3, carbon dioxide equivalent in tons)	1,794.4	2,302.3
	GHG density (Scope 1, 2 and 3 carbon dioxide equivalent in tons/m2)	0.11	0.15

Sewage Emission

The sewage generated by the Group is mainly sourced from employees' domestic use, which has all been drained through the sewage drainage pipeline via municipal pipeline network to the local sewage treatment plant. The total water consumption during the Year was 34,332m^3, down by approximately 21.6% as compared with that of the previous year, mainly because the Group strived to promote water conservation, strengthened monitoring of water utilization and upgraded water treatment equipment in the new plant.

Waste Emission

The wastes produced by the Group are mostly comprised of domestic garbage, all being non-hazardous wastes. All those wastes have been sent to a specialized organization for centralized treatment. During the Year, the Group produced a total of 259.20 tons of non-hazardous wastes, mainly domestic garbage. In addition, Fert Plant generated a total of 3.90 tons of hazardous wastes during the Year, including waste mineral oil, laboratory waste liquids, cutting fluid, waste organic solvents, oily wastes, steel needles and infusion tubes, all sent to qualified hazardous waste treatment companies for collection and treatment.

3 To ensure that the data can accurately reflect the electricity consumption of the Group's Fert Plant, the 2019 data has been revised so that only the GHG emission generated from the electricity consumed in Fert Plant has been included and the data has excluded the carbon emission generated from the electricity consumed in leased properties.

Use of Resources

Gasoline and electricity are the major types of energy consumed by the Group. Other resources consumed include water resources, raw materials and packaging materials. The major raw materials used in Fert Plant during the finished product production process consist of PVC granules and ABS plastics, with annual consumptions of 734 tons and 221 tons, respectively, representing a decrease of 30.0% and 27.8%, respectively as compared with those of the previous year. The decrease was due to the fact that granules have been saved as a result of change in molding techniques. In terms of packaging materials for finished products, a total of 511 tons of packaging bags and packaging boxes were consumed, down by 33.9% over that of the previous year, and the intensity of packaging materials calculated by production volume slightly increased by 1.0%.

	Type	Consumption for the Year	Consumption in 2019
Energy use	Direct energy (Megawatt hours)	183.5	203.9
	Indirect energy (Megawatt hours)	2,829.6	3,553.2[4]
	Total energy consumption (Megawatt hours)	3,013.1	3,757.1
	Energy intensity (calculated by production volume, i.e.“Megawatt hours/10,000 items”)	0.69	0.56

The Environment And Natural Resources

The Group may use hazardous chemicals, including ethylene oxide, alcohol, concentrated hydrochloric acid, concentrated nitric acid and concentrated sulfuric acid, in the course of production. To ensure proper storage and use of hazardous chemicals and minimize the impact of chemical leakage on the surrounding environment, the Group has established a three-tier protection mechanism that the procurement department, the quality management department and the production centre are responsible for the procurement, inspection and managing the storage warehouse of hazardous chemicals, respectively. In addition, the Group requires professional personnel to carry out loading, unloading and storage works during the transportation process of chemicals. Collision, toppling and leakage are strictly prohibited. Storage processes should be carried out in different areas pursuant to the characteristics of hazardous chemicals, while fire safety signs shall be posted.

4 To ensure that the data can accurately reflect the electricity consumption of the Group's Fert Plant, the 2019 data has been revised so that only the electricity consumed in Fert Plant has been included and the data has excluded the electricity consumed in leased properties.

ACHIEVING EFFICIENT OPERATION

The Group is committed to optimizing supply chain management, enhancing product quality and upholding business ethics. It aims at meeting customers' needs by providing safe and practical medical products.

Managing the Supply Chain

Relevant policies
The Regulations on the Management of Supplier Audit.

The Group understands that the management of environmental and social risks of the suppliers is important to the supply chain ecosystem as a whole. It formulated the above policy for the stringent screening of suppliers. For suppliers that fail to meet the Group's requirements in terms of environmental, social, product quality and delivery performance, the Group will offer recommendations for improvement or disqualify them depending on the actual situation.

Environmental requirements for suppliers	Social requirements for suppliers
Investigate the environmental performance of the suppliers, including their waste gas emission, sewage discharge and use of resources.	Suppliers should submit inspection reports from qualified inspection centers on the use of certain hazardous chemicals.

Maintaining Product Responsibility

Relevant policies
The Product Prevention and Control Procedures, the Production Process Control Procedures, the Product Recall Management and Control Procedures, the Regulations for the Management on the use of Labels and Qualification Seals, the Staff Manual and the Letter of Commitments on Integrity Cooperation.

Quality Management

The Group has always attached great importance to product quality management. It formulated stringent measures for product manufacturing, storage, delivery and recall, so as to ensure its product quality complies with relevant requirements.

Product Manufacturing

- Based on product characteristics, the technology department has compiled the Process Documentation to specify all the production processes of the products from raw materials to finished products. The Group also enhances control over equipment, materials, production environment and personnel.
- To ensure that operators are familiar with the operating procedures, the Group provides regular training for relevant staff.

Product Storage

- According to the requirements of the Product Protection and Control Procedures, warehouse managers check the items stored in the warehouses regularly and promptly report any quality issues for disposal.
- Warehouse managers properly carry out prevention of moisture, dust and pollution within the warehouses on a regular basis.

Product Delivery

- Staff carries products in strict compliance with the instructions on the product labels. All transportation vehicles shall be covered with waterproof cloths to prevent products from being polluted.

Product Recall

- If there are risks in the products that jeopardize human health or safety, the Group will immediately act in accordance with the relevant requirements of the Product Recall Management and Control Procedures. The technology department shall determine whether to start the recall procedures. In case of a recall, the business department will notify agencies, entities and persons using such products.

During the Year, the Group did not receive product complaints or recall products.

Privacy Protection

The Group understands different customers' opinions and suggestions on its products via questionnaires and telephone communication in the ordinary course of business. Customer privacy is regarded as the Group's trade secret and centrally managed by the human resources department.

Product Labels

The Group attaches labels to its products which contain information that helps patients and physicians to understand its use. Thus, all of its production groups will collect corresponding labels at the warehouses based on product characteristics.

Intellectual Property Rights

The Group acknowledges the importance of intellectual property rights to its future development. The provision of products involving in any intellectual property rights dispute by its business partners, including its suppliers, is expressly forbidden by various policies. In addition, the Group undertakes that it will safeguard the intellectual property rights of itself and respect those of its business partners in its operation and cooperation with external parties.

Currently, the Group's operation does not involve any product advertisement so far. Hence, it has not formulated the relevant policies. In the future, the Group will update such policies in due course depending on its business development.

Elimination of Corruption

Relevant policies
The Procurement Principles and the Staff Manual.

The Group strives to build a culture of probity as it acknowledges its importance to the corporate development in the long run. In terms of external cooperation, the Group requires all business partners to sign the Letter of Commitments on Integrity Cooperation, so as to eradicate corruption in the cooperation. Moreover, internal staff shall sign the Letter of Commitments on Integrity and Self-discipline. Pursuant to which, they undertake not to seek rebates from any business partners, which include cash, specie or securities. In case of any misconduct, the Group will impose corresponding punishments on the relevant staff or refer to the relevant judiciary authorities depending on the seriousness of the case.

During the Year, the Group included training on safeguarding integrity in the orientation training for new staff.

MUTUAL DEVELOPMENT WITH THE COMMUNITY

Relevant policies
The Community Investment Policy.

The Group puts great emphasis on community development. In the Community Investment Policy, it is specified that community investment and business operation complement each other. During the COVID-19 outbreak at the beginning of the Year, China faced a severe shortage of pandemic prevention supplies mainly because all medical face masks and protective suits have to be sterilized to ensure their safety of use. In view of the lack of personnel and equipment, the Group continued to provide sterilization services to a number of medical face masks and protective suits manufacturers, which alleviated the shortage. As the outstanding contribution of the Group in material supply was recognized by the Beijing Pandemic Prevention Supplies Security Team (北京市疫情防控物資保障組), the Group was honored as the Advanced Unit for COVID-19 Pandemic Prevention and Control 2020 (二零二零年新冠肺炎疫情防控工作先進集體) by the Medical Device Supply Chain Association of China Federation of Logistics & Purchasing.

COMPLIANCE PROFILE

Compliance with the relevant laws and regulations

Aspect	Relevant laws and regulations	Compliance disclosure	Possible material impact on the Company	Measures to ensure compliance with the laws and regulations
A1 Emissions	• The Environmental Protection Law of the People's Republic of China • The Law of Prevention and Treatment of Water Pollution of the People's Republic of China • The Atmospheric Pollution Prevention and Control Law of the People's Republic of China	During the year, the Group has not identified any cases of non-compliance with the laws and regulations regarding emissions.	The Group may face administrative punishments and order of business suspension for serious cases.	The Group complies with environmental protection laws, regulations and requirements, formulates relevant corporate policy management system and regulatory control procedures, and carries out treatment and disposal of emissions in line with relevant laws, regulations and requirements.
B1 Employment	• The Labor Law of the People's Republic of China • The Labor Contract Law of the People's Republic of China	During the year, the Group has not identified any cases of non-compliance with the laws and regulations regarding employment.	The Group may face administrative and legal punishment, which would bring negative impact and corresponding legal risks to its brand image.	Based on the relevant legal requirements, the human resources department formulates the "Recruitment Procedure" and upholds the principles of openness, fairness and justice in talent recruitment and management.
B2 Health and Safety	• The Production Safety Law of the People's Republic of China • The Law of Prevention and Control of Occupational Diseases of the People's Republic of China • The Fire Control Law of the People's Republic of China	During the year, the Group has not identified any cases of non-compliance with the laws and regulations regarding the health and safety.	The individual rights of employees and corresponding rights of the Group may be affected. Meanwhile, the Group may also face the risk of legal proceedings.	The Group reviews and updates relevant mechanisms regularly, so as to ensure all safety measures are complied with laws and regulations, and are implemented in a proper manner.
B4 Labor Standards	• The Labor Law of the People's Republic of China • The Law on Protection of Minors of the People's Republic of China	During the year, the Group has not identified any cases of non-compliance with the laws and regulations regarding labor standards.	The Group's reputation in the market may be affected.	The Group forbids the use of child and forced labor at all operation sites. It has also formulated a number of internal measures and control procedures to prevent child and forced labor.
B6 Product Responsibility	• The Product Quality Law of the People's Republic of China • The Patent Law of the People's Republic of China	During the reporting period, the Group has not identified any cases of non-compliance with the laws and regulations regarding product responsibility.	This not only affects the Group's image and consumers' confidence, but also causes legal and other risks as well as economic loss to the Group.	Based on the requirements of the National Medical Products Administration, the product research, development and technology department designs and develops products. The procurement department adopts stringent supply chain management. The quality control department performs quality inspection procedures on all segments through the corresponding mechanism.
B7 Anti-corruption	• The Anti-Unfair Competition Law of the People's Republic of China • The Anti-Money Laundering Law of the People's Republic of China	During the reporting period, the Group has neither been involved in any proceedings regarding corruption that were brought against the Group or its employees, nor violate relevant the laws and regulations which have a material impact on the Group.	It would increase the operating cost of the Group and cause economic loss.	The Staff Manual has specified the code of conduct that the staff must follow and the zero-tolerance approach towards illegal activities, such as corruption and bribery. The Group also offers training to raise the anti-corruption awareness of employees.

OVERVIEW OF KEY PERFORMANCE INDICATORS

Environmental Performance

	Type	Emission for the Year	Emission in 2019
Waste gases	Nitrogen oxides (Kg)	8.28	9.20
	Sulfur oxides (Kg)	1.47	1.64
	Respirable suspended particles (Kg)	0.78	0.86

	Scope	Emission for the Year	Emission in 2019
GHG emission	Scope 1: Direct GHG emission (carbon dioxide equivalent in tons)		
	Fossil fuel combustion-fixed source	0.0	0.0
	Fossil fuel combustion-moving source	44.9	49.9
	Scope 2: Energy indirect GHG emission (carbon dioxide equivalent in tons)		
	Purchased electric power	1,726.3	2,167.8
	Scope 3: Other indirect GHG emission (carbon dioxide equivalent in tons)		
	Business trip by airplane	23.2	84.6
	Total GHG emissions (carbon dioxide equivalent in tons)	1,794.4	2,302.3
	GHG density (carbon dioxide equivalent in tons/m2)	0.11	0.15

	Type	Generation for the Year	Generation in 2019
Wastes	Hazardous wastes (tons)	3.90	N/A
	Intensity of hazardous wastes (calculated by production volume, i.e. "tons/10,000 items")	0.0009	N/A
	Non-hazardous wastes (tons)		
	Domestic garbage	259.2	219.0
	Intensity of non-hazardous wastes (calculated by number of employees, i.e. "tons/number of employees")	0.61	0.35

	Type	Consumption for the Year	Consumption in 2019
Use of energy	Direct energy (Megawatt hours)		
	Gasoline	183.5	203.9
	Indirect energy (Megawatt hours)		
	Electric power	2,829.6	3,553.2
	Total energy consumption	3,013.1	3,757.1
	Energy intensity (calculated by production volume, i.e. "Megawatt hours/10,000 items")	0.69	0.56

		Consumption for the Year	Consumption in 2019
Use of water resources	Total water consumption (m^3)	34,332	43,783
	Intensity of water consumption (calculated by number of employees, i.e. "m^3/employee")	80.78	69.61

		Consumption for the Year	Consumption in 2019
Use of packaging materials	Total packaging materials (tons)	511	773
	Intensity of packaging materials (calculated by production volume, i.e. "tons/10,000 items")	0.12	0.12

Social Performance

Employee Distribution		Number of employees for the Year	Number of employees in 2019
Gender	Male	161	223
	Female	264	406
Type of employment	Senior management	5	7
	Middle management	20	31
	General staff	400	591
Form of employment	Full-time	425	629
	Part-time	0	0
Age	Below 30	78	192
	30–40	247	330
	41–50	92	90
	Above 50	8	17
Gender ratio (male: female)		0.61:1	0.55:1
Total		425	629
Labor staff	Security staff	4	
	Central control staff	4	No statistics
	Cleaning staff	5	

Employee Distribution			Distribution and percentage of resigned employees	Distribution and percentage of new employees
Gender	Male	161	71(44.1%)	11(15.5%)
	Female	264	145(54.9%)	13(9.0%)
Age	Below 30	78	61(78.2%)	10(16.4%)
	30–40	247	111(44.9%)	10(9.0%)
	41–50	92	28(30.4%)	4(14.3%)
	Above 50	8	16(200%)	0(0)
Total number and percentage			Statistics for the Year	
			216(50.8%)	24(5.6%)
			Statistics in 2019	
			96(15.3%)	141(22.4%)

Occupational safety and health performance	Indicator
Work-related fatalities and percentage	0
Number and percentage of employees who suffered from work-related injuries	1, 0.2%
Lost working days due to work-related injuries	2

Training		Distribution and percentage of employees receiving training	Training hours (hours)	Average training hours (hours)[5]
Gender	Male	161	3,914	24.3
	Female	264	5,310	20.1
Type of employment	Senior management	5	440	88
	Middle management	20	1,584	79.2
	General staff	400	7,200	18
Total number of employees receiving training and training hours		Statistics for the Year		
		425(100%)	9,224	21.7
		Statistics in 2019		
		629(100%)	11,391	18.1

Regions in which the suppliers are located	Number of suppliers	Provision of products or services	Number of suppliers implementing the relevant practices
Eastern China	114	Packaging, granules and auxiliary materials	67
Central China	30	Packaging and auxiliary materials	3
Southern China	31	Packaging and auxiliary materials	11
Northern China	114	Packaging, granules and auxiliary materials	34

5 Calculation of average training hours: the training hours of such gender or type of employment divided by the number of employees of the same type.

Directors' Report

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended December 31, 2020.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on May 13, 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company is an investment holding company, and its subsidiaries established in the PRC are primarily engaged in the Infusion Set Business.

The activities and particulars of the Company's subsidiaries are shown under Note 33 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year ended December 31, 2020 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and Note 6 to the consolidated financial statements.

BUSINESS REVIEW

A review of the Group's business during the year ended December 31, 2020, which includes a discussion of the principal risks and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Financial Review" in this annual report. A discussion on relationships with its key stakeholders is included in the sections headed "Management Discussion and Analysis", "Corporate Governance Report" and "Environmental, Social and Governance Report" in this annual report. In addition, a description of the environmental policies and performance of the Company is set out in the section headed "Environmental, Social and Governance Report" in this annual report. These discussions form part of this directors' report.

RESULTS AND DIVIDEND

The consolidated results of the Group for the year ended December 31, 2020 are set out on pages 75 to 81 of this annual report.

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2020 (2019: Nil).

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy"). The Dividend Policy aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the Shareholders.

The Board adopts the Dividend Policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. The Company does not have any pre-determined dividend payout ratio. The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the Articles and all applicable laws and regulations and the factors including without limitation to:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans; and
- interests of Shareholders.

Depending on the financial conditions of the Company and the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period. The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate. Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles. The Board will review the Dividend Policy as appropriate from time to time.

CLOSURE OF THE REGISTER OF MEMBERS FOR 2021 AGM

For determining the entitlement to attend and vote at the 2021 AGM to be held on June 3, 2021, the register of members of the Company will be closed from May 31, 2021 to June 3, 2021, both days inclusive, and during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2021 AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on May 28, 2021.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 10 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended December 31, 2020 are set out in Note 14 to the consolidated financial statements on page 118 of this annual report.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended December 31, 2020 are set out in Note 25 to the consolidated financial statements on page 132 of this annual report.

EQUITY-LINKED AGREEMENTS

During the year ended December 31, 2020, other than the Pre-IPO Share Option Scheme and Share Option Scheme as set out in the section under "Pre-IPO Share Option Scheme and Share Option Scheme" and Note 29 to the consolidated financial statements, the Company has not entered into any equity-linked agreement.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the year ended December 31, 2020 are set out in Note 26 and Note 34(b) to the consolidated financial statements on page 133 and page 143 of this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2020, the Company's distributable reserves were RMB3,724.1 million.

BORROWINGS

Details of the borrowings are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 23 to the consolidated financial statements.

DONATIONS

During the year ended December 31, 2020, the Group did not make any charitable donations (2019: Nil).

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

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, 2020.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

DIRECTORS

The Board during the year ended December 31, 2020 and up to the date of this report consists of the following six Directors:

Executive Director

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

Non-executive Directors

Mr. JIANG Liwei
Mr. LIN Junshan

Independent Non-executive Directors

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 14 to 16 in the section headed "Profile of Directors and Senior Management" to this annual report.

DIRECTORS' SERVICE CONTRACTS

The Company has issued a letter of appointment to each of Ms. Yue'e ZHANG, the executive Director, and Mr. JIANG Liwei, a non-executive Director, for a term of 3 years from February 3, 2021 and March 31, 2019, respectively. The Company has also issued a letter of appointment to each of Mr. LIN Junshan, a non-executive Director, and Mr. WANG Xiaogang, Mr. ZHANG Xingdong and Mr. CHEN Geng, the independent non-executive Directors, for a term of three years from October 15, 2019. The term of office of each of the Directors is subject to termination, and termination notice can be served either by the Director or the Company. The appointment may be renewed in accordance with the Articles and the applicable rules.

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONTRACT WITH DIRECTORS AND CONTROLLING SHAREHOLDER

No contract of significance has been entered into among the Company or any of its subsidiaries and the controlling Shareholder or any of its subsidiaries during the year ended December 31, 2020.

DIRECTOR'S INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT

No transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party, and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2020.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The remuneration (including fees, salaries and other benefits, retirement benefit scheme contribution) paid to the Directors in aggregate for the year ended December 31, 2020 was approximately RMB2.2 million.

The remuneration (including salaries and other benefits, retirement benefit scheme contribution) paid to the Group's five highest paid individuals in aggregate for the year ended December 31, 2020 was approximately RMB4.8 million.

For the year ended December 31, 2020, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended December 31, 2020.

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in Note 10 to the consolidated financial statements on pages 113 to 114 of this annual report.

On January 19, 2021, the Board and Remuneration Committee approved a special bonus of RMB300,000 per Director, which will be paid during 2021.

The Company has also adopted the Pre-IPO Share Option Scheme and the Share Option Scheme as incentive for Directors and eligible employees. Details of the said schemes are set out under the section headed "Pre-IPO Share Option Scheme and Share Option Scheme" in this annual report and in Note 29 to the consolidated financial statements on page 137 of this annual report.

Save as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2020, by the Group to or on behalf of any of the Directors.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors nor the controlling Shareholder or their respective associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group.

DEED OF NON-COMPETITION

On October 14, 2013, Ms. Yufeng LIU, the Company's ultimate controlling Shareholder, and Cross Mark Limited, through which Ms. Yufeng LIU holds equity interest in the Company (Ms. Yufeng LIU and Cross Mark Limited are collectively referred to as the "Covenantors"), and the Company (for itself and as trustee for each of its subsidiaries) entered into a deed of non-competition (the "Non-competition Deed"), pursuant to which each of the Covenantors has irrevocably, jointly and severally given certain non-competition undertakings to the Company. Details of the Non-competition Deed are set out in the section headed "Relationship with Controlling Shareholders — Non-competition Undertaking" in the Prospectus.

The Covenantors declared that they have complied with the Non-competition Deed for the year ended December 31, 2020. The independent non-executive Directors have conducted such review for the year ended December 31, 2020 and also reviewed the relevant undertakings and are satisfied that the Non-competition Deed has been fully complied.

PENSION SCHEME

Details of the pension scheme of the Company are set out in Note 4.14 to the consolidated financial statements.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) for the benefit of the Directors is currently in force and was in force throughout the year ended December 31, 2020.

MANAGEMENT CONTRACTS

Other than the Directors' appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the year ended December 31, 2020.

LOAN AND GUARANTEE

During the year ended December 31, 2020, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the Directors, senior management, its ultimate controlling Shareholder or their respective connected persons.

DISCLOSURE REQUIRED UNDER RULE 13.18 OF THE LISTING RULES

As at December 31, 2020, there were no matters that gave rise to a disclosure required under Rule 13.18 of the Listing Rules.

PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

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

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

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

Details of movement of the share options granted under the Pre-IPO Share Option Scheme for the year ended December 31, 2020 are set out below:

	Number of options					
Name of option holder	Outstanding as at January 1, 2020	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at December 31, 2020
Director of the Company						
Mr. WANG Xiaogang	118,471	—	—	—	—	118,471
Total	118,471	—	—	—	—	118,471

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

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

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

The Pre-IPO Share Option Scheme does not fall within the ambit of, and are not subject to, the regulations under Chapter 17 of the Listing Rules. Details of the impact of options granted under the Pre-IPO Share Option Scheme on the financial statements since the date of grant and the subsequent financial periods are set out under Note 29 to the consolidated financial statements.

Share Option Scheme

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

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

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

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

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

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

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

No share options have been granted under the Share Option Scheme since its adoption and up to the date of this annual report.

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

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at December 31, 2020, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(A) Long position in ordinary Shares

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

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

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

Note: Details of the above share options granted by the Company are set out in the section headed "Pre-IPO Share Option Scheme and Share Option Scheme" in this annual report.

+ The percentage represents the number of ordinary Shares/underlying Shares interested divided by the number of the Company's issued Shares as at December 31, 2020.

Save as disclosed above and in the section headed "Pre-IPO Share Option Scheme and Share Option Scheme" and to the best knowledge of the Directors, as at December 31, 2020, none of the Directors or the chief executive of the Company has any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at December 31, 2020, the following corporations/persons had interests of 5% or more in the issued Shares according to the register of interests required to be kept by the Company under section 336 of the SFO:

Long position in ordinary Shares

Name	Note	Capacity	Number of ordinary Shares interested	Approximate percentage+ of the Company's issued share capital
Cross Mark Limited		Beneficial owner	575,061,863	36.65%
Ms. Yufeng LIU	(1)	Interest of a controlled corporation	575,061,863	36.65%
Mr. ZHANG Zaixian	(2)	Interest of spouse	575,061,863	36.65%
Right Faith Holdings Limited		Beneficial owner	393,385,962	25.07%
Mr. Marc CHAN	(3)	Interest of controlled corporations	408,385,962	26.02%
Fidelity China Special Situations PLC		Beneficial owner	78,471,000	5.00%
FIL Limited	(4)	Interest of controlled corporations	78,515,000	5.00%
Pandanus Partners L.P.	(4)	Interest of controlled corporations	78,515,000	5.00%
Pandanus Associates Inc.	(4)	Interest of controlled corporations	78,515,000	5.00%

Notes:

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

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

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

(4) As the Company is aware, FIL Limited was deemed to be interested in 78,515,000 Shares held by its controlled entities/corporations. Pandanus Partners L.P. owned 37.01% of the equity interest in FIL Limited. Pandanus Partners L.P. is wholly owned by Pandanus Associates Inc. Accordingly, Pandanus Partners L.P. and Pandanus Associates Inc. were also deemed to be interested in the aforesaid 78,515,000 Shares.

+ The percentage represents the number of ordinary Shares interested divided by the number of the Company's issued Shares as at December 31, 2020.

Save as disclosed above and to the best knowledge of the Directors, as at December 31, 2020, no person had registered an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Pre-IPO Share Option Scheme and the Share Option Scheme, at no time during the year under review was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

MAJOR SUPPLIERS AND CUSTOMERS

The customer base of the Group mainly consists of distributors and hospitals. Suppliers of the Group mainly consist of sellers that provide the Group with PVC granules, ABC plastic, polycarbonate and thermoplastic polyurethanes.

In the year under review, the Group's largest customer accounted for approximately 7.1% of the Group's total revenue from continuing operations. The Group's five largest customers accounted for approximately 19.7% of the Group's total revenue from continuing operations.

In the year under review, the Group's largest supplier accounted for approximately 9.1% of the Group's total cost of sales from continuing operations. The Group's five largest suppliers accounted for 21.4% of the Group's total cost of sales from continuing operations.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the total number of the Company's issued Shares) has any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

EMPLOYEES

The Group had approximately 756 employees as at December 31, 2020, as compared to approximately 1,022 employees as at December 31, 2019. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination. The Group maintained good relationship with its employees.

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 on the basis of their merit, qualification and competence.

RETIREMENT BENEFITS SCHEME

The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

CONNECTED TRANSACTION

During the year ended December 31, 2020, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended December 31, 2020 are set out in Note 30 to the consolidated financial statements contained herein.

None of the related party transactions constitutes a connected transaction or continuing connected transaction subject to independent Shareholders' approval, annual review and all disclosure requirements in Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2017 were audited by PricewaterhouseCoopers.

BDO Limited was appointed as the auditor of the Company for filling the casual vacancy caused by the retirement of PricewaterhouseCoopers at the 2018 AGM. The consolidated financial statements of the Group for the years ended December 31, 2018, December 31, 2019 and December 31, 2020 were audited by BDO Limited. BDO Limited will retire as auditor of the Company at the forthcoming 2021 AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of BDO Limited as the auditor of the Company will be proposed at the 2021 AGM.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended December 31, 2020, the Company is in compliance with the relevant laws and regulations that have a significant impact on the Company.

On behalf of the Board
Yue'e ZHANG
Chairman

Hong Kong, March 30, 2021

Independent Auditor's Report

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

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

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

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

OPINION

We have audited the consolidated financial statements of PW Medtech Group Limited (the "Company") and its subsidiaries (together as the "Group") set out on pages 75 to 148, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of non-financial assets

As at 31 December 2020, the carrying amounts of property, plant and equipment and intangible assets including goodwill and right-of-use assets, allocated to cash-generating unit ("CGU") of the Infusion Set Business were approximately RMB698,441,000, RMB177,898,000 and RMB22,465,000 respectively.

We identified the impairment assessment of non-financial assets as a key audit matter because of its significance to the consolidated financial statements and because estimation of the value-in-use calculation of the CGU involve significant management judgement with the respect to its underlying cash flow forecasts, discount rate and future growth rates and the estimation of fair value less cost of disposal.

As required by accounting standards, management assesses the CGU containing goodwill for impairment on an annual basis. The determination of recoverable amount, being the higher of value-in-use and fair value less costs to dispose, requires judgement of management. Recoverable amounts are based on management's estimation of short term and long term revenue growth rate forecast, and profit margin forecast and discount rate used in the cash-flow forecast. As detailed in Note 16 to the consolidated financial statements and no impairment loss has been made on the CGU.

The accounting policy, significant accounting judgements and estimates, key assumptions used in the impairment model and disclosures are included in Note 4.8, 5(e) and 16 to the consolidated financial statements.

Our response:

Our procedures in relation to management's impairment assessment of CGU included:

- Testing the mathematical accuracy of cash-flow forecasts of the CGU;
- Challenging the reasonableness of key assumptions adopted in the valuation, such as the discount rate, based on our knowledge of the business and industry and available market data;
- Conducting in-depth discussions with the management about the cash flow projections used in the value-in-use calculation and assessing the appropriateness of the significant assumptions and critical judgement areas which affect the value-in-use calculation;
- Performing sensitivity analysis on the key drivers of the cash flow forecast, including profit margin, long term growth rate and discount rate; and
- Reconciling input data to supporting evidence, such as latest financial forecasts approved by the management and considering the reasonableness of these forecasts.

Impairment assessment of trade receivables

As at 31 December 2020, trade receivables which aged over one year amounted to approximately RMB50,232,000 (2019: RMB64,197,000), which represented approximately 47% (2019: 39%) of the total trade receivables. The Group is therefore exposed to a risk of default in respect of trade receivables. The bad debt provision was RMB34,818,000 as at 31 December 2020 (2019: RMB25,047,000).

We identified the impairment assessment of trade receivables as a key audit matter because of its significance to the consolidated financial statements and the assessment of impairment for trade receivables involved significant management judgements and estimations used on the expected future cash flows based on the creditability of the counterparties, nature and value of collateral held and anticipated receipts.

The accounting policy, significant accounting judgements and estimates and disclosures for the recognition of impairment of trade receivables are included in Notes 4.10, 5(g), 20 and 35(b) to the consolidated financial statements.

Our response:

Our procedures in relation to management's impairment assessment of trade receivables included:

- evaluating the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimate of expected credit losses;

- assessing, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with the relevant sales invoices;

- assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances; and

- inspecting cash receipts from customers after the financial year end relating to trade receivables balances as at 31 December 2020, on a sample basis.

Fair value measurement of investment properties

As at 31 December 2020, the fair value of investment properties was approximately RMB274,740,000 with a fair value loss of approximately RMB1,753,000 recognised in profit or loss for the year. The fair value of the investment properties was arrived on the basis of the valuation carried out by an independent valuation firm.

We have identified the fair value measurement of investment properties as a key audit matter because of its significant to the consolidated financial statements and the valuation of the Group's investment properties are dependent on valuation model used by management, certain key assumptions and estimations that require significance management judgement.

The accounting policy, significant accounting judgements and estimates and details of the valuation technique and significant unobservable inputs used in valuation are included in Notes 4.7, 5(d) and 15 to the consolidated financial statements.

Our response:

Our procedures in relation to management's fair value measurement of investment properties included:

- Conducting in-depth discussions with management about the cash flow projections used in the income approach calculation and assessing the appropriateness of the significant assumptions and critical judgement areas which affect the income approach calculation;
- Assessing the valuation methodology; and
- Evaluating the competence, capabilities, and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work and their terms of engagement.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants

Ng Wai Man
Practising Certificate number P05309

Hong Kong, 30 March 2021

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	6(b)	**247,352**	362,183
Cost of sales		**(98,748)**	(140,056)
Gross profit		**148,604**	222,127
Other losses — net	7	**(21,498)**	(11,398)
Fair value loss on investment properties	15	**(1,753)**	(1,650)
Gain on disposal of interest in an associate	17	**587,715**	—
Selling and marketing expenses		**(82,670)**	(101,157)
General and administrative expenses		**(56,545)**	(65,240)
Provision for impairment losses recognised in respect of trade receivables		**(9,771)**	(15,497)
Research and development expenses		**(45,767)**	(25,514)
Operating profit		**518,315**	1,671
Finance cost — net	8	**(5,126)**	(28,684)
Share of result of an associate		**113,410**	112,821
Profit before income tax	9	**626,599**	85,808
Income tax credit/(expense)	11	**5,212**	(3,839)
Profit for the year		**631,811**	81,969
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		**(626)**	(10,062)
Exchange difference arising on translation of an associate in foreign currency		**(114,741)**	44,057
Reclassification from exchange differences reserve to profit or loss on			
— deregistration of a subsidiary		**—**	(1,417)
— deemed disposal of an associate		**676**	(195)
— disposal of an associate		**(17,330)**	—
Other comprehensive (expense)/income for the year		**(132,021)**	32,383
Total comprehensive income for the year		**499,790**	114,352

	Note	2020 RMB'000	2019 RMB'000
Profit for the year attributable to:			
Owners of the Company		631,814	81,982
Non-controlling interests		(3)	(13)
		631,811	81,969
Total comprehensive income for the year attributable to:			
Owners of the Company		499,793	114,365
Non-controlling interests		(3)	(13)
		499,790	114,352
		RMB cents	RMB cents
Earnings per share attributable to owners of the Company for the year	13		
Basic earnings per share		40.26	5.22
Diluted earnings per share		40.26	5.22

Consolidated Statement of Financial Position

At 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	698,441	725,214
Right-of-use assets	27	22,465	23,027
Investment properties	15	274,740	276,493
Intangible assets	16	177,898	181,113
Interest in an associate	17	—	3,699,401
Deferred income tax assets	24	14,726	9,174
Long-term prepayments		9,140	23,552
Trade receivables	20	—	11,200
		1,197,410	4,949,174
Current assets			
Inventories	19	39,041	36,384
Trade and other receivables	20	151,370	206,225
Amount due from an associate	30(b)	27,505	27,449
Cash and cash equivalents	31(a)	1,701,783	132,598
		1,919,699	402,656
Assets classified as held for sale	18	2,166,486	—
Total current assets		4,086,185	402,656
Total assets		5,283,595	5,351,830
Current liabilities			
Trade and other payables	21	92,602	98,498
Amount due to an associate	30(b)	27,829	28,086
Lease liabilities	27	2,461	2,545
Bank borrowings	23	10,000	587,071
Tax payables		5,049	5,925
Total current liabilities		137,941	722,125
Net current assets/(liabilities)		3,948,244	(319,469)

	Notes	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Bank borrowings	23	18,000	—
Deferred tax liabilities	24	2,728	3,727
Deferred government grants	22	16,647	17,489
Total non-current liabilities		37,375	21,216
NET ASSETS		5,108,279	4,608,489
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	965	965
Share premium		1,492,937	1,492,937
Retained earnings		3,242,575	2,610,761
Reserves	26	371,964	503,985
		5,108,441	4,608,648
Non-controlling interests		(162)	(159)
TOTAL EQUITY		5,108,279	4,608,489

The financial statements on pages 75 to 148 were approved by the Board of Directors on 30 March 2021 and were signed on its behalf by:

Yue'e ZHANG	**LIN Junshan**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital RMB'000	Share premium RMB'000	Other reserves (Note 26) RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2019	965	1,492,937	471,602	2,528,779	4,494,283	(146)	4,494,137
Comprehensive income							
Profit for the 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)
Exchange difference arising on translation of an associate in foreign currency	–	–	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
Comprehensive income							
Profit for the year	–	–	–	631,814	631,814	(3)	631,811
Other comprehensive income							
Currency translation differences	–	–	(626)	–	(626)	–	(626)
Exchange difference arising on translation of an associate in foreign currency	–	–	(114,741)	–	(114,741)	–	(114,741)
Exchange differences reclassified to profit or loss upon disposal of interest in an associate	–	–	(17,330)	–	(17,330)	–	(17,330)
Exchange differences reclassified to profit or loss upon deemed disposal of an associate	–	–	676	–	676	–	676
Total comprehensive income for the year	–	–	(132,021)	631,814	499,793	(3)	499,790
At 31 December 2020	965	1,492,937	371,964	3,242,575	5,108,441	(162)	5,108,279

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Profit before income tax		**626,599**	85,808
Adjustments for:			
Depreciation of property, plant and equipment	14	**24,418**	25,198
Depreciation of right-of-use assets	27	**802**	881
Amortisation of intangible assets	16	**3,215**	3,324
Loss on disposal of property, plant and equipment		**1,533**	11,177
Share of results from an associate	17	**(113,410)**	(112,821)
Loss on deemed disposal of interest in an associate	17	**34,817**	26,188
Gain on disposal of interest in an associate	18	**(587,715)**	—
Fair value loss on investment properties	15	**1,753**	1,650
Loss on guarantee liability	7	**736**	1,592
Interest expense	8	**10,671**	30,124
Interest income	8	**(5,545)**	(1,626)
Unrealised exchange losses/(gains)		**8,026**	(1,605)
Write off of property, plant and equipment		**1,946**	—
Bad debt written off		**4,666**	—
Provision for impairment of trade receivables	35(b)	**9,771**	15,497
Operating cash flows before movements in working capital		**22,283**	85,387
(Increase)/decrease in inventories		**(2,657)**	3,981
Decrease in trade and other receivables		**78,587**	9,340
(Decrease)/increase in deferred government grants		**(642)**	16,606
Decrease in trade and other payables		**(17,152)**	(7,564)
Cash generated from operations		**80,419**	107,750
Income taxes paid		**(2,215)**	(7,757)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**78,204**	99,993
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(3,003)**	(22,174)
Payments for development costs of construction in progress		**(4,874)**	(25,212)
Interest received		**5,545**	1,626
Proceeds from disposal of interest in an associate		**2,067,828**	—
Proceeds from disposal of property, plant and equipment		**4,516**	—
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**2,070,012**	(45,760)

	Note	2020 RMB'000	2019 RMB'000
FINANCING ACTIVITIES	31		
Payment for lease liabilities		(332)	(202)
Repayment of bank borrowings		(585,401)	—
Proceeds from exercise of employee share options		—	62
Increase in bank borrowings		18,000	10,000
Interest paid on bank borrowings		(10,663)	(30,114)
NET CASH USED IN FINANCING ACTIVITIES		(578,396)	(20,254)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,569,820	33,979
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(635)	(345)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		132,598	98,964
CASH AND CASH EQUIVALENTS AT END OF YEAR represented by bank balances and cash		1,701,783	132,598

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 R&D, manufacturing and sale of advanced infusion set, intravenous cannula products, insulin needles etc. (the "Infusion Set Business").

These consolidated financial statements 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 2020

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

Other than the amendments to HKFRS 3, none of these new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period.

Amendments to HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election to apply the concentration test is made for each transaction. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the concentration test is met, the set of activities and assets is determined not to be a business. If the concentration test is failed, the acquired set of activities and assets is further assessed based on the elements of a business.

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

(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 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2[1]
Annual Improvements to HKFRSs 2018-2020[2]	
Amendments to HKAS 16	Proceeds before Intended Use[2]
Amendments to HKFRS 16	Covid-19 Related Rent Concessions[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[4]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[5]
HK Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[6]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Annual periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not authorised for issue at 4 June 2020.
4 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.
5 Effective for annual periods beginning on or after 1 January 2023.
6 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform — Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

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

(b) Potential impact arising on HKFRSs not yet effective (Continued)

Annual Improvements to HKFRSs 2018-2020

The annual improvements amends a number of standards, including:

HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

Amendments to HKAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

Amendment to HKFRS 16, COVID-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred.

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

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

(b) Potential impact arising on HKFRSs not yet effective (Continued)

Amendments to HKFRS 3, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Amendments to HKFRS 10 and HKAS 28, 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.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards , Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

3.3 Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which they operate (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional currency and the Group's presentation currency.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combinations

The consolidated financial statements comprise the financial statements of the Group. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive processes and whether the acquired set has the ability to produce outputs.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Business combinations (Continued)

The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in a subsidiary that do not result in a loss of control of the subsidiary are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for on the same basis as would be required if the relevant assets or liabilities were disposed of.

4.2 Principles of consolidation and equity accounting

(i) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists, the Company considers all relevant facts and circumstances, including:

- the size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 Principles of consolidation and equity accounting (Continued)

(i) Subsidiaries (Continued)

- substantive potential voting rights held by the Company and other parties who hold voting rights;
- other contractual arrangements; and
- historic patterns in voting attendance.

(ii) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initial recognition.

(iii) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 17.

The results of associates are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 Principles of consolidation and equity accounting (Continued)

(iii) Equity accounting (Continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, all amounts previously recognised in other comprehensive income in relation to that associate are recognised on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

4.3 Separate financial statements

Investments in subsidiaries and associates are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries and associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

4.4 Foreign currency translation

(i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.4 Foreign currency translation (Continued)

(ii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;

(2) income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(3) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and provision for impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the year in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Property, plant and equipment (Continued)

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Buildings and facilities	10–48 years
— Leasehold improvements	Shorter of remaining lease term or useful lives
— Furniture, fittings and office equipment	3–10 years
— Machinery and equipment	5–10 years
— Motor vehicles	5 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate classes of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other losses-net" in the consolidated statement of comprehensive income.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

4.6 Intangible assets

(i) Goodwill

Goodwill represents the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree over the fair value of the identifiable assets and liabilities measured as at the acquisition date.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Intangible assets (Continued)

(i) Goodwill (Continued)

Goodwill is monitored at the operating segment level. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying amount of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposals. Any impairment is recognised immediately as an expense and is not subsequently reversed (see note 16), and whenever there is an indication that the unit may be impaired.

(ii) Customer relationship

Customer relationship acquired in a business combination is recognised at fair value at the acquisition date.

(iii) Trademarks and technology know-how

Separately acquired trademarks and technology know-how at historical cost. Trademarks and technology know-how acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and technology know-how have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

(iv) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

(v) Amortisation methods and periods

The amortisation expense is recognised in profit or loss and included in selling and administrative expenses. The useful lives and amortisation method are reviewed, and adjusted if appropriate, at the end of each reporting period. Amortisation is provided on a straight-line basis over their useful lives as follows:

— Customer relationship	6 years
— Trademarks and technology know-how	15 years
— Computer software	5 years

(vi) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(vii) Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Intangible assets (Continued)

(viii) Impairment of intangible assets

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see note 16).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease to the extent of its revaluation surplus.

4.7 Investment properties

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property, calculated as the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss in the period in which the property is derecognised.

4.8 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- goodwill and other intangible assets;

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 Impairment of non-financial assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from CGU (see note 4.6(i)), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

4.9 Non-current assets (or disposals groups) held-for-sale and discontinued operations

Non-current assets (or disposals groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), (or disposals groups), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 4.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposals, of the assets or disposals groups constituting the discontinued operation.

4.10 Financial Instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Financial Instruments (Continued)

(i) Financial assets (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are one measurement category into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income ("FVOCI") are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECLs") on trade receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the trade receivables and the economic environment.

For other financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Financial Instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition.

In making the reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 3 years past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECLs amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Financial Instruments (Continued)

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance, being the ECLs provision measured in accordance with principles of the accounting policy set out in Note 4.10(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Financial Instruments (Continued)

(vii) Derecognition (Continued)

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The cost excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

4.12 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

4.13 Income taxes

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Income taxes (Continued)

(ii) Deferred income tax (Continued)

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(iii) Investment allowances and similar tax incentives

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

4.14 Employee benefits

(i) Pension obligations

The full-time employees of the Group in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expenses as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined contribution pension plans even if the staff leaves the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.14 Employee benefits (Continued)

(ii) Housing benefits

The Group contributes to the state-prescribed housing fund. Such costs are charged to the consolidated statement of comprehensive income as incurred. Apart from those described above, the Group does not have other legal or constructive obligations over such benefits.

(iii) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

4.15 Share based payments

(i) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

— including any market performance conditions (for example, an entity's share price);

— excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

— including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Share based payments (Continued)

(ii) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

4.16 Provisions and contingent liabilities

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

4.17 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

— provides all of the benefits received and consumed simultaneously by the customer;

— creates or enhances an asset that the customer controls as the Group performs; or

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.17 Revenue recognition (Continued)

— does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception./Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Sale of advanced infusion set products
Sale of infusion set products are recognised when the customer takes possession of and accepts the products. This is usually taken as the time when the goods are delivered and the customer has accepted the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. There is generally only one performance obligation. Invoices are issued when the customer takes possession of and accepts the products and are usually payable within 180 days from the date of billing. No significant financial component existed. The transaction price is determined based on a stand-alone selling price specified in the contracts for advanced infusion set products.

Interest income
Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

Dividend income
Dividend income is recognised when the right to receive payment is established.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.18 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable and are recognised as other revenue, rather than reducing the related expense.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

4.19 Leases

(i) As a lessee

All leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term of less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset is initially recognised at cost and would comprise:

(i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability);

(ii) any lease payments made at or before the commencement date, less any lease incentives received;

(iii) any initial direct costs incurred by the lessee; and

(iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.19 Leases (Continued)

(i) As a lessee (Continued)

Right-of-use asset (Continued)

Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property (see note 4.7), they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use (see note 4.5), they are carried at revalued amount.

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under HKAS 40 and are carried at fair value. The Group accounts for leasehold land and buildings which is held for own use under HKAS 16 and are carried at revalued amount. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments:

(i) fixed lease payments less any lease incentives receivable;

(ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date;

(iii) amounts expected to be payable by the lessee under residual value guarantees;

(iv) exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and

(v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.19 Leases (Continued)

(i) As a lessee (Continued)

Lease liability (Continued)

Subsequent to the commencement date, the Group measures the lease liability by:

(i) increasing the carrying amount to reflect interest on the lease liability;

(ii) reducing the carrying amount to reflect the lease payments made; and

(iii) remeasuring the carrying amount to reflect any reassessment or lease modification, or to reflect revised in-substance fixed lease payments.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased assets to the lessee. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate leases. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.19 Leases (Continued)

(ii) As a lessor (Continued)

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Any changes in the scope of the consideration for a lease that was not part of the original terms and conditions of the lease are accounted for as lease modifications. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, recognising the remaining lease payments as income on a either a straight-line basis or another systematic basis over the remaining lease term. The Group applies the derecognition requirements of HKFRS 9 to recognise to recognise modification or derecognition gain or loss on the net investment in the finance lease.

4.20 Related parties

(i) A person or a close member of that person's family is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of key management personnel of the Group or the Company's parent.

(ii) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a party, provides key management personnel services to the Group or to the Group's parent.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

4.22 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

4.23 Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements 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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(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) 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.

(c) Power to exercise significant influence

Where the Group holds less than 20% of voting rights in an investment but the Group has the power to exercise significant influence, such an investment is treated as an associate. More information is disclosed in Note 17.

(d) Investment properties

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of investment properties. Note 15 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of investment properties. The fair value of investment properties as at 31 December 2020 was RMB274,740,000 (2019:RMB276,493,000).

(e) Impairment of goodwill, other intangible assets and property, plant and equipment

Goodwill, other intangible assets, property, plant and equipment are tested for impairment when indicators exist. Further, irrespective of whether there is any indication of impairment, goodwill are required to be tested annually for impairment. For the purpose of impairment testing, goodwill has been allocated to the CGU operating in the infusion set business.

Determining whether goodwill and other assets allocated to CGU is impaired requires an estimation of the value in use. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Further information on the impairment assessment on the CGU are provided in Note 16.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(f) 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 15.

(g) Impairment of financial assets

The loss allowance for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 35(b).

For the year ended 31 December 2020, the Group recorded an additional allowance for expected credit losses of RMB9,771,000, reflecting a reduction in the credit quality of its related trade receivables as a results of the COVID-19 global pandemic. The management has incorporated their judgements on deciding forward-looking factors in the calculation of expected credit losses. Management's judgements regarding expected credit losses are based on the facts available to management currently. Due to the unprecedented nature of the COVID-19 pandemic, its effect on the Group's customers and their ability to meet their financial obligations to the Group is difficult to predict. As a result, the Group's judgments and associated estimates of expected credit losses may ultimately prove, with the benefit of hindsight, to be incorrect.

6. SEGMENT REPORTING

(a) Business segments

The chief operating decision-maker has 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 2020, the Group has only one reportable operating segment which is Infusion Set Business that involving the R&D, manufacturing and sale of advanced infusion set, intravenous cannula products, insulin needles etc. 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.

	2020 RMB'000	2019 RMB'000
Customer segments		
Revenue from hospitals	32,008	69,678
Revenue from medical products distributors	215,344	292,505
	247,352	362,183
Timing of revenue recognition		
Recognised at a point of time	247,352	362,183

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 RMB17,449,000 representing 7.1% (2019: RMB27,692,000, 7.6%) are derived from a single external customer.

7. OTHER LOSSES — NET

	2020 RMB'000	2019 RMB'000
Government grants	4,751	7,838
Gain on deregistration of a subsidiary	—	1,417
Rental income	11,801	10,624
Property management fee income	6,279	7,144
Loss on disposal of property, plant and equipment	(1,533)	(11,177)
Loss on guarantee liability (Note)	(736)	(1,592)
Loss on deemed disposal of an associate (Note 17)	(34,817)	(26,188)
Net foreign exchange loss	(5,873)	—
Others	(1,370)	536
Other losses — net	(21,498)	(11,398)

Note:

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

After assessing the risk relating to the joint guarantee liability, the directors of the Company accrued a provision to guarantee liability which included the principal and accumulated interest of the above loan in 2018. The loss recognised during the year ended 31 December 2019 and 2020 represents the interest accrued for the period on the guarantee liability.

8. FINANCE COST — NET

	2020 RMB'000	2019 RMB'000
Finance income		
Interest income on short-term bank deposits	5,545	1,626
Finance costs		
Interest on bank borrowings	(10,663)	(30,114)
Net foreign exchange loss	—	(186)
Interest on lease liabilities	(8)	(10)
	(10,671)	(30,310)
Finance cost — net	(5,126)	(28,684)

9. PROFIT BEFORE TAXATION

	2020 RMB'000	2019 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (Note 10)	2,164	2,562
Staff costs (excluding directors' emoluments):		
Wages, salaries and bonuses	62,860	82,731
Staff welfare	3,647	5,986
Social security costs	3,893	9,598
Housing fund	1,781	1,651
Total staff costs	74,345	102,528
Auditor's remuneration:		
— Audit services	1,160	1,200
— Non-audit services	379	381
Bad debt written off	4,666	—
Provision for impairment of receivables (Note 35(b))	9,771	15,497
Depreciation of property, plant and equipment (Note 14)	24,418	25,198
Depreciation of right-of-use assets (Note 27)		
— Properties	320	197
— Leasehold land and land use right	482	684
Amortisation of intangible assets (Note 16)	3,215	3,324
Raw materials and consumable used	40,185	61,775

10. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

The emoluments paid or payable to each of the six (2019: six) directors were as follows:

For the year ended 31 December 2020	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Share-based payments RMB'000	Social security and housing fund RMB'000	Total RMB'000
Chief executive officer and officer and executive director						
— Ms. Yue'e ZHANG	—	1,033	—	—	—	1,033
Non-executive director						
— Mr. JIANG Liwei	—	300	—	—	—	300
— Mr. LIN Junshan	—	300	—	—	—	300
Independent non-executive directors						
— Mr. CHEN Geng	—	177	—	—	—	177
— Mr. WANG Xiaogang	—	177	—	—	—	177
— Mr. ZHANG Xingdong	—	177	—	—	—	177
	—	2,164	—	—		2,164

For the year ended 31 December 2019	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Share-based payments RMB'000	Social security and housing fund RMB'000	Total RMB'000
Chief executive officer and officer and executive director						
— Ms. Yue'e ZHANG	—	1,039	—	—	—	1,039
Non-executive director						
— Mr. JIANG Liwei	—	663	—	—	29	692
— Mr. LIN Junshan	—	300	—	—	—	300
Independent non-executive directors						
— Mr. CHEN Geng	—	177	—	—	—	177
— Mr. WANG Xiaogang	—	177	—	—	—	177
— Mr. ZHANG Xingdong	—	177	—	—	—	177
	—	2,533	—	—	29	2,562

10. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS (Continued)

During the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

In addition, none of the directors had waived any emoluments during the current or prior year.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2019: two) director whose emoluments are reflected in the analysis shown in above. The emoluments payable to the remaining four (2019: three) individuals during the year are as follows:

	2020 RMB'000	2019 RMB'000
Basic salaries and allowances	3,670	2,427
Social security costs	50	84
Housing fund	70	119
	3,790	2,630

The emoluments were within the following bands:

	2020 Number of individuals	2019 Number of individuals
Nil to HK$1,000,000	2	3
HK$1,000,001–HK$1,500,000	2	—

The emoluments paid or payable to a member(s) of senior management were within the following bands:

	2020 Number of individuals	2019 Number of individuals
Nil to HK$1,000,000	2	3
HK$1,000,001–HK$1,500,000	2	—

11. TAXATION

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

	2020 RMB'000	2019 RMB'000
Current income tax		
PRC Income Tax expense for the year	**(1,339)**	(16,405)
Deferred income tax (Note 24)	**6,551**	12,566
Income tax credit/(expense)	**5,212**	(3,839)

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

Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and 16.5% on the estimated assessable profits above HK$2 million. No provision for taxation in Hong Kong was made in the financial statements for the current year as the Group's operations in HK had no assessable profits.

(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% (2019: 25%).

Two subsidiaries (2019: two) 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 (2019: 15%). They will continue to enjoy the preferential tax rate in the subsequent periods, provided that they continue to be qualified as "High and New Technology Enterprises" during such periods.

11. TAXATION (Continued)

(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:

	2020 RMB'000	2019 RMB'000
Profit before taxation	626,599	85,808
Tax calculated at statutory tax rates applicable to profits in the respective countries	157,005	22,085
Tax effect of:		
Effect of different tax rate in foreign jurisdictions	(54,849)	—
Preferential income tax rates applicable to subsidiaries	2,986	(5,067)
Additional deductible allowance for research and development expenses (note (i))	(3,349)	(1,185)
Tax effect of expenses not deductible for tax purpose	38,650	12,006
Tax effect of income not taxable for tax purpose	(116,108)	—
Tax effect of temporary differences	260	(2,790)
Tax effect of share of profits from an associate	(28,429)	(28,205)
Tax effect of estimated tax losses not recognised	631	7,333
Adjustment in respect of prior years	(2,009)	(338)
Income tax (credit)/expense for the year	(5,212)	3,839

(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.

12. DIVIDENDS

Pursuant to the Company's announcement dated on 6 November 2020, the Directors recommended a special dividend of HK$1.5766 per ordinary share (2019: Nil), which was subsequently approved by the Shareholders on 8 December 2020. The proposed dividend is not reflected as a dividend payable in these financial statements as the special dividend is subject to completion of disposal of interest in an associate (the "transactions"). As the Transaction completed on 6 January 2021, the special dividend was subsequently paid on 25 February 2021.

13. 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 2020.

	2020 RMB'000	2019 RMB'000
Profit attributable to owners of the Company	631,814	81,982
Weighted average number of ordinary shares in issue (thousands)	1,569,246	1,569,246
Basic earnings per share (RMB cents per share)	40.26	5.22

(b) Diluted

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

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

	2020 RMB'000	2019 RMB'000
Profit attributable to owners of the Company	631,814	81,982
Weighted average number of ordinary shares in issue (thousands)	1,569,246	1,569,246
Adjustments for:		
— Share options (thousands)	64	46
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,569,310	1,569,292
Diluted earnings per share (RMB cents per share)	40.26	5.22

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Leasehold improvements RMB'000	Furniture, fittings and office equipment RMB'000	Machinery and equipment RMB'000	Motor vehicle RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2019							
Cost	613,254	7,971	9,016	87,573	5,689	69,210	792,713
Accumulated depreciation	(33,095)	(2,629)	(4,138)	(39,656)	(3,847)	—	(83,365)
Net book amount	580,159	5,342	4,878	47,917	1,842	69,210	709,348
Year ended 31 December 2019							
Opening net book amount	580,159	5,342	4,878	47,917	1,842	69,210	709,348
Additions	—	—	2,984	9,012	29	39,318	51,343
Disposals	(9,756)	—	(25)	(490)	(8)	—	(10,279)
Transfer from construction in progress	13,627	—	—	—	—	(13,627)	—
Depreciation	(16,472)	(505)	(1,216)	(6,584)	(421)	—	(25,198)
Closing net book amount	567,558	4,837	6,621	49,855	1,442	94,901	725,214
At 31 December 2019							
Cost	611,321	7,971	11,794	92,740	5,436	94,901	824,163
Accumulated depreciation	(43,763)	(3,134)	(5,173)	(42,885)	(3,994)	—	(98,949)
Net book amount	567,558	4,837	6,621	49,855	1,442	94,901	725,214
Year ended 31 December 2020							
Opening net book amount	**567,558**	**4,837**	**6,621**	**49,855**	**1,442**	**94,901**	**725,214**
Additions	**66**	**—**	**107**	**1,881**	**—**	**15,194**	**17,248**
Disposals	**(18,383)**	**—**	**(150)**	**(1,070)**	**—**	**—**	**(19,603)**
Transfer from construction in progress	**637**	**—**	**—**	**114**	**—**	**(751)**	**—**
Depreciation	**(13,666)**	**(384)**	**(1,722)**	**(8,387)**	**(259)**	**—**	**(24,418)**
Closing net book amount	**536,212**	**4,453**	**4,856**	**42,393**	**1,183**	**109,344**	**698,441**
At 31 December 2020							
Cost	**587,589**	**7,971**	**10,140**	**85,250**	**5,436**	**109,344**	**805,730**
Accumulated depreciation	**(51,377)**	**(3,518)**	**(5,284)**	**(42,857)**	**(4,253)**	**—**	**(107,289)**
Net book amount	**536,212**	**4,453**	**4,856**	**42,393**	**1,183**	**109,344**	**698,441**

The CGU is tested for impairment as it contains goodwill, key assumptions used in the impairment model are detailed in Note 16.

The leasehold land and buildings of RMB274,673,000 are pledged to secure the bank borrowings detailed in Note 23(c).

15. INVESTMENT PROPERTIES

	Total RMB'000
FAIR VALUE	
At 1 January 2019	278,143
Fair value adjustments	(1,650)
At 31 December 2019	276,493
Fair value adjustments	(1,753)
At 31 December 2020	**274,740**

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

The fair value of the Group's investment properties at 31 December 2020 was approximately RMB274,740,000 (31 December 2019: RMB276,493,000). The fair value of the Group's investment properties at 31 December 2020 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.

The valuation has factored the potential impact of the COVID-19 pandemic by modifying the previous year's assumptions, reflecting the uncertainty and risk of defaults and non-payment of rent caused by the COVID-19 pandemic. The following table shows the significant unobservable inputs used in comparison with the previous year:

	2020	2019
Occupancy rate	**60.0% to 86.8%**	50.0% to 90.0%
Rental growth rate	**3.0%**	4.0%
Discount rate	**6.0%**	7.1%

The fair value of the investment properties at 31 December 2019 and 2020 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy. There were no transfer into or out of Level 3 during the year.

15. INVESTMENT PROPERTIES (Continued)

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

In addition, as a result of the increased uncertainty, significant judgement is required when evaluating the inputs used in the fair value estimate. Reasonably possible changes at the reporting date to any of the relevant assumptions would have affected the fair value of the investment property. The effect of COVID-19 pandemic would meant that the range of reasonably possible changes as presented below:

	2020 RMB'000
Discount rate increased by 1%	(40,430)
Expected occupancy rate decreased by 3%	(11,840)
Rental growth rate decreased by 0.5%	(18,060)

16. INTANGIBLE ASSETS

	Goodwill RMB'000	Computer software RMB'000	Trademarks RMB'000	Technology know-how RMB'000	Customer relationship RMB'000	Total RMB'000
At 1 January 2019						
Cost	160,754	874	11,755	36,440	5,012	214,835
Accumulated amortisation	—	(752)	(6,010)	(18,624)	(5,012)	(30,398)
Net book amount	160,754	122	5,745	17,816	—	184,437
Year ended 31 December 2019						
Opening net book amount	160,754	122	5,745	17,816	—	184,437
Amortisation charge	—	(112)	(784)	(2,428)	—	(3,324)
Closing net book amount	160,754	10	4,961	15,388	—	181,113
At 31 December 2019						
Cost	160,754	874	11,755	36,440	5,012	214,835
Accumulated amortisation	—	(864)	(6,794)	(21,052)	(5,012)	(33,722)
Net book amount	160,754	10	4,961	15,388	—	181,113
Year ended 31 December 2020						
Opening net book amount	160,754	10	4,961	15,388	—	181,113
Amortisation charge	—	(3)	(784)	(2,428)	—	(3,215)
Closing net book amount	160,754	7	4,177	12,960	—	177,898
At 31 December 2020						
Cost	160,754	874	11,755	36,440	5,012	214,835
Accumulated amortisation	—	(867)	(7,578)	(23,480)	(5,012)	(36,937)
Net book amount	160,754	7	4,177	12,960	—	177,898

16. INTANGIBLE ASSETS (Continued)

Impairment tests for goodwill

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

The recoverable amounts of the CGU has been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period.

	2020	2019
Gross profit margin	57.4% to 58.2%	57.7% to 59.7%
Growth rate	2.5%	2.5%
Discount rate	15.3%	15.2%

During the year, the global health emergency resulting from the COVID-19 pandemic has led to a significant disruption in large scale manufacturing interruption and closure of assembly plants. This places intense pressure on the Infusion Set Business and causes an adverse impact on the estimated value in use of the CGU.

The recoverable amount of the CGU has been determined from value in use calculations based on cash flow projections approved by the directors of the Company covering a five-year period. Due to the increase in the level of uncertainty following the impact of COVID-19 pandemic, the discounted cash flow in 2020 was prepared by using the expected cash flow approach, which involved multiple cash flow projections and taking into consideration of assumed probabilities to different future events in each scenario, instead of using a single scenario that was applied for the purpose of impairment test as at 31 December 2019. While many scenarios and probabilities may exist, ultimately two scenarios were established with the following key assumptions:

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

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

	Positive case	Negative case
Growth rate in 2021	21.3%	13.4%
Growth rate in 2022	16.2%	14.8%
Growth rate in 2023–2025	10.0% to 17.4%	11.3% to 17.6%
Gross profit margin in 2021	58.3%	58.3%
Gross profit margin in 2022	57.6%	57.4%
Gross profit margin in 2023–2025	58.0%	57.8%

Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2.5% (2019: 2.5%), which does not exceed the long-term growth rate for the industry in the PRC. Discount rate used of 15.3% (2019: 15.2%) is pre-tax and reflect specific risks relating to the relevant CGU. Operating margin and growth rate within the five-year period was based on past experience and had taken into consideration of the decrease in revenue under each scenario.

16. INTANGIBLE ASSETS (Continued)

Impairment tests for goodwill (Continued)

Management believes that any reasonably possible change in any of these assumption would not cause the aggregate carrying amount to exceed the aggregate recoverable amount. As at 31 December 2020, management determines that there is no impairment on goodwill.

Impact of possible changes in key assumptions

As significant judgments are used to estimate the weighing of different scenario and the key inputs used in each scenario, such as growth rates, gross profit margin, wage inflation and pre-tax discount rates, any adverse change in the key assumptions used to calculate the recoverable amount would result in further impairment losses. Sensitivity of the impairment assessment to a reasonably possible change in each of the key inputs is as follows:

	Change in assumptions, holding other inputs constant	Change in recoverable amount RMB'000
Growth rate	Reduced by 0.5%	(543)
Gross profit margin	Reduced by 5%	(588)
Discount rate	Increased by 1%	(619)

17. INTEREST IN AN ASSOCIATE

As at 31 December 2020, the Group held 9.67% (2019: 16.44%) equity interest in China Biologic Products Holdings, Inc. ("CBPO"). CBPO is a limited liability company incorporated in the Cayman Islands. Its shares are listed on NASDAQ Stock Market. CBPO and its subsidiaries are principally engaged in the research, development, manufacturing and sales of human plasma-based biopharmaceutical products.

For the year ended 31 December 2020, the Group's equity interest in CBPO has been less than 20%, the directors of the Company are of opinion that they have had power to exercise significant influence over CBPO as one executive director of the Company had been one of the six directors of CBPO during the year ended 31 December 2020. Under HKAS 28, the investment in CBPO is classified as interest in an associate and has been accounted for in the consolidated financial statements using equity method until reclassified as assets held for sale as at 31 December 2020.

During the period from January 2020 to April 2020, the equity interest held by the Group in CBPO was diluted from 16.44% to 16.40% due to exercise of share options by grantee and issuance of share capital by CBPO. The dilution of interest resulted in a deemed disposal of interest in an associate and a loss of RMB8,094,000 is recognised in "Other losses — net" and an exchange loss of RMB27,000 is reclassified from exchange reserve to profit or loss.

17. INTEREST IN AN ASSOCIATE (Continued)

On 8 May 2020, in accordance with a share purchase agreement (the "Share Purchase Agreement"), the Company sold 1,000,000 ordinary shares to an independent third party for a cash consideration of US$101 million. After the disposal, the Company entered into an amendment to the Share Purchase Agreement, pursuant to which, purchasers agreed to pay additional US$19,000,000, as adjustments to the sale price, to the Company. The transaction did not affect the degree of significant influences to CBPO as the Company still has power to appoint one of the six directors of CBPO. The disposal of interests in CBPO resulted a gain of RMB269,002,000 recognised in "Gain on disposal of interest in an associate" and an amount of RMB21,078,000 is reclassified from exchange reserve to profit or loss. The interest in CBPO reduced from 16.40% to 13.84% as at the disposal date.

During the period from May 2020 to December 2020, the equity interest held by the Group in CBPO was diluted from 13.84% to 13.72% 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 RMB26,723,000 is recognised in "Other losses — net" and an exchange gain of RMB703,000 is reclassified from exchange reserve to profit or loss.

Pursuant to the Company's announcement dated on 26 October 2020, the Company has conditionally agreed to sell entire equity interest, being 5,321,000 CBPO Shares, to Biomedical Treasure Limited, CITIC Capital and Biomedical Future Limited at a consideration of US$120.0 per CBPO Share. Pursuant to the share purchase agreements, Biomedical Treasure Limited, CITIC Capital and Biomedical Future Limited has conditionally agreed to purchase, 3,750,000 CBPO Shares, 910,167 CBPO Shares and no less than 660,833 CBPO Shares respectively.

As at 30 December 2020, the transactions with CITIC Capital and Biomedical Future Limited were completed and detailed in the Company's announcement dated on 31 December 2020. The disposal of interests in CBPO resulted a gain of RMB318,713,000 recognised in "Gain on disposal of interest in an associate" and an amount of RMB3,748,000 is reclassified from exchange reserve to profit or loss.

The remaining 9.67% interests in CBPO, being 3,750,000 CBPO Shares agreed to be sold to Biomedical Treasure Limited is classified as assets held for sale under HKFRS 5 as at 31 December 2020, as the Directors already located the buyer and had entered into an agreement as at 31 December 2020. The transaction is subsequently completed on 6 January 2021 and the director appointed by the Company resigned as a director of CBPO effective from the same day.

	2020 RMB'000	2019 RMB'000
Share of net assets	–	2,311,883
Goodwill	–	1,387,518
	–	3,699,401

17. INTEREST IN AN ASSOCIATE (Continued)

Particulars of the Group's interest in an associate as at 31 December 2020 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	9.67% (2019: 16.44%)	Research, development, manufacturing and sales of human plasma-based biopharmaceutical products

The summarised movements of interest in associates during the year are as below:

	RMB'000
At 1 January 2020	3,699,401
Share of result of an associate	113,410
Exchange difference arising on translation of an associate in foreign currency	(114,741)
Disposal of interest in an associate	(1,497,443)
Deemed disposal of interest in an associate	(34,141)
Reclassified as held for sale (Note 18)	(2,166,486)
At 31 December 2020	—

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

	For the Year ended 31 December 2020 RMB'000
Purchase consideration received	2,067,828
Share of interest disposed of	(1,497,443)
Exchange alignments	17,330
Gain on disposal of interest in an associate	587,715

17. INTEREST IN AN ASSOCIATE (Continued)

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

	2020 RMB'000	2019 RMB'000
As at 31 December		
Current assets	10,430,349	9,056,120
Non-current assets	6,213,954	6,589,597
Current liabilities	(920,393)	(835,227)
Non-current liabilities	(252,699)	(304,846)
Net assets	15,471,211	14,505,644
Net assets attributable to owners of the equity	14,872,358	13,990,365
Group's share of the net assets of the associate	997,479	2,311,883

	2020 RMB'000	2019 RMB'000
Year ended 31 December		
Revenue	3,615,043	3,473,019
Profit for the year	1,163,657	874,006
Other comprehensive income/(expense)	689,886	(140,534)
Total comprehensive income	1,853,543	733,472
Profit for the year attributable to owners of the equity	70,304	695,685
Other comprehensive expense attributable to owners of the equity	(20,122)	(117,835)
Total comprehensive income attributable to owners of the equity	50,182	577,850
Dividends received from the associate	–	–

18. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Refer to Note 17, the remaining 9.67% equity interest of CBPO as at 31 December 2020, being 3,750,000 CBPO shares, are classified as assets and liabilities of a disposal group classified as held for sale. As of the date approve the financial statements, the transaction of selling the remaining interest is completed on 6 January 2021 and detailed in the Company's announcement dated on 7 January 2021.

	RMB'000
Interest in an associate	2,166,486

19. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	21,349	15,369
Work in progress	5,331	6,541
Finished goods	12,361	14,474
	39,041	36,384

20. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables (i)	107,880	163,639
Bills receivable (ii)	2,026	6,303
Prepayments and deposits	6,488	7,127
Value added tax recoverable	19,713	15,970
Other receivables	15,263	24,386
	151,370	217,425
Trade receivables — non-current	—	(11,200)
Trade and other receivables — current portion	151,370	206,225

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

	2020 RMB'000	2019 RMB'000
Up to 3 months	26,345	42,948
3 months to 6 months	15,825	28,249
6 months to 12 months	15,478	28,245
1 year to 2 years	29,191	20,096
2 years to 3 years	21,041	44,101
	107,880	163,639

The Group and the Company recognised impairment loss based on the accounting policy stated in Note 4.10(ii).

Trade receivables are due within 180 days from the date of billing. The Group does not hold any collateral as security. Further details on the Group's credit policy and credit risk arising from trade receivables and bills receivable are set out in Note 35(b).

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. During the year ended 31 December 2020, the repayments made by the Customers for the Overdue Debts have been consistent with the agreed schedule.

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

21. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	15,019	13,348
Salary and staff welfare payables	18,942	22,545
Advances from customers	16,051	13,266
Deposits received	3,955	2,411
Value added tax and other taxes	303	4,038
Professional service fee	2,922	3,269
Provision of loss from guarantee liability (Note 7)	18,480	17,744
Deferred government grant — current portion (Note 22)	642	442
Other payables	16,288	21,435
	92,602	98,498

As at 31 December 2020 and 2019, 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 values 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:

	2020 RMB'000	2019 RMB'000
Up to 6 months	3,591	10,592
6 months to 12 months	3,847	1,015
Over 1 year	4,924	804
2 years to 3 years	972	361
Over 3 years	1,685	576
	15,019	13,348

22. DEFERRED GOVERNMENT GRANTS

	2020 RMB'000	2019 RMB'000
At beginning of year	17,931	883
Additions (Note)	—	17,690
Amortisation	(642)	(642)
At end of year	17,289	17,931
Current portion	642	442
Non-current portion	16,647	17,489
	17,289	17,931

Note: In 2019, the Group received government grants amounting to RMB17,690,000, mainly for the establishment of the new production plants which had been already completed.

Such government grants were recorded as deferred government grants and would be credited to the consolidated statement of comprehensive income over the useful life of the corresponding assets using straight-line method.

23. BANK BORROWINGS

	2020 RMB'000	2019 RMB'000
Current liabilities		
Bank borrowings due for repayment within one year (Note (a))	—	577,071
Trade finance borrowings due to repayment within one year which contained a repayable on demand clause (Note (b))	10,000	10,000
	10,000	587,071
Non-current liability — Secured		
Bank borrowing (Note (c))	18,000	—
Total bank borrowings	28,000	587,071

23. BANK BORROWINGS (Continued)

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 RMB539,740,000) (the "Loan") for a term of one year. The Loan was 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.

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

(b) The bank borrowing represents trade finance advanced from the Bank of Beijing. As at 31 December 2020, bank facilities in total of RMB10,000,000 were granted to the Group's subsidiary, Beijing Fert Technology Co.,Ltd. by the Bank of Beijing, of which RMB10,000,000 is utilised by the Company as at 31 December 2020.

All of the banking facilities are subject to the fulfilment 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 0.50% plus the prime rate of the Central Bank in the PRC. The loan is carried at amortised cost.

(c) On 29 February 2020, the Company has been granted a new bank facilities from the Industrial and Commercial Bank of China amounted to RMB220,000,000 which is repayable in 2025, of which amounted of RMB18,000,000 has been utilised by the Company as at 31 December 2020.

The borrowing is secured by the leasehold land and building of approximately RMB274,673,000 owned by the Group's subsidiary and bears interest at prime rate of Central Bank in the PRC minus 0.10%. The loan is carried at amortised cost.

24. DEFERRED TAX ASSETS AND LIABILITIES

Details of the deferred tax liabilities and assets recognised and movements during the current and prior years:

	Provision for impairment of receivables RMB'000	Write-down of inventories RMB'000	Depreciation allowance RMB'000	Fair value Surplus on acquisition of subsidiaries RMB'000	Fair value surplus arising from revaluation of PPE RMB'000	Deferred government grant RMB'000	Tax loss RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	1,432	755	10	(8,774)	(859)	–	–	317	(7,119)
Charge to profit or loss for the year	2,325	–	19	5,493	413	4,312	–	4	12,566
At 31 December 2019	3,757	755	29	(3,281)	(446)	4,312	–	321	5,447
Charge/(credit) to profit or loss for the year	1,466	67	–	561	438	(111)	4,130	–	6,551
At 31 December 2020	5,223	822	29	(2,720)	(8)	4,201	4,130	321	11,998

24. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

At 31 December 2020, the Group had estimated unutilised tax losses of approximately RMB50,116,000 (2019: RMB11,740,000) available for offsetting against future assessable profits arising in the PRC. These tax losses will expire in 2021 to 2026.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balance after offsetting is as follows:

	2020 RMB'000	2019 RMB'000
Non-current portion		
Deferred tax assets	**14,726**	9,174
Deferred tax liabilities	**(2,728)**	(3,727)
	11,998	5,447

25. SHARE CAPITAL

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

26. OTHER RESERVES

	Merger reserve Note (i) RMB'000	Translation reserve RMB'000	Capital reserve Note (ii)(iii) RMB'000	Share option reserve RMB'000	Revaluation reserves RMB'000	Total RMB'000
The Group						
At 1 January 2019	63,964	74,047	330,900	115	2,576	471,602
Currency translation differences	—	(10,062)	—	—	—	(10,062)
Deregistration of a subsidiary	—	(1,417)	—	—	—	(1,417)
Exchange difference arising on translation of other comprehensive income of an associate	—	44,057	—	—	—	44,057
Exchange differences reclassified to profit or loss upon deemed disposal of an associate	—	(195)	—	—	—	(195)
At 31 December 2019	63,964	106,430	330,900	115	2,576	503,985
Currency translation differences	—	(626)	—	—	—	(626)
Exchange difference arising on translation of other comprehensive income of an associate	—	(114,741)	—	—	—	(114,741)
Exchange differences reclassified to profit or loss upon deemed disposal of an associate	—	676	—	—	—	676
Exchange differences reclassified to profit or loss upon disposal of interest in an associate	—	(17,330)	—	—	—	(17,330)
At 31 December 2020	**63,964**	**(25,591)**	**330,900**	**115**	**2,576**	**371,964**

(i) The merger reserve represents: (a) the total consideration paid for the acquisition of subsidiaries under common control upon the Reorganisation; and (b) the cash contribution to the Group by the then equity owners.

(ii) Capital reserve mainly represents: (a) for the transactions with non-controlling interests, the differences between the considerations paid/received and the relevant carrying value of the net assets of the subsidiaries acquired/disposed of; and (b) the difference between the carrying amount and undiscounted amount of interest-free loan received from a related party, net of tax.

(iii) On 27 February 2017, Xinyu Yongshuo Management and Consulting LLP ("Xinyu Yongshuo"), an independent third party, subscribed 11,250,000 new shares issued by Tianxinfu, an indirectly wholly-owned subsidiary of the Company, at a cash consideration of RMB500 million which accounts for 20% equity interest of Tianxinfu.

In August 2018, Tianxinfu dividends RMB96,500,000, of which RMB12,658,000 was attributable to Xinyu Yongshuo.

27. LEASES

(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
2020			
Balance at 1 January	98	22,929	23,027
Addition	240	—	240
Depreciation charge for the year	(320)	(482)	(802)
Balance at 31 December	18	22,447	22,465

(ii) Lease liabilities

	Properties RMB'000	Leasehold land and land use rights RMB'000	Total RMB'000
2020			
Balance at 1 January	103	2,442	2,545
Interest expense	(8)	—	(8)
Lease payments	(76)	—	(76)
Balance at 31 December	19	2,442	2,461

27. LEASES (Continued)

(a) Leases as lessee (Continued)

(ii) Lease liabilities (Continued)

Future lease liabilities are payable as follows:

	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
At 31 December 2020			
Not later than one year	**2,469**	**(8)**	**2,461**

The present value of future lease payments are analysed as:

	2020 RMB'000
Current liabilities	**2,461**

(iii) Amounts recognised in profit or loss

	RMB'000
2020 — Leases under HKFRS 16	
Interest on lease liabilities	8
Expenses relating to short-term leases	238
	246
Aggregate undiscounted commitments for short term leases	40

27. LEASES (Continued)

(a) Leases as lessee (Continued)

(iv) Amounts recognised in statement of cash flows

	RMB'000
2020	
Total cash outflow for leases	(332)

(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 2020 was RMB11,801,000.

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

	2020 RMB'000
Within one year	11,871
One to two years	12,318
In the third to fifth years inclusive	17,256
	41,445

28. CAPITAL COMMITMENTS

Capital expenditure contracted for but not accounted for at the end of the reporting period in the financial statements is as follow:

	2020 RMB'000	2019 RMB'000
Commitments for the acquisition of:		
Property, plant and equipment	28,593	30,416

29. SHARE BASED PAYMENTS

On 6 July 2013, the Board approved a share option scheme (the "Scheme") for the issuance of aggregate of shares in issue on the listing date of the Company, representing 70,891,722 shares.

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

The principal terms of the Scheme, approved and by resolution of our shareholders passed on 3 July 2013 and amended by resolution of our shareholders on 14 October 2013. The options under the Scheme shall vest in 4 equal tranches (being 25% of each option granted, and each tranche is hereinafter referred to as a "Tranche") on the four dates (day immediately following the expiry of 6 months after the 8 November 2013 (the "First Vesting Date"); first anniversary of the First Vesting Date (the "Second Vesting Date"); second anniversary of the First Vesting Date (the "Third Vesting Date"); and third anniversary of the First Vesting Date (the "Last Vesting Date")), respectively with performance conditions. Details of the Scheme was disclosed in the Company's prospectus dated 28 October 2013.

The following share options were outstanding under the scheme during the year:

	2020	2019
Outstanding at 1 January	118,471	118,471
Forfeited during the year	—	—
Exercised during the year	—	—
Outstanding at 31 December	**118,471**	118,471

The exercise price of options outstanding at the end of the 2020 was RMB 0.626 (2019: RMB0.626) and their weighted average remaining contractual life was 3 years (2019: 4 years).

Of the total number of options outstanding at the end of the year, 118,471 (2019: 118,471) had vested and were exercisable at the end of the year.

30. 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:

	2020 RMB'000	2019 RMB'000
Short-term benefits	3,289	3,465
Post-employment benefits	195	203
	3,484	3,668

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 is interest-free, unsecured and repayable on demand, arising from balance due from CBPO and balances due to a CBPO's subsidiary.

31. NOTES SUPPORTING CASH FLOW STATEMENT

(a) Cash and cash equivalents comprise:

	2020 RMB'000	2019 RMB'000
Cash available on demand	1,482,958	55,098
Short-term deposits (note)	218,825	77,500
	1,701,783	132,598

Note:

The balance represents short-term bank deposits with an original maturity of three months or less. The Group's bank balances deposited in the banks in the PRC carry prevailing market interest rates ranging from 2.0% to 2.8% (2019: from 2.0% to 2.8%) per annum.

The Group's bank balances that are denominated in foreign currencies of the relevant group entities (whose functional currency is RMB) are set out as below:

	2020 RMB'000	2019 RMB'000
Denominated in USD	1,354,860	7,836
Denominated in HK$	95	1,125

31. NOTES SUPPORTING CASH FLOW STATEMENT (Continued)

(b) Reconciliation of liabilities arising from financing activities:

	Bank borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
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 and 1 January 2020	587,071	2,545	589,616
Changes from financing cash flows			
Proceeds from new bank borrowings	18,000	—	18,000
Payment of bank borrowing	(585,401)	—	(585,401)
Payment of lease liabilities	—	(332)	(332)
Interest paid	(10,663)	—	(10,663)
Total changes from financing cash flows	(578,064)	(332)	(578,396)
Other changes			
Addition of properties	—	240	240
Exchange differences	8,330	—	8,330
Interest expense	10,663	8	10,671
Total liability-related other changes	18,993	248	19,241
At 31 December 2020	28,000	2,461	30,461

32. 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:

	2020 RMB'000	2019 RMB'000
Financial assets		
Financial assets at amortised cost	1,854,457	354,375
Financial liabilities		
Financial liabilities at amortised cost	129,941	696,043

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

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

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

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

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

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

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

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

33. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2020 were as follows:

Company name	Place of incorporation and operation/kind of legal entity	Date of incorporation/ establishment	Registered/Issued and paid-up capital	Effective equity interests held 31 December		Principal activities
				2020	2019	
Directly owned:						
Health Access Limited ("Health Access")	Hong Kong/Limited liability company	29 June 2011	480,026,001 ordinary shares of HK$1 each	100%	100%	Investment holding
Indirectly owned:						
PW Medtech (Beijing) Limited (普華和順(北京)醫療科技有限公司 "PW Medtech (Beijing)")	PRC/Limited liability company	10 August 2000	RMB154,300,000	100%	100%	Investment holding
Jiangsu PW Medtech Medical Device Co., Ltd. (江蘇普華和順醫療器械有限公司)	PRC/Limited liability company	10 April 2014	RMB10,000,000	100%	100%	Infusion Set Business
Beijing Fert Technology Co., Ltd. (北京伏爾特技術有限公司 "Fert Technology")	PRC/Limited liability company	23 September 1997	RMB126,000,000	100%	100%	Infusion Set Business
Xuzhou Yijia Medical Device Co.,Ltd. (徐州一佳醫療器械有限公司 "Xuzhou Yijia")	PRC/Limited liability company	30 June 2003	RMB7,000,000	100%	100%	Infusion Set Business
Beijing Zhong Jie Tian Gong Medtech Co., Ltd. (北京中傑天工醫療科技有限公司)	PRC/Limited liability company	22 September 2011	RMB10,000,000	100%	100%	Infusion Set Business
Shandong Fert Technology Co., Ltd. (山東伏爾特技術有限公司)	PRC/Limited liability company	8 January 2013	RMB10,000,000	100%	100%	Infusion Set Business
Shandong Fert Medical Device Co., Ltd. (山東伏爾特醫療器械有限公司)	PRC/Limited liability company	28 July 2015	RMB20,000,000	100%	100%	Infusion Set Business
Beijing Fert Medtech Co., Ltd. (北京伏爾特醫療科技有限公司)	PRC/Limited liability company	18 October 2016	RMB30,000,000	100%	100%	Infusion Set Business

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

34. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY

(a) Statement of financial position of the Company

	Note	2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Investments in and loans to subsidiaries		419,969	419,969
Investment in an associate		—	3,393,431
		419,969	3,813,400
Current assets			
Amounts due from subsidiaries		185,057	187,251
Amount due from an associate		27,730	27,673
Trade and other receivables		318	157
Cash and cash equivalents		1,476,621	123
		1,689,726	215,204
Assets classified as held for sale		1,965,400	—
Total current assets		3,655,126	215,204
Total ASSETS		4,075,095	4,028,604
Current liabilities			
Amounts due to subsidiaries		132,442	133,439
Amount due to an associate		224	224
Bank loan		—	577,071
Trade and other payables		2,725	2,606
Total current liabilities		135,391	713,340
NET ASSETS		3,939,704	3,315,264
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	965	965
Share premium		1,492,937	1,492,937
Other reserves		214,594	236,067
Retained earnings		2,231,208	1,585,295
TOTAL EQUITY		3,939,704	3,315,264

The statement of financial position of the Company was approved by the Board of Director on 30 March 2021 and was signed on its behalf by:

Yue'e ZHANG
DIRECTOR

LIN Junshan
DIRECTOR

34. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY (Continued)

(b) Reserves movement of the Company

	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2019	1,492,937	17,583	1,644,003	3,154,523
Loss and total comprehensive expense for the year	—	—	(58,708)	(58,708)
Deregistration of a subsidiary	—	239,275	—	239,275
Currency translation differences	—	(20,791)	—	(20,791)
At 31 December 2019	1,492,937	236,067	1,585,295	3,314,299
Profit and total comprehensive income for the year	—	—	645,913	645,913
Currency translation differences	—	(21,473)	—	(21,473)
At 31 December 2020	1,492,937	214,594	2,231,208	3,938,739

Pursuant to the Company's announcement dated on 6 November 2020, the Directors recommended a special dividend of HK$1.5766 per ordinary share (2019: Nil), which was subsequently approved by the Shareholders on 8 December 2020. The proposed dividend is not reflected as a dividend payable in these financial statements as the special dividend was subject to completion of disposal of interest in an associate (the "transactions"). As the Transaction completed on 6 January 2021, the special dividend are subsequently paid on 25 February 2021.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Market risk

(i) Foreign exchange risk

The Group's major operational activities are carried out in the PRC and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to the Hong Kong dollar ("HK$") and the United States dollar ("US$"). The Group does not hedge against any fluctuation in foreign currency during the year. Management may consider entering into currency hedging transactions to manage the Group's exposure towards fluctuations in exchange rates in the future.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As at 31 December 2020, if HK$ and US$ had strengthened/weakened by 3% against RMB (2019: 3%), with all other variables held constant, which were considered reasonably possible at each of the dates by management, the profit for the year would have been approximately RMB30,486,000 (2019: RMB14,296,000) lower/higher, mainly as a result of foreign exchange differences on translation of balances of cash and cash equivalents and bank loan denominated as below:

	2020 RMB'000	2019 RMB'000
Cash and cash equivalents — denominated in		
RMB	346,828	123,637
HK$	95	1,125
US$	1,354,860	7,836
Total	1,701,783	132,598
Bank loans — denominated in		
RMB	28,000	10,000
US$	—	577,071
Total	28,000	587,071

(ii) 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. Management does not anticipate any significant impact to interest-bearing assets resulted 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 primarily from bank borrowings (note 23). Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively.

At 31 December 2020, 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 and retained profits by approximately RMB210,000 (2019: RMB490,200).

The sensitivity analysis above has been determined 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.

(iii) Price risk

The Group exposes to commodity price risk, mainly due to the fluctuations in prices of plastic, which are the key raw materials to the Group's products of its Infusion Set Business. During the year, the management considers the price risk exposure is not material, and the Group has the flexibility to pass the increases in raw material costs to the Group's customers.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) 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.

Trade receivables

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

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

	Group A	Group B	Group C	Group D
2020				
Expected credit loss rate (%)	5.20	1.46	46.15	39.20
Gross carrying amount	28,369	32,754	12,791	68,784
Loss allowance	1,475	477	5,903	26,963

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

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

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Credit risk (Continued)

Trade receivables (Continued)

Restrictions implemented by governments to limit the spreading of COVID-19 pandemic resulted in contraction in the economic activity in 2020. Though economic activity is expected to be recovered, there is significant uncertainty associated with the pace and scale of resumption. The uncertainty include a possible resurgence of the virus in 2021 and the potential risk of affecting the macroeconomic or other factors affecting the risk of default occurring in the next 12 months or beyond. As a result, the outbreak of the Covid-19 pandemic has led to a reassessment of scenarios and the probability weighting in the ECL assessment of Group D.

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

	2020 RMB'000	2019 RMB'000
Balance at 1 January	25,047	9,550
Provision for impairment losses recognised during the year	9,771	15,497
Balance at 31 December	**34,818**	25,047

Other receivables

Other receivables represent advances due from employee and rental income receivables. It is considered to be low risk as the borrower is considered, in the short term, to have a strong capacity to meet its obligations, and therefore the impairment provision is determined as 12 months expected credit losses. The loss allowance for debt investments as a result of applying the expected credit risk model was immaterial.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient committed facilities to fund their operations.

The following table details the remaining contractual maturities at the year end of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the year end) and the earliest date the Group may be required to pay.

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 2 years but less than 5 years RMB'000
The Group				
2020				
Non-derivatives:				
Amount due to an associate	27,829	27,829	27,829	—
Trade and other payables	71,651	71,651	71,651	—
Bank borrowings	28,000	32,062	10,461	21,601
Lease liabilities	2,461	2,469	2,469	—
	129,941	134,011	112,410	21,601
2019				
Non-derivatives:				
Amount due to an associate	28,086	28,086	28,086	—
Trade and other payables	78,341	78,341	78,341	—
Bank borrowings	587,071	616,559	616,559	—
Lease liabilities	2,545	2,546	2,546	—
	696,043	725,532	725,532	—

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Liquidity risk (Continued)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. As at 31 December 2020, the gearing ratio of the Group was approximately 0.55% (2019: 11.30%). This ratio is calculated as bank borrowing divided by total capital. Total borrowings is bank borrowings 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 bank borrowings.

36. IMPACT OF COVID-19

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

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

— Decrease in hospital traffic in the PRC;

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

The directors of the Company are continuing to assess the implications of COVID-19 pandemic to the business in which the Group operates. Depending on the duration of the COVID-19 pandemic and continued negative impact on economic activity, the Group might experience further negative results, and liquidity restraints and incur additional impairments on its assets in 2021. However, the exact impact in the remainder of 2021 and thereafter cannot be predicted.

37. EVENTS AFTER THE REPORTING PERIOD

Payment of special dividend

On 25 February 2021, the special dividend of HK$1.5766 per ordinary share approved by the Shareholders on 8 December 2020 were paid.

Completion of disposal of 3,750,000 CBPO shares

Pursuant to the Company's announcement dated on 7 January 2021, the Company already completed the transaction of disposing 3,750,000 CBPO shares to Biomedical Treasure with consideration of US$450,000,000 on 6 January 2021.

PW MEDTECH GROUP LIMITED

普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

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