PW MEDTECH GROUP LIMITED
普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2013

(Stock Code: 01358)

A **True Pioneer** in the **Chinese Medical Devices Industry**

We are a leading medical device company focused on large, fast-growing and high margin segments of China's medical device industry. We have leading market positions in our current business segments of orthopedic implants and advanced infusion sets, and with a strong research and development capability.

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CORPORATE
Profile

PW Medtech Group Limited (the "**Company**" or "**PW Medtech**" and, together with its subsidiaries, collectively the "**Group**") is a leading medical device company focused on large, fast-growing and high-margin segments of China's medical device industry. The Group is a leader in its current business segments of orthopedic implants and advanced infusion sets with strong research and development capability.

2013 was an important year for the growth and development of the Group. The shares of the Company (the "**Shares**") were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), which enabled PW Medtech's entrance into international capital market and created a platform for rapid development in the coming future.

According to Frost & Sullivan, the Group has the third largest market share among domestic companies in China for the manufacturing of orthopedic implants, and is one of the only two major domestic companies with a full product portfolio including trauma, spine, as well as hip and knee implants. Since 2010, the Group has successfully launched 25 orthopedic implant products, including bridge-link combined fixation system.

As China's second largest advanced infusion sets manufacturer and even the largest of such kind in Beijing region in terms of revenue, the Group produces advanced infusion sets including precision filter infusion sets, light resistant infusion sets and non-PVC-based ("**PVC**" — polyvinyl chloride, a type of plastic material) infusion sets. The Group is one of the first manufacturers which obtained the approval of 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)("**CFDA**") to manufacture precision filter infusion sets, and one of the only four manufacturers approved by CFDA for producing non-PVC-based infusion sets. The Group also holds patented double-layer tubing design for non-PVC-based infusion sets.

For the year ended December 31, 2013, 30.6% of revenue of the Group is derived from the orthopedic implant products (the "**Orthopedic Implant Business**"), and 69.4% of revenue of the Group is derived from the advanced infusion set products (the "**Infusion Set Business**").

2013

- Acquired Shenzhen Bone Medical Device Co., Ltd. (established in 2002) and expanded into joint products
- **Listed on the Main Board of the Stock Exchange on November 8, 2013. Stock code: 1358**

2012

- Launched patented double-layer tubing infusion set, with thermoplastic polyurethane, a plastic material ("**TPU**") as the inner tubing and PVC as the outer tubing
- Launched patented bridge-link combined fixation system

2011

- Acquired Beijing Fert Technology Co., Ltd. and entered advanced infusion set sector

2010

- Investment from Warburg Pincus

2008

- Acquired Tianjin Walkman Biomaterial Co., Ltd. and entered orthopedic implant sector

2001

- Tianjin Walkman Biomaterial Co., Ltd. was founded in 2001

1997

- Beijing Fert Technology Co., Ltd. was founded in 1997

FINANCIAL **Highlights**

- Revenue for the year ended December 31, 2013 amounted to approximately RMB457.1 million, representing an increase of 37.9% from approximately RMB331.5 million recorded in 2012.

- Gross profit for the year ended December 31, 2013 amounted to approximately RMB310.4 million, representing an increase of 41.9% from approximately RMB218.8 million recorded in 2012.

- Profit attributable to owners of the Company for the year ended December 31, 2013 amounted to approximately RMB77.9 million, representing an increase of 74.4% from approximately RMB44.7 million recorded in 2012.

- Unaudited adjusted net profit for the year ended December 31, 2013, which was derived by excluding non-operational and one-off items comprising share-based compensation expenses and listing-related expenses (net of tax) from profit for the year, amounted to approximately RMB140.7 million, representing an increase of 40.4% from approximately RMB100.2 million recorded in 2012.

	For the year ended December 31,			
	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013** **RMB'000**
Revenue	60,816	175,267	331,541	**457,083**
Gross profit	44,187	109,117	218,847	**310,427**
Profit before income tax	17,268	57,328	119,721	**113,863**
Income tax expense	(2,936)	(7,982)	(19,538)	**(22,860)**
Profit for the year	14,332	49,346	100,183	**91,003**
Profit attributable to:				
Owners of the Company	7,117	22,103	44,668	**77,905**
Non-controlling interests	7,215	27,243	55,515	**13,098**
Unaudited adjusted net profit (Note 1)	14,332	49,346	100,183	**140,686**

	As at December 31,			
	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013** **RMB'000**
Total Assets	166,967	542,160	921,313	**2,129,161**
Total Liabilities	38,441	288,912	396,612	**230,465**
Equity attributable to the owners of the Company	51,837	91,722	349,537	**1,898,696**

Note 1: To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also use unaudited adjusted net profit as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. Our unaudited adjusted net profit was derived from our profit for the year excluding share-based compensation expenses and listing-related expenses.

CHAIRMAN'S **Statement**

It is a great honor for me, on behalf of the board of directors (the "**Board**") of PW Medtech, to present the first annual report of the Group for the financial year ended December 31, 2013.

2013 was an important year for the growth and development of the Group. The Company's Shares were successfully listed on the Main Board of the Stock Exchange, which enabled PW Medtech's entrance into the international capital market as well as created a platform for its rapid development in the coming future.

Despite the market volatility and uncertainty in the macro-economic environment in China, with the modest recovery of the global economy and the growth of the China's domestic consumption power, China's economy has maintained steady growth. In addition, with the ongoing urbanization trend, the increasing government funding to public health sector, the growing aging population and the stronger demand for quality medical services, it has presented valuable opportunities to the medical device industry in China. As a leader in orthopedic implant and advanced infusion set markets, the Group is leveraging on its distinctive strengths to seize the opportunities.

BUSINESS REVIEW

The Group is a leading medical device company focused on large fast-growing and high-margin segments of China's medical device industry. The Group holds a leading position in both of its main business lines, namely the Orthopedic Implant Business and the Infusion Set Business.

As a result of sustained growth of Orthopedic Implant Business and Infusion Set Business in 2013, the Group has achieved significant growth over the past year.

In 2013, the Group's revenue, profit before tax and profit attributable to the owners of the Company were RMB457.1 million, RMB113.9 million and RMB77.9 million, representing an increase of 37.9%, a decrease of 4.8% and an increase of 74.4% over 2012, respectively. After excluding non-operational and one-off items comprising (i) listing-related expenses of RMB33.0 million, (ii) the tax implications of the listing-related expenses of RMB3.2 million, and (iii) share-based compensation expenses of RMB19.9 million from the profit for the year, the unaudited adjusted net profit increased by 40.4% to RMB140.7 million from 2012. In 2013, the Group recorded a gross profit of RMB310.4 million, representing an increase of 41.9% over 2012, while the overall gross profit margin slightly increased to 67.9% in 2013 (2012: 66.0%).

Over the past years, with extensive product portfolio and strong research and development ("**R&D**") capabilities, the Group has expanded its product lines and sales network through strategic acquisitions and efficient integrations. The Group has successfully increased its overall revenue and created new growth drivers for its business. In 2013, the Group added new joint products into its portfolio through the acquisition of Shenzhen Bone Medical Device Co., Ltd. (the "**Bone Medical**") (深圳市博恩醫療器材有限公司), which in turn improved its capability of providing comprehensive solutions to hospitals and customers. As a pioneer in the advanced infusion set segment, the Group benefited from the trend of replacing conventional PVC infusion sets by advanced ones due to the increasingly widespread education on the safety of infusion sets. By developing a range of infusion products with good quality and functions, the advanced infusion set products continue to contribute to the Group's overall profit. In 2013, Orthopedic Implant Business and Infusion Set Business have contributed 30.6% and 69.4% to the Group's revenue, respectively.

The Group has placed great focus on R&D. It is committed to dedicating more resources and stronger support to the research capability, for the introduction of brand new products. The success of R&D depends primarily on a professional R&D team and a R&D strategy that caters to the demands of the China market. The Group's R&D team has attracted professional talents from various disciplinary backgrounds, focused on the cooperation with and the development of front-line doctors, continued to strengthen the scientific cooperation with research institutions and universities, and worked to create a demand-oriented R&D model. By improving existing technologies and developing new materials, the Group has increased the number of its patents and further enhanced its R&D capabilities. In recent years, the Orthopedic Implant Business and the Infusion Set

Business have launched brand new products such as bridge-link combined fixation system and double-layer TPU-based infusion set.

To meet the growing needs from market expansion, the Group has not only enhanced the utilization rate of existing plants, but is also proactively expanding its production capacity. The Group is planning to add two additional plants in Linyi (Shandong province) and Pinggu (Beijing) to expand its production capacity for advanced infusion sets. The Group has used its distribution network across the country to promote its products in more than 30 provinces, municipalities and autonomous regions in China, and strengthened the relationship with distributors and medical staff of hospitals through its professional sales and marketing team, thereby continuously improving market recognition and brand awareness of its products.

FUTURE PROSPECTS

Looking into 2014, China's economy will continue to enjoy steady growth. With expectation that the demand for orthopedic implants and advanced infusion sets will remain strong, we are optimistic that our business will continue to enjoy sustainable and healthy growth. The urbanization gives impetus to the economic growth, per capita disposable income of urban residents continues to grow, the government increases its investment in healthcare reform, and the system of public medical care insurance is improving. Therefore, the Company believes that the demand for medical service will be driven significantly higher. The Orthopedic Implant Business and the Infusion Set Business, the two fast-growing and high-margin segments of China's medical device industry, will witness further expansion in the coming five years.

According to Frost & Sullivan, from 2013 to 2017, China's orthopedic implant and advanced infusion set markets are expected to grow at compound annual growth rates ("**CAGRs**") of 18.1% and 24.5%, respectively. The orthopedic implant market will have a higher growth rate in the second and third tier cities, which is in line with the Group's target markets for orthopedic implant distribution network. The Group is committed to taking development opportunities in the orthopedic implant market in the second and third tier cities and the advanced infusion set market in the first tier cities.

The advanced infusion sets are expected to replace conventional PVC-based infusion sets in China as consumers grow increasingly aware of the safety benefits of advanced infusion sets over the conventional PVC-based infusion sets. We believe that this will lead to a rapid expansion of the advanced infusion sets market in China, thus allowing advanced infusion sets manufacturers like the Group, to enjoy sustainable and steady growth.

We will further increase the investment in R&D and strengthen our relationship with hospitals and research institutions, to develop new products, broaden and deepen the product mix, and increase market penetration by enhancing our promotion efforts across the national distribution market. While maintaining the rapid growth of Orthopedic Implant Business and Infusion Set Business, the Group will continue to implement our established core strategy of focusing on medical device market that enjoys high-growth and high-margin. The Group has outstanding acquisition and integration track record, and it is actively seeking acquisition opportunities to achieve sustainable and rapid business growth. The Group firmly believes that through continuous integration of its resources, it will enhance its overall operational efficiency and profitability effectively.

APPRECIATION

Finally, on behalf of the Board, I would like to extend my heartfelt gratitude to all the respected shareholders of the Company (the "**Shareholders**"). PW Medtech will seize the opportunities presented by the development of the medical devices industry to achieve sustainable business development and improve management and operation efficiency, and to maximize the Shareholders' value in the long run.

Chairman of the Board
Lin Junshan

March 25, 2014

CORPORATE Information

BOARD OF DIRECTORS

Executive Director

Mr. JIANG Liwei *(CEO)*

Non-executive Directors

Mr. LIN Junshan *(Chairman)*
Ms. Yue'e ZHANG
Mr. FENG Dai

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. William FU, *ACS, ACIS*

AUTHORISED REPRESENTATIVES UNDER THE LISTING RULES

Mr. JIANG Liwei
Mr. William FU

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. CHEN Geng *(Chairman)*
Mr. ZHANG Xingdong
Mr. FENG Dai

NOMINATION COMMITTEE

Mr. LIN Junshan *(Chairman)*
Mr. ZHANG Xingdong
Mr. WANG Xiaogang

AUDITOR

PricewaterhouseCoopers
22/F, Prince's Building
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

1002–1003, Block C, Focus Square
No. 6 Futong East Avenue
Wangjing, Chaoyang District
Beijing, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

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

LEGAL ADVISORS

As to Hong Kong Law

Chen & Associates
(in association with Wilson Sonsini Goodrich & Rosati, Professional Corporation)
Unit 1001, 10/F, Henley Building
5 Queen's Road Central
Hong Kong

As to Cayman Islands Law

Appleby
2206–19, 22nd Floor
Jardine House
1 Connaught Place
Central, Hong Kong

COMPLIANCE ADVISOR

Anglo Chinese Corporate Finance Limited
40th Floor, Two Exchange Square
8 Connaught Place
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd
Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, 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

Below are brief profiles of the current directors ("**Directors**", each a "**Director**") and senior management of the Group.

DIRECTORS

The Board currently consists of seven Directors, comprising one executive Director, three 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			
Mr. JIANG Liwei (姜黎威)	46	Chief executive officer and executive Director	June 21, 2013
Non-executive Directors			
Mr. LIN Junshan (林君山)	51	Chairman and non-executive Director	June 21, 2013
Ms. Yue'e ZHANG (張月娥)	50	Non-executive Director	May 13, 2011
Mr. FENG Dai (馮岱)	38	Non-executive Director	June 21, 2013
Independent non-executive Directors			
Mr. ZHANG Xingdong (張興棟)	76	Independent non-executive Director	October 14, 2013
Mr. CHEN Geng (陳庚)	43	Independent non-executive Director	October 14, 2013
Mr. WANG Xiaogang (王小剛)	40	Independent non-executive Director	October 14, 2013

Executive Director

Mr. JIANG Liwei (姜黎威), aged 46, is the Company's chief executive officer ("**CEO**") and executive Director. He is primarily responsible for the overall corporate strategies and management of our Group. Mr. JIANG has 20 years of management experience in the medical device industry. Prior to joining our Group in February 2013, 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 Medical Device (China) 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.

Non-executive Directors

Mr. LIN Junshan (林君山), aged 51, is the Company's chairman, a non-executive Director and the chairman of the Nomination Committee of the Company. Mr. LIN joined our Group as a director of Tianjin Walkman Biomaterial Co., Ltd. ("**Walkman Biomaterial**", an indirect wholly-owned subsidiary of the Company) in April 2010, and has been a director of PWM Investment Holdings Company Limited ("**PWM Investment**", a direct wholly-owned subsidiary of the Company) since December 2010, a director of PW Medtech (Beijing) Limited ("**PW Medtech (Beijing)**", an indirect wholly-owned subsidiary of the Company) since February 2013 and the chairman of Beijing Fert Technology Co., Ltd. ("**Fert Technology**", an indirect wholly-owned subsidiary of the Company) since April 2013. Before joining our Group, Mr. LIN was a chief engineer and professoriate senior engineer of CSR Qingdao Sifang Co., Ltd. (formerly known as "CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.") (南車青島四方機車車輛股份有限公司) from January 2007 to June 2013. After 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.

Ms. Yue'e ZHANG (張月娥), aged 50, is a non-executive Director and a member of the Audit Committee of the Company. She is also the executive director of Cross Mark Limited ("**Cross Mark**", a substantial Shareholder) since February 2007 and a director of PWM Investment since December 2010. In addition to her roles with our Group, Ms. ZHANG currently serves as the general manager, senior engineer and executive director of WP Medical Technologies, Inc. Ms. ZHANG has worked in the medical device industry for approximately 20 years and has accumulated considerable experience in product design, research and development, 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 Company's ultimate controlling Shareholder.

Mr. FENG Dai (馮岱), aged 38, is a non-executive Director and a member of the Remuneration Committee of the Company. He is also the chairman of Walkman Biomaterial since January 2013, a director of PWM Investment since December 2010 and a director of Fert Technology since December 2012. He also served as a director of Walkman Biomaterial from October 2010 to February 2012. In addition to his roles with our Group, Mr. FENG is currently a managing director of Warburg Pincus Asia LLC and a director of EA Inc. (時代天使生物科技有限公司), and Beijing Amcare Women's and Children's Hospital Co., Ltd. (北京美中宜和婦兒醫院有限公司). Mr. FENG has ceased to act as a director of Lepu Medical Technology (Beijing) Co., Ltd. (樂普(北京)醫療器械股份有限公司) ("**Lepu Medical**") (a company listed on the Shenzhen Stock Exchange, stock code: 300003) since December 27, 2013. Prior to joining Warburg Pincus Asia LLC, Mr. FENG commenced his career with Goldman Sachs (Asia) LLC as an analyst in 1997 and an associate in 2003. Mr. FENG graduated from Harvard University with a bachelor's degree in electrical engineering in June 1997.

Independent Non-executive Directors

Mr. ZHANG Xingdong (張興棟), aged 76, is an independent non-executive Director and a member of the Remuneration Committee and the Nomination Committee of the Company. He had been an independent non-executive director of LifeTech Scientific Corporation (a company listed on the Main Board of the Stock Exchange, stock code : 1302) from October 22, 2011 to March 31, 2014. Mr. ZHANG is currently a professor at Sichuan University (四川大學), an Academician of the Chinese Academy of Engineering (中國工程院院士) and the president of the Chinese Society for Biomaterials (中國生物材料學會理事長). He has more than 10 honorary titles, including the International Union of Societies of Biomaterials Science and Engineering (國際生物材料委員會), council member of the Tissue Engineering and Regenerative Medicine International Society (Asia Pacific Chapter) (國際組織工程與再生醫學學會大陸(亞太)理事會), adviser in the Science and Technology Advisory Group for the People's Government of Sichuan Province, chairman of National Technical Committee 248 on Biological Evaluation on Medical Device of Standardization, and chairman of National Technical Committee on Dental Materials and Devices of Standardization. Mr. ZHANG has also been elected as a Foreign Associate of National Academy of Engineering in 2014. Mr. ZHANG has conducted in-depth research in artificial bone and coatings which is widely recognised and applied in the PRC medical equipment. His research has received numerous awards, including the National Science and Technology Progress Award. Mr. ZHANG graduated from Sichuan University with a bachelor's degree in solid state physics in 1960.

Mr. CHEN Geng (陳庚), aged 43, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Mr. CHEN has been the vice president of Peking University Resources (Holdings) Company Limited ("**Peking University**", 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) since May 2013. He served as Peking University's executive president from 2005 to 2006 and executive director from

2006 to May 2013. 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, the vice president of New Auto Group (新奧特集團) from 2004 to 2005 and had worked in various investment firms in China, 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 (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.

Mr. WANG Xiaogang (王小剛), aged 40, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee of the Company. Mr. WANG has been 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) since February 2011. He was previously a partner at PricewaterhouseCoopers Consulting (Shenzhen) Co., Ltd. (普華永道諮詢(深圳)有限公司) ("**PricewaterhouseCoopers Consulting**"), where his work focused primarily on financial advisory on investment, merger and acquisition related transactions. He joined PricewaterhouseCoopers Consulting 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 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.

SENIOR MANAGEMENT

The following table presents certain information concerning the senior management personnel of our Group:

Name	Age	Year joined	Position
Mr. JIANG Liwei (姜黎威)	46	2013	CEO and executive Director of the Company
Mr. WANG Jie (王傑)	40	2012	Chief financial officer
Mr. HUA Wei (華煒)	43	2011	Vice president
Mr. CHEN Yikun (陳怡琨)	37	2014	Vice president
Mr. HE Zhibo (何志波)	37	2008	General manager of Fert Technology
Mr. WU Dong (吳棟)	44	2002	General manager and the chairman of Bone Medical
Mr. WANG Jianfeng (王劍鋒)	35	2011	General manager of Walkman Biomaterial
Mr. CHEN Jun (陳俊)	34	2008	General manager of Yijia Medical and the head of technology (including research and development) of Fert Technology
Mr. YE Ting (葉挺)	34	2004	Head of sales of Walkman Biomaterial

Mr. JIANG Liwei (姜黎威), aged 46, is the CEO and executive Director. His biographical details are set out above under the section headed "Profile of Directors and Senior Management — Executive Director" in this annual report.

Mr. WANG Jie (王傑), aged 40, is the Company's chief financial officer, responsible for the financial management of our Group. Mr. WANG has almost 20 years of experience in financial management. Prior to joining our Group in May 2012 as Fert Technology's financial controller, he had held various financial and accounting positions in companies such as China Express Co., Ltd. (中經匯通有限責任公司) as its chief financial officer from 2009 to 2012, Shenzhen PARKnSHOP Superstore Co., Ltd. (深圳百佳超市有限公司) from 2006 to 2009, Shanghai Yongle Household Appliances Co., Ltd. (上海

永樂家電有限公司) (now acquired by GOME Group (國美電器集團)) in 2005, and East Hope Group (東方希望集團) from 1997 to 2003. Mr. WANG graduated from Sichuan College of Commerce (四川省商業高等專科學校) with a diploma in accounting in June 1994, and received a diploma in financial management from Zhongnan University of Economics and Law (中南財經政法大學) in September 2009. Mr. WANG obtained the qualification of senior accountant (高級會計師) from Guangdong Bureau of Human Resources and Social Security (廣東省人力資源和社會保障廳) in August 2009.

Mr. HUA Wei (華煒), aged 43, is the Company's vice president. Prior to joining our 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 37, is the Company's vice president. Prior to joining our Group in January 2014, Mr. CHEN was a senior manager at PricewaterhouseCoopers LLP and had 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. 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 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.

Mr. HE Zhibo (何志波), aged 37, is the general manager of Fert Technology. Prior to joining Fert Technology in February 2014, Mr. HE was the general manager of Walkman Biomaterial from 2008 to 2014 and Mr. HE had also served as a project engineer and sales manager with Lepu Medical from 2003 to 2008. He started his career as an assistant engineer with Beijing February Seventh Locomotive Factory Co. Ltd. (北京二七機車廠有限責任公司) in 2000. Mr. HE graduated from Central South University (中南大學) with a bachelor's degree in manufacturing processes and equipment in June 2000, and later received a master's degree in business administration from Beijing University of Chemical Technology (北京化工大學) in June 2013.

Mr. WU Dong (吳棟), aged 44, is the general manager and chairman of Bone Medical. Mr. WU is the founder and has been serving as the chairman of Bone Medical since 2002. He was the general manager of Shenzhen Taigelai Industrial Co., Ltd. (深圳市泰格萊實業有限公司) from 2000 to 2002, responsible for the distribution and sales of joint products. Mr. WU graduated from Xinjiang Medical College (新疆醫學院) (now Xinjiang Medical University (新疆醫科大學)) with a bachelor's degree in preventive medicine in July 1993.

Mr. WANG Jianfeng (王劍鋒), aged 35, is the general manager of Walkman Biomaterial since February 2014. Mr. Wang joined Fert Technology as its deputy general manager since 2011. Prior to that, he was an engineer in Beijing Aeronautical Manufacturing Technology Research Institute (北京航空製造工程研究所) from 2009 to 2011 and an assistant engineer in Aerospace Technology Group Corporation (Fourth Research Academy, 43rd office) (航天科技集團公司第四研究院43所) from 2000 to 2002. Mr. WANG graduated from Central South University (中南大學) with a bachelor's degree in the study of powder metallurgy in July 2000, and received his master's degree in material sciences from Xi'an Jiaotong University (西安交通大學) in March 2005. In March 2008, he completed his joint interdisciplinary doctoral training with the Institute of Microelectronics of Chinese Academy of Sciences (中國科學院微電子研究所) and in December 2009, he became a Ph.D. in material sciences in Xi'an Jiaotong University (西安交通大學).

Mr. CHEN Jun (陳俊), aged 34, is the general manager of Xuzhou Yijia Medical Instrument Co., Ltd. ("**Yijia Medical**") since May 2013 and the head of technology (including research and development) of Fert Technology since April 2008. Mr. CHEN graduated from Wuhan University of Technology (武漢理工大學) with a bachelor's degree in mechanical design and manufacturing in June 2002.

Mr. YE Ting (葉挺), aged 34, is the head of sales of Walkman Biomaterial since July 2010. Mr. YE joined Walkman Biomaterial in 2004 as a technical support supervisor. He subsequently became a customer service manager in 2005 and a sales manager in 2008. Mr. YE graduated from Tianjin Medical University (天津醫科大學) with a diploma in clinical medicine in June 2001, and received his bachelor's degree in clinical medicine from Inner Mongolia University for the Nationalities (內蒙古民族大學) in January 2006.

MANAGEMENT
Discussion and Analysis

MARKET REVIEW

In 2013, while the global economic growth remained stagnant and the macroeconomic situation is complicated in China, China maintained steady overall economic growth with a GDP growth rate of 7.7%, driven by the supportive government policies aiming to promote domestic consumption. China's urban population and purchasing power of urban residents grew further as urbanization progressed. This, together with further expanding coverage of healthcare insurance, led to the increasing demand for better quality of life and premium medical services. At the same time, the government has launched numerous supportive policies, such as the Opinions on Promoting the Growth of Medical Service Sector (《關於促進健康服務業發展的若干意見》) officially promulgated in September 2013, for the development of medical service industry. China's medical device industry is experiencing rapid growth due to the Chinese government's substantial investments into the healthcare sector, fast development of the public healthcare insurance system and high disease rate caused by the aging population.

In 2012, China's orthopedic implant market value reached RMB9.5 billion, with CAGR of 18.2% from 2008 to 2012. Such growth was even faster in the second and third tier cities. Despite the high growth rate, the penetration rate of orthopedic implant products in China still lags far behind developed countries including the United States, indicating vast potential for future growth. The orthopedic implant products can be divided into three categories: trauma implants, spine implants and joint implants, among which trauma implant segment represents the largest share of the orthopedic implant market, whilst spine and joint implants showcase a higher growth rate than trauma implants. Benefiting from the expanding market volume of orthopedic implant products in China and their technical threshold, the orthopedic implant manufacturers with a full product line, technical know-how, robust research and development strength and the capability of unceasingly launching new products will achieve rapid growth.

As the largest infusion set market in the world, China accounted for 57.0% of the global market share. In 2012, the total size of China's advanced infusion set market was 451 million units, with a CAGR of 23.2% from 2008 to 2012, much higher than that of the overall infusion set market. The further improvement of China's healthcare insurance system has created more room for the growth of advanced infusion sets. Therefore, the Group as a manufacturer focusing on advanced infusion sets, can take advantage of its technical strength to fully make use of the vast market demand, and further consolidate its market position in the advanced infusion set industry.

BUSINESS REVIEW

For details of our business review, please refer to the Chairman's Statement on pages 6 to 7.

Business Strategies

The Group is the third largest domestic manufacturer of orthopedic implants and the second largest domestic manufacturer of advanced infusion sets. During the year, the Group has further expanded its product portfolio, enhanced its innovation and R&D capability, increased its production capacity, extended its national distribution network, and fueled revenue growth by strategic acquisitions to consolidate its market position and seize the development opportunities in China's medical device industry.

Expansion of Product Portfolio

In the orthopedic implant segment, for the year ending December 31, 2013, the Group is one of the only two major domestic companies with a full product portfolio, including trauma, spine, as well as hip and knee implants. The Group's trauma and spine products are sold under the "Walkman" brand and joint products under the "Bone (博恩)" brand. In the fast-growing segment of hip and knee implants, a major area of joint implants, the Group has the second largest number of registration certificates among major domestic companies as of the financial year 2013. The breadth and depth of the Group's product portfolio in orthopedic implants enhance its ability to provide total solutions to hospitals to meet the needs of a broad range of patients. The Group further introduced a series of joint implants products to expand its product portfolio through the strategic acquisition of Bone Medical in January 2013.

The Group also offers two major advanced infusion sets under its "Fert" brand, i.e. precision filter infusion sets and innovative non-PVC-based infusion sets with double-layer tubing, through the acquisition of Fert Technology in 2011. The Group has developed a full portfolio of infusion set products with multiple features, such as precision filter, light resistance, auto air venting and precision regulation, to meet the safety demands of consumers.

Enhancement of Innovation and Research and Development

Technology innovation and R&D of new products are critical to the ongoing operations of the Group. Since 2010, the Group has managed to commercially launch 25 orthopedic implant products, including the bridge-link combined fixation system, which provides superior fixation stability and can be used in a significantly wider range of bone fractures. As a pioneer in the advanced infusion sets segment, the Group is one of the first manufacturers in China to receive CFDA's approval for manufacturing precision filter infusion sets, which effectively block insoluble particles. The Group is also one of the only four PRC manufacturers to receive CFDA's approval for manufacturing non-PVC-based infusion sets, and holds an exclusive patented double-layer tubing design for non-PVC-based infusion sets.

As a leader in development of innovative products, the Group possesses an experienced R&D team comprising 88 members, which cooperates closely and continuously with surgeons, hospitals, university research centers and research institutions. As at December 31, 2013, the Group has obtained 36 patents, including 23 for orthopedic implant products and 13 for infusion set products, and has applied for 26 patents.

Increase of Production Capacity

Currently, the Group has three plants for the orthopedic implants segment, which are located in Tianjin, Anyang (Henan province) and Shenzhen (Guangdong province); and three plants for the infusion sets segment, which are located in Fengtai (Beijing), Shijingshan (Beijing) and Xuzhou (Jiangsu province). The Group is also planning to add two additional plants in Linyi (Shandong province) and Pinggu (Beijing) to expand its production capacity for infusion sets.

With respect to the expected source of funding in relation to the additional plants, please refer to the section on "Treasury Management and Funding Policy" set out on page 17 of this annual report.

Expansion of Distribution Network

The Group operates a widespread and fast-growing nationwide distribution network, which covers 30 provinces, municipalities and autonomous regions in the PRC. China's orthopedic implant market is experiencing strong growth, particularly in the second and third tier cities. Therefore, the Group deploys its distribution network of orthopedic implants by taking advantage of its full-range orthopedic implant product line, with primary focus on Class 2 hospitals in the second and third tier cities, which helps lay a foundation for the Group's growth in the coming years. The Group's distribution network for infusion sets primarily covered Class 3 hospitals in the first and second tier cities in China. The Group has three experienced and dedicated sales and marketing teams to support and consolidate the nationwide distribution network and strengthen product promotion. Approximately 40% of our sales and marketing staff have medical experience, which helps them to communicate with doctors and nurses in a smooth and effective manner. The Group's key salespersons in each business segment have an average of 10 years' experience in their respective areas.

Future Business Strategies

Expansion of Product Portfolio

In order to fully seize the market opportunities in the orthopedic implants and advanced infusion set markets, the Group intends to continuously broaden and deepen the product portfolio by strengthening R&D efforts and entering into strategic acquisitions. The Group plans to launch 13 new orthopedic implants and 7 new infusion sets in 2014.

The Orthopedic Implant Business had seen much progress with the Group's continued research on perfecting the three main product categories: trauma products, spine products and joint products. The Group plans to develop 5 new trauma implants and 7 new spine implants under our existing CFDA product registration for which we have completed the clinical verifications.

The Group continues its R&D effort in the orthopedic implants products. For the trauma implants, it is seeking to further improve properties of the bridge-link combined fixation system which was commercially launched in July 2012; the spine implants sees the on-going development of the PEEK (polyethereth erketone) fusion cage and vertebroplasty tools; and the Group continues to devise new ideas and develop advanced materials to satisfy varied patient demands for the hip and knee implants.

With regard to Infusion Set Business, the Group is developing a series of infusion sets with more advanced functions and new features. The existing infusion set portfolio comprises of 7 new products whose clinical verifications have been completed, and such products are expected to be commercially launched in 2014. In an attempt to improve safety of the infusion process, the Group plans to improve the precision filter infusion sets by including features such as precise flow control, automatic air venting and different filter pore size to satisfy varied demands of patients. Further, in an effort to replace the Group's PVC-based infusion set portfolio with the better features and broader applications fields found in the non-PVC-based infusion set and expand its non-PVC-infusion set portfolio, the Group is actively developing new non-PVC materials.

Emphasis on Innovation and Research and Development

The Group continues to invest in product innovation and R&D. The Group's R&D team will continue to work closely with physicians, hospitals, university research centers and research institutes to integrate results from R&D and develop products which meet the market demands.

Expansion of Production Capacity

In view of the growth potential of the orthopedic implants market in China and due to the rapidly growing popularity of advanced infusion sets, which are now replacing conventional infusion sets, the Group is aggressively expanding its production capacity. In the next 3–5 years, in addition to expanding the existing plants' capacity, the Group is also planning to add two additional plants in Linyi (Shandong province) and Pinggu (Beijing) to expand its production capacity for advanced infusion sets. Meanwhile, the Group sets to expand the orthopedic implant facility in Tianjin to increase the production capacity of trauma and spine implants.

Expansion of Distribution Network

In response to the ever-increasing market demand, the Group will make further efforts to develop the sales and marketing teams so that they can support the widespread distribution network, promote the Group's products and promote the Group brand name to surgeons, nurses and hospitals. Regarding Orthopedic Implant Business, the Group will continue to focus on expanding its business at Class 2 hospitals in the second and third tier cities, and concentrate on developing sales and marketing capabilities for the newly acquired joint implant business. Regarding Infusion Set Business, in the short term, the Group will focus on the Class 3 hospitals in larger-than-average cities in more developed regions, and then penetrate into smaller hospitals and cities.

Strategic Acquisitions

In previous years, the Group has successfully expanded its product portfolio, obtained patented technologies and recruited R&D talents through strategic acquisitions, resulting in an improved R&D capability. At the same time, the Group has taken an effective approach to integrate the acquired assets by means of improving management, expanding distribution network and strengthening marketing approaches, resulting in improved operational efficiency and profitability, further giving support to fast business growth and consolidated market leadership in the orthopedic implant and advanced infusion set segments of medical device industry.

After acquiring Walkman Biomaterial (our current subsidiary producing orthopedic implants) and Fert Technology (our current subsidiary producing infusion sets) in 2008 and 2011 respectively, the Group's Walkman-brand orthopedic implant business and Fert-brand infusion set business recorded CAGR of revenue at 28.0% and 53.0% during 2010 to 2013 respectively, a good illustration of the Group's capability on acquisition integration. In the coming years, the Group will seek to identify fast-growing, high-margin and high-potential opportunities in the medical device industry by utilizing its capability on acquisition integration.

Treasury Management and Funding Policy

The Group's treasury management and funding policy is designed to maintain a comprehensively diversified and balanced debt profit and financial structure to minimize the Group's financial risks. The treasury function of the Group operates as a centralized service for managing the Group's funding needs and monitoring financial risks, such as those relating to interest and foreign exchange risks.

Funding is raised primarily in the form of bank borrowings to meet funding requirements of the operating subsidiaries of the Group. The funds raised through the Company's initial public offering on November 8, 2013 ("**IPO**") shall be used in accordance with that disclosed in the section headed "Use of Net Proceeds from the IPO" on page 45 of this annual report.

Development of Enterprise Resource Planning ("ERP") System

In response to the rapid business expansion in 2014, the Group plans to apply the ERP system to all business operations, including accounting and financial activities, order recording, order execution and inventory replenishment, as well as R&D-related information recording, in an effort to increase efficiency in business operation and corporate management.

FINANCIAL REVIEW

Item	**2013 RMB'000**	2012 RMB'000	change %
Revenue			
Infusion Set Business	**317,391**	233,974	35.7%
Orthopedic Implant Business	**139,692**	97,567	43.2%
Total revenue	**457,083**	331,541	37.9%
Profit for the year	**91,003**	100,183	−9.2%
Earnings before interests and tax ("**EBIT**")	**120,857**	125,901	−4.0%
Earnings before interests, tax, depreciation and amortization ("**EBITDA**")	**142,180**	143,833	−1.2%
Profit attributable to owners of the Company	**77,905**	44,668	74.4%
Unaudited adjusted net profit[1]	**140,686**	100,183	40.4%
Unaudited adjusted EBIT[2]	**173,737**	125,901	38.0%

Notes:

(1) Unaudited adjusted net profit was derived by excluding non-operational and one-off items comprising share-based compensation expenses and listing-related expenses (net of tax) from our profit for the year.

(2) Unaudited adjusted EBIT was derived by excluding non-operational and one-off items comprising share-based compensation expenses and listing-related expenses from our EBIT.

Revenue

The revenue of the Group increased by 37.9% from RMB331.5 million in 2012 to RMB457.1 million in 2013, reflecting an increase in primarily the sale of Infusion Set Business and Orthopedic Implant Business.

Revenue from the Infusion Set Business amounted to RMB317.4 million in 2013, representing an increase of 35.7% from 2012. The increase is mainly derived from the expansion of the Company's sales network, the increased recognition of its advanced infusion set products, which in turn strengthened and expanded the Company's market share. In addition, promotion of non-PVC-based infusion sets and increase in price of such products also contributed to the revenue growth.

Revenue from the Orthopedic Implant Business amounted to RMB139.7 million in 2013, representing an increase of 43.2% from 2012, which is mainly attributable to the introduction of the new products, such as bridge-link systems and joint implants, and the expansion of the Company's sales network.

Gross profit

The Group's gross profit increased by 41.9% from RMB218.8 million in 2012 to RMB310.4 million in 2013. The gross profit margin increased from 66.0% in 2012 to 67.9% in 2013, is primarily attributable to (i) the use of newly developed substitutive materials and new technologies which slightly decreased the unit cost while the average selling price maintained in a slightly upward trend; and (ii) the launch of high-margin new products improved product portfolio and profit margin.

Gross profit of Infusion Set Business improved mainly due to increasing average price and decreasing unit cost. The promotion of the non-PVC-based advanced infusion sets further contributed to a higher gross profit margin of the Infusion Set Business, which rose from 62.0% in 2012 to 65.7% in 2013.

However, the gross profit margin of Orthopedic Implant Business decreased from 75.5% in 2012 to 72.9% in 2013, mainly due to the fact that Bone Medical's joint implants and tools were still in the phase of trial production, resulting in a gross profit margin lower than the industry average level.

Other gains — net

Other gains increased by 250.0% from RMB1.6 million in 2012 to RMB5.6 million in 2013, mainly due to the increase in government grants.

Selling expenses

Selling expenses increased by 32.3% from RMB46.8 million in 2012 to RMB61.9 million in 2013. This increase was mainly attributable to market development and product promotion.

Administrative expenses

Administrative expenses increased by 216.0% from RMB35.6 million in 2012 to RMB112.5 million in 2013. This increase was mainly due to the listing expenses of RMB33.0 million and share-based compensation expenses of RMB19.9 million in 2013. With the impact of such RMB52.9 million in expenses excluded, the administrative expenses increased by approximately RMB24.0 million, mainly due to the increase in employee compensation, transportation and office expenses, which was in line with the business expansion.

Research and development expenses

R&D expenses increased by 144.0% from RMB9.5 million in 2012 to RMB23.2 million in 2013, mainly due to the increase in R&D inputs and efforts.

Finance expenses — net

Finance income in 2013 increased by RMB6.5 million from RMB0.3 million in 2012 to RMB6.8 million in 2013, primarily due to the interest income derived from the bank deposits of the proceeds from the IPO. The finance costs in 2013 increased by RMB2.2 million from RMB9.1 million in 2012 to RMB11.3 million in 2013, mainly due to the interest expense of working capital loans and foreign exchange loss.

Income tax expense

Income tax expense increased from RMB19.5 million in 2012 to RMB22.9 million in 2013. The effective tax rate increased from 16.3% in 2012 to 20.1% in 2013. The main reason for the increase is that no deferred income tax asset was recognised on tax losses of certain subsidiaries.

Net profit and unaudited adjusted net profit

For the foregoing reasons, the net profit for the year of the Group was down by 9.2% from RMB100.2 million in 2012 to RMB91.0 million in 2013.

To supplement our consolidated financial statements which are presented in accordance with Hong Kong Financial Reporting Standards, we also use unaudited adjusted net profit as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. Our unaudited adjusted net profit for the year ended December 31, 2013, derived by excluding non-operational and one-off items comprising the listing expenses of RMB33.0 million, the corresponding income tax of RMB3.2 million, and the share-based compensation expenses of RMB19.9 million, was RMB140.7 million in 2013, which represented an increase by 40.4% from 2012.

Trade and other receivables

The Group's trade receivables were primarily the outstanding proceeds from credit sales. Other receivables of the Group were primarily outstanding considerations from the disposal of the equity interests in Tianjin Renli Orthopedic Instrument Co., Ltd. ("**Renli Orthopedic**") and Tianjin Yinger Biotechnology Co., Ltd. ("**Yinger Biotechnology**"). As at December 31, 2013, the trade and other receivables of the Group were RMB241.3 million, representing an increase of approximately RMB80.1 million, as compared to RMB161.2 million as at December 31, 2012. This was primarily due to the increase in revenue. The increase was also due to prolonged credit period in direct sales of infusion set products to hospitals, and outstanding payment of considerations for the disposal of subsidiaries.

Inventory

Inventories increased by 30.3% from RMB73.0 million as at December 31, 2012 to RMB95.1 million as at December 31, 2013, which is in line with the business expansion of the Group.

Property, plant and equipment

Property, plant and equipment included buildings, machinery equipment and construction under progress. As at December 31, 2013, the property, plant and equipment of the Group amounted to RMB201.1 million, representing an increase of RMB85.9 million, as compared to RMB115.2 million as at December 31, 2012. The increase was primarily due to the acquisition and construction of new facilities and production lines for expansion of production facilities.

Intangible assets

Intangible assets mainly included goodwill, computer software, trademarks, patents, technological know-how and customer relationships. The Group's goodwill occurs from acquisitions of subsidiaries. As at December 31, 2013, the net value of the Group's intangible assets was RMB305.3 million, representing an increase of RMB98.0 million as compared to RMB207.3 million as at December 31, 2012. The increase was primarily due to the goodwill of RMB89.0 million from the acquisition of Bone Medical, and the goodwill of RMB12.7 million from the acquisition of Yijia Medical.

Working capital and financial resources

As at December 31, 2013, the carrying amount of the Group's cash and cash equivalents was RMB1,145.6 million (2012: RMB212.5 million), and the carrying value of the restricted cash was RMB37.0 million (2012: RMB2.7 million).

As at December 31, 2013, the Group had short-term borrowings amounting to RMB93.0 million (December 31, 2012: RMB30.0 million); as at 31 December 2013, none of the Group's short-term borrowing are at a fixed interest rate.

Cash flow analysis

For the year ended December 31, 2013, the Group's annual net cash inflow generated from operating activities was RMB52.8 million.

For the year ended December 31, 2013, the Group's annual cash outflow used in the investing activities was RMB123.0 million, primarily due to the acquisition and construction of property, plant and equipment.

For the year ended December 31, 2013, the Group's annual cash inflow from financing activities was RMB1,005.6 million, primarily due to the net proceeds of approximately RMB1,059.8 million from the IPO.

Capital expenditure

During the year ended December 31, 2013, the Group incurred expenditure of RMB77,000 on purchase of intangible assets — computer software; expenditure of RMB17.0 million on purchase of property, plant and equipments; expenditure of RMB69.7 million on construction under progress including facilities and production lines; and expenditure of RMB12.1 million on acquisition of land use right.

Material acquisitions and disposal

During the year ended December 31, 2013, the Group acquired 60.0% equity interest in Bone Medical at a consideration of RMB105.0 million, and later acquired its remaining 40.0% equity interest at a consideration of RMB58.4 million. The Group acquired 100.0% equity interest in Yijia Medical at a consideration of RMB20.0 million.

During the year ended December 31, 2013, the Group acquired the remaining 21.0% equity interest in Walkman Biomaterial at a consideration of RMB120.0 million. After the acquisition, Walkman Biomaterial became the Group's wholly-owned subsidiary.

The considerations of the foregoing acquisitions were determined in accordance with general commercial terms after fair negotiations.

During the year ended December 31, 2013, the Group disposed of all of its holding of 60.0% equity interest in Renli Orthopedic at a consideration of RMB10.8 million.

During the year ended December 31, 2013, the Group disposed of its 100.0% equity interest in Yinger Biotechnology at a consideration of RMB8.6 million.

With respect to the Group's treasury management and funding policy, please refer to the section on "Treasury Management and Funding Policy" set out on page 17 of this annual report.

Net gearing ratios

The gearing ratio of the Group was 4.67% as at December 31, 2013, representing a decrease of 16.17% as compared to 20.84% as at December 31, 2012.

The gearing ratio is calculated as total borrowings divided by total capital. Total borrowings are current borrowings as shown in the consolidated balance sheet plus amounts due to related parties of non-trading nature. Total capital is calculated as "total equity" as shown in the consolidated balance sheet plus total borrowings.

Contingent liabilities and guarantees

As at December 31, 2013, the Group did not have any material contingent liabilities or guarantees.

Pledge of Assets

Details of the Group's bank loans which are secured by the assets of the Group are included in Note 20 to the financial statements.

Except as disclosed in this annual report, the Group has not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third party. It does 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.

Capital commitment

As at December 31, 2013, the total capital commitment of the Group was RMB29.0 million, comprising mainly the contracted commitment for capital expenditure in property, plant and equipment.

Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong dollar and United States dollar. Foreign exchange risk arises from foreign currencies held in certain overseas subsidiaries. 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 future.

Cash flow and fair value interest rate risk

Other than bank balances with variable interest rate, the Group has no other significant interest-bearing assets. 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 borrowings including interest-free loans received from a related party. Borrowings issued at variable rates exposed the Group to cash flow interest rate risk, which is partially offset by cash, held at variable rates. Borrowings obtained at fixed rates exposed the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risks.

Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and amounts due from related parties 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 the four largest state-owned commercial banks, or public listed companies. Most of the bank deposits of the Group are placed with financial commercial banks with a BBB+ or higher Standard and Poor credit rating.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up actions will be taken to recover overdue debts. We grant credit limits to certain customers in consideration of their payment history and business performance. Prepayment is usually required for orders placed over credit limits. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of the year to ensure adequate impairment losses are made for irrecoverable amounts.

Employees and Welfare Contribution

As at December 31, 2013, the Group had a total of approximately 1,931 employees. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits, liabilities for breaches and grounds for termination. Remuneration of the Group's employees includes basic salaries, allowances, bonus and other employee benefits, that are determined with reference to their experience, qualifications and general market conditions.

The following table sets forth the Group's full-time employees by function as at December 31, 2013:

	As at December 31, 2013	
	Number of employees	% of total
Production	1,232	63.8
Sales and Marketing	127	6.6
Administration	108	5.6
Research and Development	88	4.6
Management	50	2.6
Others	326	16.8
Total	1,931	100

The Group has designed an evaluations system to assess the performance of its employees. This system forms the basis of our Group's determination on employees' salaries, bonuses and promotions. We believe the salaries and bonuses that our Group's employees receive are competitive with market rates. Under applicable PRC laws and regulations, our Group is subject to social insurance contribution plans, work-related injury insurance and maternity insurance schemes.

We place a strong emphasis on providing training to our employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards and work place safety standards. We also provide regular on-site and off-site training to help our employees to improve their skills and knowledge. These training courses range from further educational studies to basic product process and skill training to professional development courses for its management personnel.

Maintaining high standards of business ethics and corporate governance has always been one of the Group's prime tasks. The Group believes that conducting its businesses in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of its Shareholders.

(A) CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time) (the "**Listing Rules**") as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company, since the date on which its Shares were listed on the Stock Exchange (being November 8, 2013, the "**Listing Date**") and up to the date of this annual report (the "**Relevant Period**"), has adopted, applied and complied with the code provisions contained in the Code.

The Board will continue to review and monitor the practices of the Company with an aim to maintain a high standard of corporate governance.

(B) DIRECTORS' AND SENIOR MANAGEMENT'S SECURITIES TRANSACTIONS

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

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

(C) THE BOARD OF DIRECTORS

Board Members

The Board currently consists of the following seven Directors:

Executive Director
Mr. JIANG Liwei *(CEO)*

Non-executive Directors
Mr. LIN Junshan *(Chairman of the Board)*
Ms. Yue'e ZHANG
Mr. FENG Dai

Independent Non-executive Directors
Mr. ZHANG Xingdong
Mr. CHEN Geng
Mr. WANG Xiaogang

Save as disclosed in the section headed "Profile of Directors and Senior Management" in this annual report, the Directors and senior management have no other financial, business, family or other material/relevant relationships with one another.

All Directors, including independent non-executive Directors, are clearly identified as such in all corporate communications containing the names of the Directors. A list of roles and functions of Directors is published on the websites of the Company and the Stock Exchange, and the Company shall keep updating the list whenever necessary.

Directors must dedicate sufficient time and attention to the Group's affairs. To this end, the Company requests all Directors to disclose to the Company annually the number and nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved.

The Board considers that the balance between executive and non-executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of Shareholders and the Group as a whole. The composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership. The Board has separate and independent access to the senior management and the company secretary at all times.

During the Relevant Period, the Company has at all times complied with the requirement of Rule 3.10A of the Listing Rules, which requires an issuer's board of directors to have at least one-third of its members being independent non-executive directors. In addition, the Company has duly complied with Rule 3.10(2) of the Listing Rules, which requires at least one of the independent non-executive directors to have appropriate professional qualifications or accounting or related financial management expertise, as Mr. WANG Xiaogang, chairman of the Company's Audit Committee and being one of the independent non-executive Directors, possesses over 15 years of experience in the financial field. All of the three independent non-executive Directors have wide exposure and experience in finance and business management, providing the Group with diversified expertise and experience. Their views and participation in Board and Board committee meetings bring independent judgment and advice on issues relating to the Group's strategies, performance, conflicts of interest and management process and help safeguard the interests of Shareholders.

The Company has received from the independent non-executive Directors of their respective independence confirmations pursuant to Rule 3.13 of the Listing Rules and the Board considers that all independent non-executive Directors are independent. The Board believes that the present structure of the Board can ensure the independence and objectivity of the Board and provide an effective system of checks and balances.

The Company has arranged appropriate directors' and officers' liability insurance cover in respect of legal action against the Directors.

Appointment, Re-election and Removal of Directors

Each of the Directors has entered into a service contract or a letter of appointment with the Company for a specific term. The term of office of the executive Director under his service contract is from October 14, 2013 (the date of the contract) to the date of the Company's 2016 annual general meeting. The term of office of all other Directors under their letters of appointment is three years from their respective appointment dates.

According to the articles of association of the Company (the "**Articles**"), one-third of the Directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting (the "**AGM**") provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election at the relevant AGM. In addition, the Articles provide that any 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.

Shareholders may, by ordinary resolution passed at general meeting convened and held in accordance with the Articles, remove a Director at any time before the expiration of his/her period of office notwithstanding anything to the contrary in the Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages for any breach of such agreement).

Directors' Continuing Professional Development

Directors must keep abreast of their collective responsibilities. All Board members received an induction package covering the regulatory obligations of a director of a listed company. The Company will also provide or arrange briefings and trainings to develop and refresh the Directors' knowledge and skills. The Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory and statutory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

Directors and senior management members have received training regarding a wide spectrum of areas relating to directors' duties and corporate governance in 2013. The Company believes that such training would keep them abreast of relevant legal requirements and good corporate governance practices.

In particular, on July 4, 2013, the Directors (including senior management members) attended training conducted by the Hong Kong legal advisors to the Company, which covered *inter alia* the following topics:

- Obligations of directors and senior management members arising from common law, the Hong Kong Companies Ordinance and the Listing Rules;

- Fiduciary duties of directors;

- Prospectus, announcement and circular disclosures; and

- Obligations of directors and senior management of listed companies, including those under Chapters 3, 13, 14, 14A and the relevant appendices of the Listing Rules.

Additionally, on December 12, 2013, the Directors (including the senior management members) attended training conducted by the Company internally, which covered obligations of directors and senior management of a listed company including those under Chapters 14 and 14A of the Listing Rules, and the Model Code.

Internally, the Company's senior management, including the executive Director, will implement a training plan and conduct training sessions for our key staff members on a continuing basis.

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, the training received by each of the Directors during the Relevant Period is summarized 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**
Mr. JIANG Liwei	√	√
Mr. LIN Junshan	√	√
Ms. Yue'e ZHANG	√	√
Mr. FENG Dai	√	√
Mr. ZHANG Xingdong	√	√
Mr. CHEN Geng	√	√
Mr. WANG Xiaogang	√	√

Board and Board Committee Meetings

Under code provision A.1.1 of the Code, the board of directors of any issuer should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals and under code provision A.2.7 of the Code, the chairman of the board should at least annually hold meeting with the non-executive directors (including independent non-executive directors) without the executive directors present.

During the Relevant Period, the Company has held three Board meetings, one of which was held on March 25, 2014 to approve the Group's final results for the year ended December 31, 2013 and other relevant matters. The Board considers that all meetings during the Relevant Period have been properly convened in compliance with the relevant laws and regulations (including the Listing Rules and its Articles). The Directors' attendance at these Board meetings is set out in the section below headed "Attendance at Board and Board Committee Meetings".

The Board intends to meet at least four times per year in the future, at approximately quarterly intervals, and the chairman of the Board intends to hold at least one meeting per year with the non-executive Directors (including the independent non-executive Directors) without the executive Director present.

With the assistance of the company secretary, the chairman takes the lead to ensure that Board meetings and Board committee meetings are convened in accordance with the requirements set out in the Articles, the terms of reference of the respective Board committees and the Listing Rules.

A tentative schedule for regular Board meetings for 2014 will be provided to the Directors. At least 14 days' notice for all regular Board meetings will be given to all Directors and all Directors are given the opportunity to include items or businesses for discussion in the agenda. For all other Board meetings, reasonable notice will be given. Relevant agenda and accompanying meeting papers will be sent to all Directors in a timely manner and at least three days in advance of every regular Board meeting.

Matters considered and decisions reached, including any concerns raised by Directors or dissenting views expressed, will be recorded in minutes of Board meetings or Board committee meetings in sufficient details. Draft and final versions of minutes of Board/Board committee meetings will be sent to all Directors/Board committee members for comments and records respectively, within reasonable time after the respective meetings are held. In addition, minutes of all Board meetings and Board committee meetings are open for inspection at any reasonable time on reasonable notice by any Director.

Upon making reasonable request to the Company, Board members have the right to seek independent professional advice or services at the Company's expense to assist them to perform their duties to the Company.

Should a potential conflict of interest involving substantial Shareholder(s) or Director(s) arise and the Board considers the matter to be material, the Company will hold a physical Board meeting to discuss and consider the matter, rather than passing a written resolution. Independent non-executive Directors who, and whose associates, have no material interest in the transaction should be required to be present at that Board meeting.

Attendance at Board and Board Committee Meetings

Attendance of each Director at all the Board meetings and Board committee meetings held during the Relevant Period is as follows. No general meeting has been held by the Company during the Relevant Period.

	Meetings attended/held			
Name of director	**Board meeting**	**Audit Committee meeting**	**Nomination Committee meeting**	**Remuneration Committee meeting**
Executive Director				
Mr. JIANG Liwei *(CEO)*	3/3	N/A	N/A	N/A
Non-executive Directors				
Mr. LIN Junshan *(Chairman of the Board)*	3/3	N/A	1/1	N/A
Ms. Yue'e ZHANG	3/3	3/3	N/A	N/A
Mr. FENG Dai	3/3	N/A	N/A	1/1
Independent non-executive Directors				
Mr. ZHANG Xingdong	3/3	N/A	1/1	1/1
Mr. CHEN Geng	2/3	3/3	N/A	1/1
Mr. WANG Xiaogang	3/3	3/3	1/1	N/A

(D) CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 of the Code provides that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing.

To ensure a balance of power and authority, the Company has appointed Mr. LIN Junshan as the chairman of the Board and Mr. JIANG Liwei as the CEO. Mr. JIANG is an executive Director, and Mr. LIN is a non-executive Director.

Mr. LIN, as the chairman of the Board, provides leadership for the Board and is responsible for the effective running of the Board. He works with the senior management to ensure that all key and appropriate issues are discussed timely, and that the Directors receive, in a timely manner, adequate information which is accurate, clear, complete and reliable. Mr. LIN is also responsible for ensuring that good corporate governance practices and procedures are established, encouraging all Directors to make full and active contribution to the Board's affairs, taking the lead to ensure that the Board acts in the best interests of the Company and its Shareholders, and ensuring that appropriate steps are taken to provide effective communication with the Shareholders.

A culture of openness and constructive relations among Directors are promoted within the Board, specially facilitating effective contribution of non-executive Directors and ensuring constructive relations between executive and non-executive Directors.

The CEO is responsible for the management of the day-to-day operations and the implementation of the approved strategies of the Group.

(E) BOARD COMMITTEES

Functions and Duties of the Board

The Board supervises the management of business and affairs of the Company, and the main functions and duties conferred on the Board include:

(a) Overall management of the business and strategic development;

(b) Deciding business plans and investment plans;

(c) Monitoring the ongoing operation of the Company to ensure that it is managed in the best interests of the Company and the Shareholders as a whole while taking into account the interests of other stakeholders;

(d) Convening general meetings and reporting to the Shareholders; and

(e) Exercising other powers, functions and duties conferred by Shareholders in general meetings.

The Board is also responsible for performing the corporate governance duties as set out in code provision D.3.1 of the Code, including:

(a) To develop and review the Company's policies and practices on corporate governance;

(b) To review and monitor the training and continuous professional development of Directors and senior management;

(c) To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) To develop, review and monitor the code of conduct applicable to Directors, senior management and employees of the Company; and

(e) To review the Company's compliance with the Code and disclosure in the corporate governance report.

Delegation by the Board

To assist the Board in execution of its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to various Board committees, including audit committee (the "**Audit Committee**"), remuneration committee (the "**Remuneration Committee**"), and nomination committee (the "**Nomination Committee**"), and the senior management. All Board committees perform their distinct roles in accordance with their respective terms of reference which are available to public on the websites of the Company and the Stock Exchange.

The senior management, under the leadership of the CEO, is delegated by the Board the authority and responsibility for the daily operations and management 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 to be entered into by the Company.

Audit Committee

The Company established the Audit Committee on October 14, 2013 with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules and code provision C.3.3 of the Code. The Audit Committee has three members, namely Mr. WANG Xiaogang, Ms. Yue'e ZHANG and Mr. CHEN Geng. Mr. WANG Xiaogang, the Company's independent non-executive Director, who possesses the appropriate professional qualifications required under the Listing Rules, has been appointed as the chairman of the Audit Committee.

The primary responsibilities of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, oversee the audit process and perform other duties and responsibilities as assigned by the Board. The Audit Committee has access to independent professional advice, if required, and is provided with sufficient resources to perform its duties.

During the Relevant Period, the Audit Committee has held three meetings, during which the following works were performed:

— Discussed with the external auditor about the scope of work and fee in respect of their audit work for the year ended December 31, 2013.

— Reviewed the Group's financial results for the year ended December 31, 2013, significant issues on financial reporting and internal control, appointment of external auditor, and arrangements for employees to raise concerns about possible improprieties.

The attendance of the Audit Committee members at the above meetings is set out in the above section headed "Attendance at Board and Board Committee Meetings".

Remuneration Committee

The Company established the Remuneration Committee on October 14, 2013 with written terms of reference in compliance with Rules 3.25 and 3.26 of the Listing Rules and code provision B.1.2 of the Code. The Remuneration Committee has three members, namely Mr. CHEN Geng, Mr. ZHANG Xingdong and Mr. FENG Dai. Mr. CHEN Geng, an independent non-executive Director, has been appointed as the chairman of the Remuneration Committee. The Remuneration Committee has access to independent professional advice, if required, and is provided with sufficient resources to perform its duties.

The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the policy and structure for Directors' and senior management's remuneration and on the remuneration packages (including bonuses and other compensation) payable to the Directors and senior management and make recommendations on employee benefit arrangements.

The Remuneration Committee will consult the chairman of the Board about the remuneration proposals for other Directors.

During the Relevant Period, the Remuneration Committee has held a meeting during which the existing remuneration packages of all Directors and senior management were reviewed and considered and relevant recommendation was made to the Board. The attendance of the Remuneration Committee members at the above meeting is set out in the above section headed "Attendance at Board and Board Committee Meetings".

Pursuant to code provision B.1.5 of the Code, the annual remuneration of the members of the senior management by band for the year ended December 31, 2013 is set out below:

Remuneration band (HK$)	Number of individuals
Nil to HK$1,000,000	—
HK$1,000,001—HK$1,500,000	1
HK$2,000,001—HK$2,500,000	1
HK$2,500,001—HK$3,000,000	1
HK$3,500,001—HK$4,000,000	—
HK$4,500,001—HK$5,000,000	1

Details of the remuneration of each Director for the year ended December 31, 2013 are set out in Note 25 to the financial statements contained in this annual report.

Nomination Committee

The Company established the Nomination Committee on October 14, 2013 with written terms of reference in compliance with code provisions A.5.1 and A.5.2 of the Code. The Nomination Committee consists of three members, namely Mr. LIN Junshan, Mr. ZHANG Xingdong and Mr. WANG Xiaogang. Mr. LIN Junshan, a non-executive Director and chairman of the Board, has been appointed as the chairman of the Nomination Committee. The Nomination Committee has access to independent professional advice, if required, and is provided with sufficient resources to perform its duties.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board annually and make recommendations on any proposed changes to the Board composition to complement the Company's corporate strategy. The Nomination Committee is also responsible for identifying suitably qualified individuals and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning of Directors. Furthermore, it also assesses the independence of the independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy adopted by the Company on December 12, 2013 (the "**Board Diversity Policy**"), including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. The Board Diversity Policy shall be reviewed by the Nomination Committee annually, as appropriate, to ensure its effectiveness. The Nomination Committee considers an appropriate balance of diversity perspective of the Board is maintained.

In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, the integrity, experience, skills and professional knowledge of the candidate, board diversity aspects 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.

During the Relevant Period, the Nomination Committee has held a meeting, during which the structure, size and composition of the Board, the independence of the independent non-executive Directors and the qualifications of the retiring Directors standing for re-election at the AGM were reviewed and considered, and relevant recommendations were made to the Board. The attendance of the Nomination Committee members at the above meeting is set out in the above section headed "Attendance at Board and Board Committee Meetings".

(F) AUDITOR'S REMUNERATION

Apart from provision of annual audit services for the year ended December 31, 2013, PricewaterhouseCoopers, the external auditor, was also the reporting accountant of the Company in relation to the IPO.

For the year ended December 31, 2013, the remuneration paid or payable to PricewaterhouseCoopers in respect of audit and non-audit services provided is set out below:

Services Rendered	**Remuneration Paid/ Payable** (RMB'000)
Annual audit services	1,600
Audit fee paid in relation to the IPO	6,192
Non-audit service fee paid in relation to the IPO (Note 1)	888
Total	8,680

Note 1: Fees payable to PricewaterhouseCoopers for non-audit services provided to the Group was RMB888,000. The non-audit services conducted include consultancy on tax issues and professional service on internal control of the Company.

The Audit Committee has expressed its views to the Board that the level of fees paid/payable to the Company's external auditor for annual audit services and non-audit service fee paid in relation to the IPO is reasonable. There has been no major disagreement between the auditor and the management of the Company during the Relevant Period.

The Audit Committee is responsible to make recommendation to the Board as to the appointment, reappointment and removal of the external auditor. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of PricewaterhouseCoopers as the Company's external auditor for the financial year ending December 31, 2014, which is subject to approval by the Shareholders at the forthcoming AGM.

(G) DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Group's accounts and other financial disclosures required under the Listing Rules. Meanwhile, the senior management should provide relevant and sufficient information and explanation to the Board to enable it to make informed assessment of the financial and other decisions.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditor of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended December 31, 2013 is set out in the "Independent Auditor's Report" contained in this annual report.

(H) INTERNAL CONTROLS

The Board is responsible for maintaining effective internal controls and conducting regular review on the effectiveness of the internal control system of the Company. Procedures have been designed for safeguarding assets against unauthorized use or disposition, maintaining of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance of applicable laws, rules and regulations. However, the system can only provide reasonable but not absolute assurance against misstatements or losses.

The Board is responsible for presenting a balanced and clear assessment of the Group's performance and prospects. Management of the Company provides all relevant information to the Board, giving its members sufficient information and explanation that it needs to discharge their responsibilities.

During the Relevant Period, the Audit Committee and the Board conducted a review of the effectiveness of the internal control system of the Company, respectively including the adequacy of resources, staff qualifications and experiences, training programs and budget of the Company's accounting and financial reporting function. The Board considers that there are no significant defects in the Company's internal control systems in terms of completeness, reasonableness and effectiveness.

(I) COMPANY SECRETARY

Mr. William FU ("**Mr. FU**") of Tricor Services Limited, an external service provider, has been appointed by the Company as its company secretary since October 14, 2013. The primary contact person at the Company with Mr. FU and Tricor Services Limited is Mr. CHEN Yikun (陳怡琨), the vice president of the Company.

Mr. FU is responsible for providing advice to the Board on corporate governance matters. Mr. FU has confirmed that for the year under review, he has taken no less than 15 hours of relevant professional training.

(J) SHAREHOLDERS' RIGHT

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 Stock Exchange after each Shareholders' meeting. The Company's 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 secretary of the Company, 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.

Shareholders and potential investors are welcome to communicate with the Company by email to ir@pwmedtech.com. Shareholders may also put forward their written enquiries to the Board at 1002–1003, Block C, Focus Square, No. 6 Futong East Avenue, Wangjing, Chaoyang District, Beijing, PRC (Attention: the Board of Directors).

(K) INVESTOR RELATIONS

The Company believes that effective and proper investor relations play a vital role in creating Shareholders' value, enhancing the corporate transparency as well as establishing market confidence. The Company discloses information in compliance with the Listing Rules, and publishes periodic reports and announcements to the public in accordance with the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate and complete, thereby enabling Shareholders, investors as well as the public to make rational and informed decisions. Updated key information and business development of the Group are also available on the Company's website to enable Shareholders and investors to have timely access to information about the Group.

The Company also endeavours to maintain an on-going dialogue with Shareholders and in particular, through general meetings which provides a forum for Shareholders to raise comments and exchange views with the Board. Directors (or their delegates as appropriate) will be available at the AGMs of the Company to address Shareholders' queries.

The Company will continue to take measures to ensure effective Shareholders' communication and transparency.

There has been no change in the Articles since the Listing Date. An up to date version of the Articles is available on the websites of the Stock Exchange and the Company.

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended December 31, 2013.

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 Orthopedic Implant Business and the Infusion Set Business.

The activities and particulars of the Company's subsidiaries are shown under Note 9 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and Note 5 to the consolidated financial statements.

RESULTS AND DIVIDEND

The consolidated results of the Group for the year ended December 31, 2013 are set out on pages 49 to 58 of this annual report.

The Board has resolved not to recommend payment of final dividend for the year ended December 31, 2013.

CLOSURE OF THE REGISTER OF MEMBERS

The Company proposes to hold its 2014 AGM on May 28, 2014. For determining the entitlement to attend and vote at the 2014 AGM, the register of members of the Company will be closed from May 26, 2014 to May 28, 2014, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2014 AGM, unregistered holders of Shares should ensure that all transfer forms accompanied by the relevant Share certificates are lodged with the Company's Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on May 23, 2014.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last four financial years is set out on page 5 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 7 to the consolidated financial statements on pages 89 to 90 of this annual report.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 16 to the consolidated financial statements on pages 103 to 104 of this annual report.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the year are set out in the Consolidated Statement of Changes in Equity and also Note 17 to the consolidated financial statements on pages 105 to 106 of this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2013, the Company's distributable reserves were RMB162.4 million.

BANKING FACILITIES AND OTHER BORROWINGS

Details of the borrowings are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 20 to the consolidated financial statements.

The Directors are not aware of any circumstances which would give rise to disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at December 31, 2013.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to the date hereof.

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 existing Shareholders.

DIRECTORS

The Directors during the year ended December 31, 2013 and up to the date of this report are:

Executive Director

Mr. JIANG Liwei *(CEO) (appointed on June 21, 2013)*

Non-executive Directors

Mr. LIN Junshan *(Chairman) (appointed on June 21, 2013)*
Ms. Yue'e ZHANG
Mr. FENG Dai *(appointed on June 21, 2013)*

Independent Non-executive Directors

Mr. ZHANG Xingdong *(appointed on October 14, 2013)*
Mr. CHEN Geng *(appointed on October 14, 2013)*
Mr. WANG Xiaogang *(appointed on October 14, 2013)*

Pursuant to the above provisions in the Articles and the wishes of the Directors, all the Directors will retire from office at the 2014 AGM and, being eligible, offer themselves for re-election at the 2014 AGM. The Company's circular to be despatched to the Shareholders will contain detailed information of the Directors standing for election.

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 in the section headed "Profile of Directors and Senior Management" on pages 9 to 13 of this annual report.

DIRECTORS' SERVICE CONTRACTS

The executive Director has entered into a service contract with the Company for a term from October 14, 2013 to the date of holding the Company's 2016 AGM. The Company has issued a letter of appointment to each of the non-executive Directors and independent non-executive Directors on October 14, 2013 for a term of three years from their respective appointment dates. The term of office of the Directors are subject to termination, and termination notice can be served either by the Director(s) 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 its subsidiaries, as applicable, within one year without payment of compensation, other than statutory compensation.

CONTRACT WITH DIRECTORS AND CONTROLLING SHAREHOLDERS

No contract of significance (as defined under Notes 15.2 and 15.3 of Appendix 16 to the Listing Rules) has been entered into between the Company or any of its subsidiaries and a controlling Shareholder or any of its subsidiaries during the year ended December 31, 2013.

No contract of significance (as defined under Notes 15.2 and 15.3 of Appendix 16 to the Listing Rules) which the Company or any of its subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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 and share based-compensation) paid to the Company's Directors in aggregate for the years ended December 31, 2012 and 2013 were approximately RMB0 and RMB8,458,000, respectively.

The remuneration (including salaries and other benefits, retirement benefit scheme contribution) and share-based compensation paid to our Group's five highest paid individuals in aggregate for the years ended December 31, 2012 and 2013 were approximately RMB1,727,000 and RMB13,541,000, respectively.

For the year ended December 31, 2013, no emoluments were paid by our Group to any Director of the Company or any of the five highest paid individuals as an inducement to join or upon joining our Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended December 31, 2013.

Details of the Directors' emoluments and emoluments of the five highest paid individual in the Group are set out in Note 25 to the consolidated financial statements on pages 115 to 117 of this annual report.

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 18 to the consolidated financial statements on pages 107 to 108 of this annual report.

Except as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2013, by our Group to or on behalf of any of the Directors.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors nor the controlling Shareholders of the Company 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.

On October 14, 2013, Ms. Yufeng LIU, the Company's ultimate controlling Shareholder, and Cross Mark, through which Ms. Yufeng LIU holds equity interest in the Company (Ms. Yufeng LIU and Cross Mark are collectively referred to as the "**Covenanters**"), 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 Covenanters 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 Covenanters declared that they have complied with the Non-competition Deed. The independent non-executive Directors have conducted such review for the year ended December 31, 2013 and also reviewed the relevant undertakings and are satisfied that the Non-competition Deed has been fully complied.

MANAGEMENT CONTRACTS

Other than the Directors' service contract and 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.

LOAN OR GUARANTEE

During the year under review, 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.

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 (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.

Prior to the Listing Date, options to subscribe for an aggregate of 70,891,722 Shares, representing approximately 4.27% of the existing issued share capital of the Company, 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 who 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.

Details of the above share options granted under the Pre-IPO Share Option Scheme are set out below:

Grantee	Date of grant and exercisable period	Number of Shares to be issued upon full exercise of the options	Approximate percentage of the Company's existing issued share capital
Directors of the Company			
Mr. JIANG Liwei	Granted on July 6, 2013, exercisable for 10 years subject to the vesting schedule as set out in the grant letter	6,369,427	0.38%
Mr. LIN Junshan	Same as above	12,738,854	0.77%
Ms. Yue'e ZHANG	Same as above	2,547,771	0.15%
Mr. CHEN Geng	Same as above	1,273,885	0.08%
Mr. WANG Xiaogang	Same as above	1,273,885	0.08%
Senior management and other employees of the Group			
26 individuals	Same as above	46,687,900	2.81%
Total		70,891,722	4.27%

None of the above share options was exercised or cancelled or lapsed during the financial year ended December 31, 2013 and therefore the balance of the outstanding share options remain the same as those as at the date of grant.

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 term 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 18 to the consolidated financial statements.

Share Option Scheme

On October 14, 2013, the Company adopted a share option scheme, which falls within the ambit of, and are subject to, the regulations under Chapter 17 of the Listing Rules (the "**Share Option Scheme**"). 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.

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 9.64% of the total issued share capital of the Company 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 of the Company in issue.

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.

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, including the information as required to be disclosed in this annual report pursuant to Rule 17.09 of the Listing Rules, 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, 2013, 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 Securities and Futures Ordinance (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 they are 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:

Long position in underlying Shares of the Company — physically settled unlisted equity

Name of Director	Capacity/Nature of interest	Number of underlying Shares (Note)	Approximate percentage of the Company's issued share capital
Mr. JIANG Liwei	Beneficial owner	6,369,427	0.38%
Mr. LIN Junshan	Beneficial owner	12,738,854	0.77%
Ms. Yue'e ZHANG	Beneficial owner	2,547,771	0.15%
Mr. CHEN Geng	Beneficial owner	1,273,885	0.08%
Mr. WANG Xiaogang	Beneficial owner	1,273,885	0.08%

Note: These underlying Shares are the share options granted by the Company under the Pre-IPO Share Option Scheme, details of which are set out in the section headed "Pre-IPO Share Option Scheme and Share Option Scheme" in this annual report.

Save as disclosed above and to the best knowledge of the Directors, as at December 31, 2013, 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 they are 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, 2013, the following corporations/persons had interests of 5% or more in the issued Shares according to the register required to be kept by the Company under section 336 of the SFO:

Long position in the Shares

Name	Nature of interests	Shares held as at December 31, 2013 Number of Shares held	Approximate percentage of the Company's issued share capital
Cross Mark Limited	Beneficial owner	547,061,863	32.96%
Ms. Yufeng LIU (Note 1)	Interest of a controlled corporation	547,061,863	32.96%
Mr. ZHANG Zaixian (Note 2)	Interest of spouse	547,061,863	32.96%
WP X Asia Medical Devices Holdings Limited	Beneficial owner	327,148,418	19.71%
Warburg Pincus Private Equity X, L.P. (Note 3)	Interest of a controlled corporation	327,148,418	19.71%
Warburg Pincus X, L.P. (Note 3)	Interest of controlled corporations	327,148,418	19.71%
Warburg Pincus X, LLC (Note 3)	Interest of controlled corporations	327,148,418	19.71%
Warburg Pincus Partners LLC (Note 3)	Interest of a controlled corporation	327,148,418	19.71%
Warburg Pincus & Co. (Note 3)	Interest of controlled corporations	327,148,418	19.71%
Right Faith Holdings Limited	Beneficial owner	232,256,544	13.99%
Mr. Marc CHAN (Note 4)	Interest of a controlled corporation	232,905,544	14.03%
Sparkle Wealthy Limited	Beneficial owner	93,533,175	5.63%
Mr. LI Ngai (Note 5)	Interest of a controlled corporation	93,533,175	5.63%
Ms. CHAN Hiu Kwan (Note 6)	Interest of spouse	93,533,175	5.63%

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) WP X Asia Medical Devices Holdings Limited ("WP X") is a subsidiary of Warburg Pincus Private Equity X, L.P. which is in turn a wholly owned subsidiary of Warburg Pincus X, L.P. Warburg Pincus X, L.P. is wholly owned by Warburg Pincus X, LLC which is in turn wholly owned by Warburg Pincus Partners LLC, a wholly-owned subsidiary of Warburg Pincus & Co. Under the SFO, the said five entities are deemed to be interested in the Shares held by WP X.

(4) The entire issued share capital of Right Faith Holdings Limited is legally and beneficially owned by Mr. Marc CHAN. In addition, Amplewood Resources Ltd., a company wholly owned by Mr. Marc CHAN, held 649,000 Shares as at December 31, 2013, 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 Ltd. are interested.

(5) The entire issued share capital of Sparkle Wealthy Limited is legally and beneficially owned by Mr. LI Ngai. Under the SFO, Mr. LI Ngai is deemed to be interested in the same number of Shares in which Sparkle Wealthy Limited is interested.

(6) Ms. CHAN Hiu Kwan is the spouse of Mr. LI Ngai. Under the SFO, Ms. CHAN Hiu Kwan is deemed to be interested in the same number of Shares in which Mr. LI Ngai is interested.

Save as disclosed above and to the best knowledge of the Directors, as at December 31, 2013, no person had registered an interest or a short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

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

In the year under review, the Group's largest customers accounted for 12% of the Group's total revenue. The Group's five largest customers accounted for 24% of the Group's total revenue.

In the year under review, the Group's largest suppliers accounted for 7% of the Group's total cost of sales. The Group's five largest suppliers accounted for 19% of the Group's total cost of sales.

Saved as disclosed above, none of the Directors or any of their associates (as defined under the Listing Rules) or any Shareholder (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers or the Group's five largest customers.

EMPLOYEES

The Group had approximately 1,931 employees as at December 31, 2013, as compared to 1,431 employees as at December 31, 2012. 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. Remuneration of the Group's employees includes basic salaries, allowances, bonus and other employee benefits, and are 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.

CONTINUING CONNECTED TRANSACTION

During the year ended December 31, 2013, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rules 14A.45 and 14A.46 of the Listing Rules.

Save as disclosed under the section headed "Related Party Transactions" stated in Note 30 to the consolidated financial statements, no contract of significance in relation to the Group's business to which the Group was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during the year ended December 31, 2013.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended December 31, 2013 are set out in Note 30 to the consolidated financial statements contained herein.

None of the related party transactions fall under the definition of connected transaction or continuing connected transaction in Chapter 14A of the Listing Rules.

BANKING FACILITIES AND OTHER BORROWINGS

Save as disclosed below, the Directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at December 31, 2013.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the best knowledge of the Board, as of December 31, 2013, the Company has maintained the public float as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its Shareholders as a whole. The Company has adopted the Code contained in Appendix 14 to the Listing Rules as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the Code to date.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining a high standard of corporate governance.

USE OF NET PROCEEDS FROM THE IPO

The net proceeds from the Company's IPO amounted to HK$1,348.7 million after deducting share issuance costs and listing expenses (equivalent to approximately RMB1,059.8 million). Such net proceeds are intended to be or have been applied in accordance with the proposed applications as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. Except as disclosed below, the net proceeds that have not been utilised were temporarily placed in short term deposits with licensed institutions in Hong Kong as at December 31, 2013.

	Net proceeds from the Company's IPO (in HK$ Millions)	
Use of proceeds	**Available**	**Utilised during the year**
• To purchase manufacturing equipment and complete the construction of the Company's new manufacturing facilities for infusion sets in Beijing and Shandong	337.2	—
• To expand the production capacity of the Company's orthopedic implant facilities in Shenzhen and Tianjin	229.3	—
• To invest in research and development of new products	108.0	—
• To implement the Company's expansion plans, which include making acquisitions and forming strategic alliances	404.6	—
• To expand the Company's distribution network and sales and marketing team, including hiring dedicated specialist sales staff	134.8	—
• Additional working capital and other general corporate purposes	128.9	5.9
Total	1,342.8	5.9

AUDITOR

PricewaterhouseCoopers has been appointed as auditor of the Company since listing and will retire at the 2014 AGM. A resolution will be proposed at the 2014 AGM to re-appoint PricewaterhouseCoopers as the auditor of the Company.

The consolidated financial statements of the Group for the year ended December 31, 2013 have been audited by PricewaterhouseCoopers.

By order of the Board
LIN Junshan
Chairman

Hong Kong, March 25, 2014

羅兵咸永道

Independent Auditor's Report
To the Shareholders of PW Medtech Group Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of PW Medtech Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 49 to 132, which comprise the consolidated and company balance sheets as at December 31,2013, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at December 31, 2013, and of the Group's profit and cash flows for the year ended December 31, 2013 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 25, 2014

	Notes	As at December 31, 2013 RMB'000	2012 RMB'000
Assets			
Non-current assets			
Land use rights	6	**51,759**	31,161
Property, plant and equipment	7	**201,121**	115,177
Intangible assets	8	**305,263**	207,331
Investment in structured products	10	**—**	3,000
Deferred income tax assets	21	**8,385**	5,925
Long-term prepayments	11	**43,672**	109,004
		610,200	471,598
Current assets			
Inventories	12	**95,052**	72,994
Amounts due from related parties	30	**—**	395
Trade and other receivables	13	**241,268**	161,203
Restricted cash	14	**37,000**	2,657
Cash and cash equivalents	15	**1,145,641**	212,466
		1,518,961	449,715
Total assets		**2,129,161**	921,313
Equity			
Equity attributable to owners of the Company			
Share capital	16	**1,026**	1
Share premium	16	**1,647,840**	—
Other reserves	17	**87,407**	265,018
Retained earnings		**162,423**	84,518
		1,898,696	349,537
Non-controlling interests		**—**	175,164
Total equity		**1,898,696**	524,701

	Notes	As at December 31, 2013 RMB'000	2012 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	21	**16,079**	8,389
Deferred income	22	**2,241**	400
		18,320	8,789
Current liabilities			
Amounts due to related parties	30	**66**	108,153
Trade and other payables	19	**114,513**	242,715
Current income tax liabilities		**4,566**	6,955
Borrowings	20	**93,000**	30,000
		212,145	387,823
Total liabilities		**230,465**	396,612
Total equity and liabilities		**2,129,161**	921,313
Net current assets		**1,306,816**	61,892
Total assets less current liabilities		**1,917,016**	533,490

The notes on pages 59 to 132 are an integral part of these consolidated financial statements.

The financial statements on pages 49 to 132 were approved by the Board of Directors on March 25, 2014 and were signed on its behalf.

Jiang Liwei
Director

	Notes	As at December 31, 2013 RMB'000	2012 RMB'000
Assets			
Non-current assets			
Investments in and loans to subsidiaries	9	**558,532**	125,710
Current assets			
Amounts due from subsidiaries	30	**67,977**	—
Trade and other receivables	13	**2,882**	24
Restricted cash	14	**37,000**	—
Cash and cash equivalents	15	**985,517**	106,055
		1,093,376	106,079
Total assets		**1,651,908**	231,789
Equity			
Share capital	16	**1,026**	1
Share premium	16	**1,647,840**	—
Other reserves	17	**19,856**	233,930
Accumulated losses		**(27,997)**	(2,165)
Total equity		**1,640,725**	231,766
Liabilities			
Current liabilities			
Amounts due to subsidiaries	30	**8,417**	—
Trade and other payables		**2,766**	23
		11,183	23

BALANCE
Sheet (continued)

		As at December 31,	
		2013	2012
	Notes	**RMB'000**	RMB'000
Total liabilities		**11,183**	23
Total equity and liabilities		**1,651,908**	231,789
Net current assets		**1,082,193**	106,056
Total assets less current liabilities		**1,640,725**	231,766

The notes on pages 59 to 132 are an integral part of these consolidated financial statements.

The financial statements on pages 49 to 132 were approved by the Board of Directors on March 25, 2014 and were signed on its behalf.

Jiang Liwei
Director

Income Statement

	Notes	Year ended December 31, 2013 RMB'000	2012 RMB'000
Revenue	5	**457,083**	331,541
Cost of sales	24	**(146,656)**	(112,694)
Gross profit		**310,427**	218,847
Selling expenses	24	**(61,942)**	(46,821)
Administrative expenses	24	**(112,477)**	(35,603)
Research and development expenses	24	**(23,210)**	(9,512)
Other gains— net	23	**5,579**	1,570
Operating profit		**118,377**	128,481
Finance income	26	**6,774**	329
Finance costs	26	**(11,288)**	(9,089)
Finance costs— net	26	**(4,514)**	(8,760)
Profit before income tax		**113,863**	119,721
Income tax expense	27	**(22,860)**	(19,538)
Profit for the year		**91,003**	100,183
Profit attributable to:			
Owners of the Company		**77,905**	44,668
Non-controlling interests		**13,098**	55,515
		91,003	100,183
Earnings per share attributable to the owners of the Company for the year (expressed in RMB cents per share)			
— Basic	33	**6.24**	4.04
— Diluted	33	**6.11**	4.04
Dividends	34	**—**	—

The notes on pages 59 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF
Comprehensive Income

	Notes	Year ended December 31, 2013 RMB'000	2012 RMB'000
Profit for the year		**91,003**	100,183
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**2,865**	423
Other comprehensive income for the year, net of tax		**2,865**	423
Total comprehensive income for the year		**93,868**	100,606
Attributable to:			
— Owners of the Company		**80,770**	45,091
— Non-controlling interests		**13,098**	55,515
		93,868	100,606

The notes on pages 59 to 132 are an integral part of these consolidated financial statements.

	Attributable to owners of the Company					
	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2012	1	51,871	39,850	91,722	161,526	253,248
Comprehensive income						
Profit for the year	—	—	44,668	44,668	55,515	100,183
Other comprehensive income	—	423	—	423	—	423
Total comprehensive income	—	423	44,668	45,091	55,515	100,606
Transactions with owners						
Non-controlling interests arising on business combination (Note 32(a))	—	—	—	—	16,817	16,817
Capital contribution to subsidiaries by their then equity owners	—	285,685	—	285,685	—	285,685
Changes in ownership interests in subsidiaries without change of control — introduction of certain financial investors (Note 31 (a))	—	6,428	—	6,428	51,917	58,345
Changes in ownership interests in subsidiaries without change of control — acquiring additional interests (Note 31 (b))	—	(69,637)	—	(69,637)	(110,363)	(180,000)
Consideration paid to the then equity owners and the non-controlling interests for acquisition of a subsidiary under common control	—	(9,752)	—	(9,752)	(248)	(10,000)
Total transaction with owners	—	212,724	—	212,724	(41,877)	170,847
Balance at December 31, 2012	1	265,018	84,518	349,537	175,164	524,701

	Attributable to owners of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2013	1	—	265,018	84,518	349,537	175,164	524,701
Comprehensive income							
Profit for the year	—	—	—	77,905	77,905	13,098	91,003
Other comprehensive income	—	—	2,865	—	2,865	—	2,865
Total comprehensive income	—	—	2,865	77,905	80,770	13,098	93,868
Transactions with owners							
Non-controlling interests arising on business combination (Note 32(b))	—	—	—	—	—	37,790	37,790
Changes in ownership interests in subsidiaries without change of control — transaction with non-controlling interest (Note 31(c) and (d))	—	—	(48,656)	—	(48,656)	(129,784)	(178,440)
Changes in ownership interests in subsidiaries without change of control— completion of reorganisation	—	—	82,254	—	82,254	(82,254)	—
Disposal of subsidiaries (Note 9(i))	—	—	—	—	—	(14,014)	(14,014)
Issuance of ordinary shares before initial public offering ("IPO") (Note 16(e))	58	555,987	(233,930)	—	322,115	—	322,115
Capitalisation of share premium (Note 16(f))	685	(685)	—	—	—	—	—
Issuance of new ordinary shares upon IPO (Note 16(g))	282	1,149,171	—	—	1,149,453	—	1,149,453
Share issuance cost (Note 16(h))	—	(56,633)	—	—	(56,633)	—	(56,633)
Share option reserve (Note 18)	—	—	19,856	—	19,856	—	19,856
Total transaction with owners	1,025	1,647,840	(180,476)	—	1,468,389	(188,262)	1,280,127
Balance at December 31, 2013	1,026	1,647,840	87,407	162,423	1,898,696	—	1,898,696

		Year ended December 31,	
		2013	2012
	Notes	**RMB'000**	RMB'000
Cash flows from operating activities			
Cash generated from operations	28(a)	**87,262**	46,332
Interest paid		**(5,184)**	(340)
Income tax paid		**(29,271)**	(21,086)
Net cash generated from operating activities		**52,807**	24,906
Cash flows from investing activities			
Acquisition of subsidiaries-net of cash acquired	28(c)	**6,249**	(61,093)
Prepayment for capital contribution to set up a subsidiary	11	**—**	(10,000)
Purchases of property, plant and equipment		**(28,559)**	(38,039)
Purchases of construction in progress		**(69,519)**	—
Purchases of land use rights		**(4,075)**	(10,908)
Purchases of intangible assets		**(77)**	—
Acquisition of investment in structured products		**—**	(3,000)
Interest income on investment in structured products		**31**	—
Disposal of investment in structured products		**3,000**	—
Disposal of subsidiaries		**(228)**	—
Loans provided to related parties		**(1,000)**	(1,000)
Loan repayments received from related parties		**1,000**	9,000
Net decrease/(increase) in restricted cash		**(34,343)**	(2,657)
Proceeds from disposal of property, plant and equipment	28(b)	**2,530**	116
Government grants relating to assets received		**2,000**	—
Net cash used in investing activities		**(122,991)**	(117,581)

	Notes	Year ended December 31, 2013 RMB'000	2012 RMB'000
Cash flows from financing activities			
Consideration paid to the then equity owners and the non-controlling interests for acquisition of a subsidiary under common control		—	(130,000)
Proceeds from issuance of ordinary shares before IPO		322,115	—
Proceeds from issuance of new ordinary shares upon IPO		1,149,453	—
Share issuance cost		(56,633)	—
Cash receipt from transaction with non-controlling interests		—	58,345
Cash paid for acquiring additional interests in subsidiaries without change of control	31	(358,440)	—
Proceeds from borrowings		192,000	30,000
Repayment of borrowings		(142,900)	—
Repayment of loan provided by a related party		(100,000)	—
Capital contributions by the then equity owners and non-controlling interests		—	285,685
Net cash generated from financing activities		1,005,595	244,030
Net increase in cash and cash equivalents		935,411	151,355
Cash and cash equivalents at beginning of the year		212,466	61,142
Exchange losses on cash and cash equivalents		(2,236)	(31)
Cash and cash equivalents at end of the year		1,145,641	212,466

The notes on pages 59 to 132 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION OF THE GROUP AND REORGANISATION

(a) General information of the Group

PW Medtech Group Limited (the "Company", previously known as "Pyholding Limited") was incorporated in the Cayman Islands on May 13, 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company's registered office is the Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since November 8, 2013.

The Company is an investment holding company. The Company and its subsidiaries now comprising the group (the "Group") are principally engaged in the development, manufacturing and sale of (i) infusion set products (the "Infusion Set Business"); and (ii) orthopedic implants (the "Orthopedic Implant Business", together with the Infusion Set Business, collectively known as the "Listing Businesses") in the People's Republic of China (the "PRC").

(b) Reorganisation

The Listing Businesses were controlled by Ms. Yufeng Liu ("Ms. Liu"). Prior to incorporation of the Company and the completion of the reorganisation as described below, the Listing Businesses were controlled through two holding companies, PWM Investment Limited ("PWM Investment") and PW Medtech (Beijing) Limited (previously known as "Beijing Bright Westward Investment Consultancy Co.,Ltd.," hereafter referred to as "PWM Beijing"). PWM Investment is a limited liability company established in Hong Kong, while PWM Beijing is a limited liability company established in the PRC. Both companies are controlled and beneficially owned by Ms. Liu through Cross Mark Limited ("Cross Mark"), a company established in the BVI and wholly owned by Ms. Liu.

In preparation of the initial listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Listing"), a group reorganisation (the "Reorganisation") was undertaken pursuant to which the group companies engaged in the Listing Businesses controlled by PWM Investment and PWM Beijing were transferred to the Company. The other shareholders of the Listing Businesses also had transferred their equity interests in the Listing Businesses in exchange for the shares of the Company. The Reorganisation involved the following:

(1) On May 13, 2011, the Company (previously known as "Pyholding Limited") was incorporated in the Cayman Islands with 100 issued combined capital of US$1.00 each allotted and issued to Cross Mark.

(2) On June 29, 2011, Health Access Limited ("Health Access") was incorporated in Hong Kong with one issued combined capital of HK$1.00 allotted and issued to the Company.

(3) On September 15, 2011, Cross Mark transferred the whole equity interests in PWM Beijing, which owned the Infusion Set Business, to Health Access at a cash consideration of RMB220,000,000. Upon completion of the transfer, PWM Beijing became an indirect wholly owned subsidiary of the Company.

1 GENERAL INFORMATION OF THE GROUP AND REORGANISATION (Continued)

(b) Reorganisation (Continued)

(4) Pursuant to an instrument of transfer on January 12, 2012, PWM Beijing acquired 97.5% and 2.5% equity interests in Beijing Zhong Jie Tian Gong Medical Technology Co., Ltd. ("Zhong Jie Tian Gong") from Ms. Liu and an individual with an aggregated cash consideration of RMB10,000,000. Upon completion of the transfer, Beijing Zhong Jie Tian Gong became an indirect wholly owned subsidiary of the Company.

(5) Pursuant to an instrument of transfer on July 11, 2013, the Company acquired 100% equity interests in PWM Investment, which contain the Orthopedic Implant Business from each of its existing shareholders, namely, Cross Mark, WP X Asia Medical Devices Holding Limited ("WP X") and Sparkle Wealthy Limited ("Sparkle Wealthy") and the consideration is satisfied by the Company issuing and allotting 21,658,670 new shares.

(6) On July 11, 2013, the Group completed the Reorganisation and the Company became the holding company of the subsidiaries, as listed in Note 9, now comprising the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS 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 4.

The consolidated financial statements of the Group for the year ended December 31, 2013 including the comparative figures have been prepared on the merger basis as if the Company has been the holding company of these companies comprising the Group since January 1, 2012 or since the dates of their respective incorporation or establishment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures

(a) New and revised standards and amendments to existing standards that are mandatory for the first time for the financial year beginning January 1, 2013 and are relevant to the Group

- Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

- HKFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

- HKAS 27 (revised 2011) 'Separate financial statements' includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HFRS 10.

- HKFRS 11 'Joint arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- HKAS 28 (revised 2011) 'Associates and joint ventures' includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11.

- HKFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

- Amendments to HKFRSs 10, 11 and 12 on transition guidance. These amendments provide additional transition relief to HKFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

- HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(a) New and revised standards and amendments to existing standards that are mandatory for the first time for the financial year beginning January 1, 2013 and are relevant to the Group (Continued)

- Amendment to HKAS 19, 'Employee benefit'. These amendments eliminate the corridor approach and calculate finance expenses on a net funding basis.

- Annual improvements 2011, address six issues in the 2009–2011 reporting cycle. It includes changes to: HKFRS 1, 'First time adoption', HKAS 1, 'Financial statement presentation', HKAS 16, 'Property plant and equipment', HKAS 32, 'Financial instruments: Presentation', HKAS 34, 'Interim financial reporting'.

- Annual improvement 2012, amendment to HKFRS 13, 'Fair value measurement'. This amendment is a clarification that there is no change in measurement requirements for short-term receivables and payable when the effect of not discounting is immaterial.

The adoption of such standards and interpretations did not have any significant effect on the results or financial positions of the Group for the current year.

(b) New and revised standards and amendments to existing standards that have been issued and are relevant to the Group, but are not effective for the financial year beginning January 1, 2013 and have not been early adopted

- Annual improvements 2013, which include changes from the 2011–2013 cycle of the annual improvements project that affect the following standards: HKFRS 3, 'Business combinations', HKFRS 13, 'Fair value measurement', HKAS 40, 'Investment property'. The above amendments will be effective for annual periods beginning on or after July 1, 2014.

- HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The above new standard will be effective for annual periods beginning on or after January 1, 2015.

The Group is yet to assess the impact of new and revised standards and amendments on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) Merger accounting for common control combination

For acquisition under common control, the Group has been using the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 'Merger Accounting for Common Control Combinations' issued by the HKICPA ('HKAG 5'). The net assets of the subsidiaries acquired under common control were combined using the existing book values from the controlling parties' perspective. No amount was recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The adjustment to eliminate the share capital of entities acquired under common control and the investment cost has been recorded as merger reserve in the consolidated financial statements. The consolidated financial statements include the financial position, results and cash flows of the companies comprising the Group as if the current group structure had been in existence throughout the year, or since their respective dates of incorporation/establishment.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting, are recognised as an expense in the period in which they are incurred.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 Separate financial statements

Investments in subsidiaries 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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive director.

2.4 Foreign currency translation

(i) **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 the entity operates ('the functional currency'). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(ii) **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 income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other gains/(losses) — net'.

Changes in the fair value of monetary 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.

(iii) **Group companies**

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary 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 balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement 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.

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. Exchange differences arising are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Land use rights

Land use rights are is up-front payments to acquire long-term interests in the usage of land. It is stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.6 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 income statement during the Year in which they are incurred.

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 equipment	3–10 years
— Machinery and equipment	5–10 years
— Motor vehicles	5 years

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

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 gains/(losses) — net' in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

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. 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 value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Customer relationship

Customer relationship acquired in a business combination is recognised at fair value at the acquisition date and are amortised using the straight-line method over their estimated useful lives of 6 years.

(c) Trademark and technology know-how

Separately acquired trademarks and technology know-how are shown 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. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and technology know-how over their estimated useful lives of 15 years.

(d) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. The Group's financial assets at fair value through profit or loss refer to "investment in structured products" in the consolidated balance sheet (Note 10).

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted cash', 'cash and cash equivalents' and 'amount due from related parties' in the consolidated balance sheet (Note 13, 14, 15 and 30).

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised and subsequently carried at fair value, and transaction costs are expensed and the fair value adjustments are recognised in the consolidated income statement.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as 'other gains/(losses) — net'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets

Asset carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.11 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.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, and deposits held at call with banks and short-term highly liquid investments with original maturity of three months or less.

2.14 Restricted cash

Restricted cash represents guaranteed deposits held in a separate reserve account to be pledged to the bank for issuance of trade facilities such as bills payable or bankers' guarantee. Such restricted cash will be released when the Group settle the related trade facilities.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

2.19 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated income statement, 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.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax (Continued)

(a) Current income tax (Continued)

The tax expense for the Year comprises current and deferred tax. Tax is recognised in the consolidated income statement, 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.

(b) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries 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.

(c) Deferred income tax

Inside basis differences

Deferred income tax is recognised, 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, the deferred income tax is 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(d) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Employee benefits

(a) **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.

(b) **Housing benefits**

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

(c) **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.

2.21 Share based payments

(a) **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 serve).

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Share based payments (Continued)

(a) Equity-settled share-based payment transactions (Continued)

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 income statement, 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.

(b) 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.

2.22 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after elimination of sales made within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) **Sales of medical devices and related products**

Sales of medical devices and related products are recognised when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a Group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) **Interest income**

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

(c) **Dividend income**

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

2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated income statement on a straight-line basis over the expected useful lives of the related assets.

2.25 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 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.

2.27 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.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value and cash flow interest rate risk), credit risk, liquidity risk and price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by finance department and Chief Financial Officer (the "CFO") under policies approved by the board of directors. Group treasury identifies and evaluates in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar ("USD"). Foreign exchange risk arises from foreign currencies held in certain overseas subsidiaries. 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As at December 31, 2013, if USD had strengthened/weakened by 3% against RMB (2012: 5%) with all other variables held constant, the net profit and equity would have changed mainly as a result of foreign exchange gains/losses on translation of USD denominated cash and cash equivalents.

	As at December 31, 2013 RMB'000	2012 RMB'000
Year ended:		
Increase/(decrease)		
— Strengthened 3% (2012: 5%)	**3,416**	7,088
— Weakened 3% (2012: 5%)	**(3,416)**	(7,088)

(b) Cash flow and fair value interest rate risk

Other than bank balances with variable interest rate, 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 from borrowings including interest-free loan received from a related party. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, which is partially offset by cash, held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risks.

The Group adjusts the proportion of fixed interest rate debts and variable interest rate debts when the market environment change. As at December 31, 2012, and 2013, the Group's interest-bearing debt at variable rates and fixed rates are as follows:

	As at December 31, 2013 RMB'000	2012 RMB'000
Debt at fixed rate	**—**	10,000
Debt at floating rate	**93,000**	20,000
	93,000	30,000

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Cash flow and fair value interest rate risk (Continued)

As at December 31, 2012 and 2013, if the floating interest rate on borrowings from third parties had been higher/lower by 50 basis points, the net profit and equity would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Year ended:		
(Decrease)/increase		
— Strengthened 50 basis points	**(16)**	(20)
— Weakened 50 basis points	**16**	20

As at December 31, 2012 and 2013, if the fixed interest rate on borrowings from third parties had been higher/lower by 50 basis points, the fair value would have changed mainly as a result of higher/lower interest expenses on fixed borrowings. Details of changes are as follows:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
At end of year:		
(Decrease)/increase		
— Strengthened 50 basis points	**(47)**	(33)
— Weakened 50 basis points	**56**	40

The interest-free loan received from a related party expose the Group to fair value interest risk.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Cash flow and fair value interest rate risk (Continued)

As at December 31, 2012 and 2013, if the interest rate on borrowings from a related party had been higher/lower by 50 basis points, the net profit and equity would have changed mainly as a result of higher/lower interest expenses on the related party borrowings. Details of changes are as follows:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Year ended:		
(Decrease)/increase		
— Strengthened 50 basis points	**(153)**	(238)
— Weakened 50 basis points	**154**	241

(c) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and amounts due from related parties 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 problem.

The credit risk of bank balances is limited because the counterparties are banks with good reputation and most of them are the four largest state-owned commercial banks, or public listed companies. Most of the bank deposits of the Group are placed with financial commercial banks with a BBB+ or above Standard and Poor credit rating.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure the follow-up action is taken to recover overdue debts. We grant credit limits to certain customers in consideration of their payment history and business performance. Prepayment is usually required for orders placed over credit limits. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of the year to ensure adequate impairment losses are made for irrecoverable amounts.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) 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 required to pay.

	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
At December 31, 2013			
Amount due to related parties	**66**	**—**	**66**
Financial liabilities as included in trade and other payables	**74,375**	**—**	**74,375**
Borrowings, including interests	**97,554**	**—**	**97,554**
	171,995	**—**	**171,995**
At December 31, 2012			
Amount due to related parties	110,123	—	110,123
Financial liabilities as included in trade and other payables	199,643	—	199,643
Borrowings, including interests	31,470	—	31,470
	341,236	—	341,236

(e) Price risk

The Group exposes to commodity price risk, mainly due to (i) the fluctuations in prices of metal materials, including titanium alloy and medical grade stainless steel, which are the key raw materials to the Group's products of Orthopedic Implant Business, and (ii) 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 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. This ratio is calculated as total borrowings divided by total capital. Total borrowings are current borrowings as shown in the consolidated balance sheets plus amounts due to related parties of non-trading nature. Total capital is calculated as "total equity" as shown in the consolidated balance sheet plus total borrowings.

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Total borrowings	**93,066**	138,153
Total equity	**1,898,696**	524,701
Total capital	**1,991,762**	662,854
Gearing ratio	**4.67%**	20.84%

3.3 Fair value estimation

(a) The Group adopts the amendment to HKFRS 7 for financial instruments that are measured in the consolidated balance sheet at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(b) Fair value measurements using significant unobservable inputs (level 3)

— Investment in structured products (Note 10)

	Year ended December 31, 2013 RMB'000	2012 RMB'000
At beginning of the year	**3,000**	—
Addition	**—**	3,000
Disposal	**(3,000)**	—
At end of the year	**—**	3,000

(c) Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade receivables;
- Deposits, prepayments and other receivables (except for prepayments);
- Cash and cash equivalents (including restricted cash);
- Trade payables;
- Other payables, accruals and other current liabilities (except for advance from customers and value added tax and other taxes);
- Borrowings.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

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

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% PRC withholding tax ("WHT"). If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

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

(b) Estimated write-downs of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances are so that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and write-downs of inventories in the period in which such estimate has been changed.

(c) Impairment of trade and other receivables

Management reviews its trade and other receivables for objective evidence of impairment. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered as objective evidence that a receivable is impaired. In determining this, management makes judgments as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect on the market and economic environment in which the debtor operates in. Where there is objective evidence of impairment, management makes judgments as to whether an impairment loss should be recorded as an expense.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7(a). The recoverable amounts of cash-generating units ("CGU") have been determined based on value-in-use calculations. These calculations require the use of estimates.

According to the valuations results produced by the management of the Company based on the assumptions as disclosed in Note 9, management considered that no impairment charge was required against goodwill arising from acquisitions during the year.

In the opinion of the Company's directors, regarding infusion set business or orthopedic implant business respectively, had the gross margin been 10% lower with other assumptions held constant, or had the terminal growth rate been 1% lower with other assumptions held constant, or had the discount rate been 1% higher with other assumptions held constant, there would be no impairment charge needed to be made against goodwill of the Group for the year.

(e) 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.

(f) Control the entities engaged in Orthopedic Implant Business through majority voting rights

Ms. Liu originally owned over 50% equity interests in Orthopedic Implant Business through Cross Mark. After a series of transactions with the non-controlling interests as described in Note 31(a), Ms. Liu's effective equity interests were diluted to less than 50% upon the completion of the Reorganisation. However, Ms. Liu still has the ability to control Orthopedic Implant Business through her majority voting rights, including matters relating to:

- management, especially the composition of the senior management;
- business strategies and plans;
- distribution of dividends;
- the election of the directors and supervisors.

Accordingly, these directly or indirectly owned entities engaged in Orthopedic Implant Business are regarded as subsidiaries and fully accounted for in the consolidated financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(g) Sales returns and exchange

The Group's distribution agreements do not allow product returns or exchanges without the management's consent. However, in practice, the Group has historically accepted certain returns and exchanges by distributors of Orthopedic Implant Business. The Group believes that, based on past experience and the latest available information, the percentage of subsequent returns or exchange will be approximately 13.7% (2012:15%) of annual orthopaedic sales. Therefore, the Group has recognised revenue with a corresponding provision against revenue for estimated returns with 13.7% (2012: 15%) of annual orthopaedic sales for the year. If the estimate had been changed by is 1% higher/lower, revenue for the years ended December 31, 2012 and 2013 would have been reduced/increased by RMB1,410,000 and RMB1,888,000, respectively.

5 SEGMENT INFORMATION

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.

The executive director considers the business from a product perspective, and determined that the Group has the following operating segments:

— Infusion Set Business — manufacturing and sale of high-end infusion sets; and

— Orthopedic Implant Business — manufacturing and sale of orthopedic implant products, including the product category of trauma, spine and joints.

The chief operating decision-maker assesses the performance of the operating segments based on the operating profit of each segment. Substantially all of the businesses of the Group are carried out in the PRC.

5 SEGMENT INFORMATION (Continued)

Year ended December 31, 2013	Infusion Set Business RMB'000	Orthopedic Implant Business RMB'000	Total RMB'000
Revenue from external customers	317,391	139,692	457,083
Cost of sales	(108,769)	(37,887)	(146,656)
Gross profit	208,622	101,805	310,427
Selling expenses	(40,131)	(21,811)	(61,942)
Administrative expenses	(77,104)	(35,373)	(112,477)
Research and development expenses	(13,547)	(9,663)	(23,210)
Other gains — net	4,606	973	5,579
Segment profits	82,446	35,931	118,377
Finance income			6,774
Finance costs			(11,288)
Finance costs — net			(4,514)
Profit before tax			113,863
Segment assets	1,691,037	429,739	2,120,776
Deferred income tax assets			8,385
Total assets			2,129,161
Segment liabilities	161,809	52,577	214,386
Deferred income tax liabilities			16,079
Total liabilities			230,465
Other segment information			
Additions to property, plant and equipment (Note 7)	39,953	46,732	86,685
Amortisation of land use right (Note 6)	827	60	887
Depreciation of property, plant and equipment (Note 7)	8,153	7,357	15,510
Amortisation of intangible assets (Note 8)	4,050	876	4,926

5 SEGMENT INFORMATION (Continued)

Year ended December 31, 2012	Infusion Set Business RMB'000	Orthopedic Implant Business RMB'000	Elimination RMB'000	Total RMB'000
Revenue from external customers	233,974	97,567	—	331,541
Cost of sales	(88,808)	(23,886)	—	(112,694)
Gross profit	145,166	73,681	—	218,847
Selling expenses	(28,804)	(18,017)	—	(46,821)
Administrative expenses	(18,952)	(16,651)	—	(35,603)
Research and development expenses	(7,115)	(2,397)	—	(9,512)
Other gains — net	610	960	—	1,570
Segment profits	90,905	37,576	—	128,481
Finance income				329
Finance costs				(9,089)
Finance costs — net				(8,760)
Profit before tax				119,721
Segment assets	554,397	361,170	(179)	915,388
Deferred income tax assets				5,925
Total assets				921,313
Segment liabilities	327,796	60,606	(179)	388,223
Deferred income tax liabilities				8,389
Total liabilities				396,612
Other segment information				
Additions to property, plant and equipment (Note 7)	11,655	13,677	—	25,332
Amortisation of land use right (Note 6)	359	60	—	419
Depreciation of property, plant and equipment (Note 7)	8,882	4,559	—	13,441
Amortisation of intangible assets (Note 8)	4,048	24	—	4,072

5 SEGMENT INFORMATION (Continued)

(a) Concentration of customers

Revenues of approximately RMB53,485,000 (2012: RMB141,624,000) are derived from a single external customer. These revenues are attributable to the Infusion Set Business segment.

(b) Geographical segment information

The Group's operations, assets and most of the customers are located in the PRC. Accordingly, no geographical analysis of revenue, non-current assets and customers is presented.

6 LAND USE RIGHTS

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

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
In the PRC, held on:		
Leases of between 47 to 50 years	**51,759**	31,161

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Opening net book amount	**31,161**	2,672
Acquisition of subsidiaries (Note 32(c))	**9,410**	—
Additions	**12,075**	28,908
Amortisation charge (Note 24)	**(887)**	(419)
Closing net book amount:	**51,759**	31,161
Cost	**53,395**	31,910
Accumulated amortisation	**(1,636)**	(749)
	51,759	31,161

6 LAND USE RIGHTS (Continued)

As at December 31, 2013, the Group is still in the process of applying the ownership certificates of certain land with the aggregated carrying amounts amounted to RMB14,977,000.

Amortisation of land use rights has been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Cost of sales	**587**	239
Administrative expenses	**300**	180
	887	419

As at December 31, 2013, certain land use rights with carrying amounts of RMB27,928,000 were pledged for the Group's borrowings (Note 20).

7 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 vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2012							
Cost	43,086	1,152	3,223	44,908	3,379	23,304	119,052
Accumulated depreciation	(3,171)	(728)	(1,040)	(8,220)	(948)	—	(14,107)
Net book amount	39,915	424	2,183	36,688	2,431	23,304	104,945
Year ended December 31, 2012							
Opening net book amount	39,915	424	2,183	36,688	2,431	23,304	104,945
Additions	—	5,382	1,668	10,308	2,548	5,426	25,332
Acquisition of a subsidiary (Note 32(a))	—	496	174	1,130	—	—	1,800
Transfer	24,621	1,136	—	—	—	(25,757)	—
Disposals	—	—	(7)	(3,452)	—	—	(3,459)
Depreciation (Note 24)	(3,636)	(404)	(830)	(7,606)	(965)	—	(13,441)
Closing net book amount	60,900	7,034	3,188	37,068	4,014	2,973	115,177
At December 31, 2012							
Cost	67,707	8,166	4,839	44,755	5,927	2,973	134,367
Accumulated depreciation	(6,807)	(1,132)	(1,651)	(7,687)	(1,913)	—	(19,190)
Net book amount	60,900	7,034	3,188	37,068	4,014	2,973	115,177
Year ended December 31, 2013							
Opening net book amount	60,900	7,034	3,188	37,068	4,014	2,973	115,177
Additions	278	—	3,499	11,719	1,481	69,708	86,685
Acquisition of subsidiaries (Note 32(b) and (c))	15,209	—	127	3,635	60	—	19,031
Transfer	452	6,380	29	22,134	—	(28,995)	—
Disposals	(3,278)	—	—	—	(1)	—	(3,279)
Disposals of subsidiaries	—	(261)	(74)	(648)	—	—	(983)
Depreciation (Note 24)	(4,191)	(1,406)	(1,175)	(7,602)	(1,136)	—	(15,510)
Closing net book amount	69,370	11,747	5,594	66,306	4,418	43,686	201,121
At December 31, 2013							
Cost	79,367	14,050	8,304	81,113	7,161	43,686	233,681
Accumulated depreciation	(9,997)	(2,303)	(2,710)	(14,807)	(2,743)	—	(32,560)
Net book amount	69,370	11,747	5,594	66,306	4,418	43,686	201,121

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

As at December 31, 2012 and 2013, the Group is still in the process of applying the building ownership certificates of certain buildings with the aggregated carrying amounts amounted to RMB46,587,000 and RMB53,217,086, respectively.

Depreciation of property, plant and equipment has been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Cost of sales	**10,521**	10,504
Administrative expenses	**3,991**	1,450
Selling and marketing expenses	**511**	1,450
Research and development expenses	**487**	37
	15,510	13,441

As at December 31, 2012 and 2013, certain buildings with the carrying amount of RMB34,017,000 and RMB5,844,000 respectively, were pledged for the Group's borrowings (Note 20).

8 INTANGIBLE ASSETS

	Goodwill RMB'000	Computer software RMB'000	Trademark RMB'000	Technology know-how RMB'000	Customer relationship RMB'000	Total RMB'000
At January 1, 2012						
Cost	148,018	121	11,755	36,440	5,012	201,346
Accumulated amortisation	—	(75)	(522)	(1,620)	(557)	(2,774)
Net book amount	148,018	46	11,233	34,820	4,455	198,572
Year ended December 31, 2012						
Opening net book amount	148,018	46	11,233	34,820	4,455	198,572
Acquisition of a subsidiary (Note 32(a))	12,831	—	—	—	—	12,831
Amortisation charge (Note 24)	—	(24)	(784)	(2,429)	(835)	(4,072)
Closing net book amount	160,849	22	10,449	32,391	3,620	207,331
At December 31, 2012						
Cost	160,849	121	11,755	36,440	5,012	214,177
Accumulated amortisation	—	(99)	(1,306)	(4,049)	(1,392)	(6,846)
Net book amount	160,849	22	10,449	32,391	3,620	207,331
Year ended December 31, 2013						
Opening net book amount	**160,849**	**22**	**10,449**	**32,391**	**3,620**	**207,331**
Acquisition of subsidiaries (Note 32(b) and (c))	**101,709**	**—**	**—**	**13,903**	**—**	**115,612**
Additions	**—**	**77**	**—**	**—**	**—**	**77**
Disposal of subsidiaries	**(12,831)**	**—**	**—**	**—**	**—**	**(12,831)**
Amortisation charge (Note 24)	**—**	**(26)**	**(784)**	**(3,280)**	**(836)**	**(4,926)**
Closing net book amount	**249,727**	**73**	**9,665**	**43,014**	**2,784**	**305,263**
At December 31, 2013						
Cost	**249,727**	**198**	**11,755**	**50,343**	**5,012**	**317,035**
Accumulated amortisation	**—**	**(125)**	**(2,090)**	**(7,329)**	**(2,228)**	**(11,772)**
Net book amount	**249,727**	**73**	**9,665**	**43,014**	**2,784**	**305,263**

8 INTANGIBLE ASSETS (Continued)

Amortisation of intangible assets has been charged to the consolidated income statement as follows:

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Cost of sales	3,281	2,429
Administrative expenses	26	24
Selling expenses	1,619	1,619
	4,926	4,072

Impairment tests for goodwill

Goodwill acquired through business combinations has been primarily allocated to the Infusion Set Business and Orthopedic Implant Business as below:

	Infusion Set Business RMB'000	Orthopedic Implant Business RMB'000	Total RMB'000
As at December 31, 2012	148,018	12,831	160,849
As at December 31, 2013	160,754	88,973	249,727

Goodwill is monitored by the management at the operating segment level.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the businesses in which the CGU operates.

8 INTANGIBLE ASSETS (Continued)

The key assumptions used for value-in-use calculations as at December 31, 2012 and 2013 are as follows:

	Infusion Set Business		Orthopedic Implant Business	
	As at December 31,		As at December 31,	
	2013	2012	**2013**	2012
Gross margin	**60.0%**	60.0%	**70.0%**	70.0%
Growth rate	**2.5%**	2.5%	**2.5%**	2.5%
Discount rate	**17.6%**	17.9%	**17.6%**	17.9%

These assumptions have been used for the analysis of the CGU within the operating segment.

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the operating segment.

Management does not foresee any significant change in the key assumptions used in the value-in-use calculation that will cause the recoverable amount of goodwill to be less than its carrying amount.

9 INVESTMENTS IN AND LOANS TO SUBSIDIARIES

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Investments in subsidiaries:		
— Investment in subsidiaries	**549,631**	—
— Deemed investment arising from share-based payment (Note 18)	**8,901**	—
Loans to subsidiaries (iii)	**—**	125,710
	558,532	125,710

9 INVESTMENTS IN AND LOANS TO SUBSIDIARIES (Continued)

The Company has direct or indirect interests in the following subsidiaries:

Company name	Place of incorporation/ establishment	Date of incorporation/ establishment	Registered/Issued and paid-up capital	Effective equity interests held December 31, 2013	2012	Principal activities or place of operation
Directly owned:						
PWM Investment Holdings Company Limited,	Hong Kong/Limited liability company	October 30, 2009	211,445,570 ordinary shares of HK$1 each	100%	51.7%	Investment holding
Health Access Limited	Hong Kong/Limited liability company	June 29, 2011	480,026,001 ordinary shares of HK$1 each	100%	100%	Investment holding
Indirectly owned:						
Health Forward Holdings Limited	Hong Kong/Limited liability company	January 21, 2010	10,000 ordinary shares of HK$1 each	100%	51.7%	Investment holding
PW Medtech (Beijing) Limited (普華和順(北京) 醫療科技有限公司)	PRC/Limited liability company	August 10, 2000	RMB54,300,000	100%	100%	Investment holding
Beijing Zhong Jie Tian Gong Medtech Co., Ltd. (北京中杰天工醫療科技有限公司)	PRC/Limited liability company	September 22, 2011	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	September 23, 1997	RMB66,000,000	100%	100%	Infusion Set Business
Indirectly owned:						
Tianjin Walkman Biomaterial Co., Ltd. (天津市威曼生物材料有限公司 "Walkman Biomaterial") (ii)	PRC/Limited liability company	November 8, 2001	RMB1,000,000,000	100%	40.85%	Orthopedic Implant Business
Tianjin Shengge Biology Engineering Co., Ltd. (天津市聖格生物工程有限公司) (ii)	PRC/Limited liability company	March 21, 2006	RMB10,000,000	100%	40.85%	Orthopedic Implant Business
Anyang Weli Medical Instrument Manufacturing Co., Ltd. (安陽市偉力醫療器械製造有限責任公司) (ii)	PRC/Limited liability company	August 12, 1996	RMB3,000,000	100%	40.85%	Orthopedic Implant 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	June 30, 2003	RMB7,000,000	100%	—	Infusion Set Business
Shandong Fert Technology Co., Ltd. (山東伏爾特技術有限公司)	PRC/Limited liability company	January 8, 2013	RMB10,000,000	100%	—	Infusion Set Business
Shenzhen Bone Medical Device Co., Ltd (深圳市博恩醫療器材有限公司 "Shenzhen Bone")	PRC/Limited liability company	November 12, 2002	RMB45,000,000	100%	—	Orthopedic Implant Business
Lhasa Tianqiong Investment Management Co., Ltd (拉薩天穹投資管理有限公司)	PRC/Limited liability company	January 30, 2013	RMB7,000,000	100%	—	Investment holding
Tianjin Yingshang Technological Development Co., Ltd (天津市英尚科技發展有限公司)	PRC/Limited liability company	October 16, 2009	RMB6,000,000	100%	—	Investment holding

9 INVESTMENTS IN AND LOANS TO SUBSIDIARIES (Continued)

Company name	Place of incorporation/ establishment	Date of incorporation/ establishment	Registered/Issued and paid-up capital	Effective equity interests held December 31, 2013	2012	Principal activities or place of operation
Indirectly owned:						
Tianjin Yinger Biotechnology Co., Ltd. (天津市英爾生物技術有限公司) (i)(ii)	PRC/Limited liability company	October 22, 2009	RMB8,500,000	—	40.85%	Investment holding
Tianjin Renli Orthopedic Appliances Co., Ltd. (天津市人立骨科器械有限公司 "Tianjin Renli") (i)(ii)	PRC/Limited liability company	September 2, 2002	RMB22,666,000	—	24.51%	Orthopedic Implant Business

The English names of certain subsidiaries referred to above represented the best efforts by management of the Company in translating the subsidiaries and auditors' Chinese names, as they do not have official English names.

All the companies incorporated in the PRC and Hong Kong have adopted December 31 as their financial year-end date for statutory reporting purpose.

(i) In September 2013, subsidiaries of the Group, namely Tianjin Yinger Biotechnology Co., Ltd. and Tianjin Renli, were disposed of to an independent third party at a consideration of RMB19,400,000. The loss on disposal was approximately RMB 398,000;

(ii) Cross Mark, the parent of the Company has the power to govern the financial and operating policy of these companies by securing a majority of voting rights in the meeting of Board of Directors. Therefore, these companies are regarded as subsidiaries of the Group during the relevant years;

(iii) Loans to subsidiaries are unsecured, interest-free and repayable on demand, denominated in RMB.

(a) Information about principal subsidiaries

Set out below are the Group's principal subsidiaries at December 31, 2012 and 2013. Unless otherwise stated, the subsidiaries as listed below have combined capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their place of principal place of business.

	% of ownership interest held by the Company		% of ownership interest held by the non-controlling interest	
	December 31,		December 31,	
	2012	**2013**	2012	**2013**
Walkman Biomaterial	40.85%	**100.00%**	59.15%	**0.00%**
Shenzhen Bone	n.a	**100.00%**	n.a	**0.00%**
Fert Technology	100.00%	**100.00%**	0.00%	**0.00%**

9 INVESTMENTS IN AND LOANS TO SUBSIDIARIES (Continued)

(b) No significant restrictions on the ability to access or use the assets and settle the liabilities of the Group.

(c) Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group:

Summarised balance sheet

Walkman Biomaterial	**As at December 31, 2012** RMB'000
Current assets	165,664
Other assets	39,966
Current liabilities	45,591
Other liabilities	400
Net assets	159,639
Carrying amount of non-controlling interest	94,421

Summarised income statement and cash flows statement

Walkman Biomaterial	**Year ended December 31, 2012** RMB'000
Revenue	95,046
Profit for the year/period	32,718
Total comprehensive income for the year/period	—
Profit attributable to non-controlling interests	19,793
Net cash generated from operating activities	1,168
Net cash used in investing activities	(21,020)
Net cash generated from financing activities	24,330
Net increase in cash and cash equivalents	4,478

10 INVESTMENT IN STRUCTURED PRODUCTS

	Year ended December 31, 2013 RMB'000	2012 RMB'000
January 1	**3,000**	—
Addition	**—**	3,000
Disposal	**(3,000)**	—
December 31	**—**	3,000

The investment in structured products is interests in a wealth management product managed by a high credit listed commercial bank in PRC. The investment in structured products is classified as financial assets at fair value through profit and loss. The investment in structure products was acquired by the Group in November 2012 and subsequently disposed in May 2013. The interest income earned was recorded in finance income with the amount of RMB31,000.

11 LONG-TERM PREPAYMENTS

	As at December 31, 2013 RMB'000	2012 RMB'000
Prepayments for property, plant and equipment	**43,428**	16,695
Prepayments for acquisition of subsidiaries (Note 32(b))	**—**	82,000
Prepayments for capital contribution to set up a subsidiary	**—**	10,000
Others	**244**	309
	43,672	109,004

12 INVENTORIES

	As at December 31, 2013 RMB'000	2012 RMB'000
Raw materials	**29,397**	21,604
Work in progress	**20,276**	14,930
Finished goods	**45,379**	36,460
Cost of inventories	**95,052**	72,994

12 INVENTORIES (Continued)

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB59,155,000 and RMB78,247,000 for the years ended December 31, 2012 and 2013, respectively.

As at December 31, 2012 and 2013, the ageing analysis of the inventories are as follows:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Within 12 months	**84,189**	63,366
1 year to 2 years	**5,250**	4,262
Over 2 years	**5,613**	5,366
	95,052	72,994

Movements on the Group's provision for impairment of inventories are as follows:

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
As at January 1	**7,528**	6,204
Provision for impairment of inventories (Note 24)	**42**	1,324
As at December 31	**7,570**	7,528

13 TRADE AND OTHER RECEIVABLES

Group

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Trade receivables	**212,489**	135,805
Less: provision for impairment	**(7,849)**	(4,569)
Trade receivables — net (a)	**204,640**	131,236
Bills receivable (b)	**—**	9,096
Prepayments	**7,285**	11,623
Receivable from disposal of subsidiaries	**15,520**	—
Other receivables (c)	**13,823**	9,248
	241,268	161,203

13 TRADE AND OTHER RECEIVABLES (Continued)

Group (Continued)

As at December 31, 2012 and 2013, except for the prepayments which are not financial assets, the fair value of the trade and other receivables approximated its carrying amounts. As at December 31, 2012 and 2013, the carrying amount of the trade and other receivables is denominated in RMB.

(a) As at December 31, 2012 and 2013, the ageing analysis of the trade receivables based on invoice date are as follows:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Up to 3 months	**101,358**	84,698
3 to 6 months	**48,657**	18,951
6 months to 12 months	**45,253**	20,766
1 year to 2 years	**7,129**	5,869
2 years to 3 years	**2,243**	952
	204,640	131,236

The credit terms agreed with customers were within 180 days. No interests are charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of the goods. This provision has been determined by reference to past collection experience. As at December 31, 2012 and 2013, trade receivables of RMB27,587,000 and RMB54,625,000 were past due but not impaired, respectively. These relate to a number of independent customers for whom there is no significant financial difficulty based on the past experience, the overdue amounts can be fully recovered. The ageing of the past due but not impaired trade receivables are as follows:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Within 12 months	**45,253**	20,766
1 year to 2 years	**7,129**	5,869
2 years to 3 years	**2,243**	952
	54,625	27,587

As of December 31, 2012 and 2013, trade receivables of RMB4,569,000 and RMB7,849,000 were past due and impaired, respectively. The impairment provision was RMB4,569,000 and RMB7,849,000 as at December 31, 2012 and 2013, respectively. It was assessed that a portion of the receivables is expected to be recovered. The individually impaired receivables mainly relate to certain customers, which are in unexpected difficult economic situations.

13 TRADE AND OTHER RECEIVABLES (Continued)

Group (Continued)

(a) (Continued)

Movements on the Group's provision for impairment of trade receivables are as follows:

	Year ended December 31, 2013 RMB'000	2012 RMB'000
As at January 1	**4,569**	2,767
Provision for impairment of receivables (Note 24)	**3,280**	1,802
As at December 31	**7,849**	4,569

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

(c) The breakdown of other receivables is as follows:

	As at December 31, 2013 RMB'000	2012 RMB'000
Advances to employees	**4,908**	3,001
Deposits	**4,512**	1,452
Interest receivable	**2,882**	—
Receivables due from a customer	**—**	4,000
Others	**1,521**	795
	13,823	9,248

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

Company

	As at December 31, 2013 RMB'000	2012 RMB'000
Interest receivables	**2,859**	—
Other	**23**	24
	2,882	24

14 RESTRICTED CASH

Group

	As at December 31, 2013 RMB'000	2012 RMB'000
Restricted bank deposit	**37,000**	2,657

Company

	As at December 31, 2013 RMB'000	2012 RMB'000
Restricted bank deposit	**37,000**	—

The restricted cash represents guaranteed deposits held in a separate reserve account to be pledged to the bank for issuance of trade facilities such as bills payable or as security deposits under bank borrowing agreements (Note20). The carrying amount of the restricted cash is denominated in RMB.

15 CASH AND CASH EQUIVALENTS

Group

	As at December 31, 2013 RMB'000	2012 RMB'000
Cash on hand	**688**	165
Cash at banks	**203,953**	212,301
Short term bank deposits	**941,000**	—
	1,145,641	212,466

Short-term bank deposits are denominated in RMB and with original maturity within 3 months. The effective interest rate of these deposits for the year ended December 31, 2013 was 3.20% (2012: Nil).

15 CASH AND CASH EQUIVALENTS (Continued)

Group (Continued)

The carrying amount of the cash and cash equivalents are denominated in the following currencies:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
RMB	1,031,144	70,101
HKD	39,979	—
USD	74,518	142,365
	1,145,641	212,466

The conversion of RMB into foreign currencies for the purpose of dividends is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Company

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Cash at banks	985,517	106,055

The carrying amount of the cash and cash equivalents are denominated in the following currencies:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
RMB	942,165	—
HKD	39,979	—
USD	3,373	106,055
	985,517	106,055

16 SHARE CAPITAL AND SHARE PREMIUM

Group and Company

	Number of ordinary shares	Nominal value of ordinary shares USD'000	Equivalent nominal value of ordinary share RMB'000	Share premium RMB'000	Total RMB'000
Authorised:					
Ordinary shares of USD1 each (a)	50,000	50	315	—	315
Ordinary shares of USD0.0001 each, subsequent to share split (c)	500,000,000	50	315	—	315
Increase of authorised ordinary shares (d)	5,000,000,000	500	3,150	—	3,150
Balance at January 1, 2012 and December 31, 2012 (b)	100	0.1	1	—	1
Balance at January 1, 2013	100	0.1	1	—	1
Share split (c)	999,900	—	—	—	—
Issuance of ordinary shares (e)	93,274,345	9.3	58	555,987	556,045
Capitalisation of share premium (f)	1,105,725,655	111	685	(685)	—
Issuance of new ordinary shares upon IPO (g)	460,000,000	46	282	1,149,171	1,149,453
Share issuance cost (h)	—	—	—	(56,633)	(56,633)
Balance at December 31, 2013	1,660,000,000	166.4	1,026	1,647,840	1,648,866

(a) The Company was incorporated in the Cayman Islands on May 13, 2011 with an authorised capital of USD 50,000 divided into 50,000 shares of a nominal value of USD1 each.

(b) Upon the incorporation of the Company, 100 ordinary shares of a nominal value of USD1 each were issued to its shareholder, Cross Mark, at cash consideration of USD100 (equivalent to approximately RMB1,000).

(c) On January 22, 2013, the board of directors of the Company approved a share split of the Company's share capital at a ratio of 1 to 10,000. Immediately after this split, the Company re-classified authorised capital into 500,000,000 ordinary shares of par value of USD0.0001 each.

(d) Pursuant to the written resolution of shareholders passed on October 14, 2013, the authorised share capital of the Company was increased from USD50,000 divided in to 500,000,000 shares to a nominal value of USD0.0001 each to USD500,000 divided into 5,000,000,000 shares of a nominal value of USD0.0001 each by creation of 4,500,000,000 shares of a nominal value of USD0.0001 each.

16 SHARE CAPITAL AND SHARE PREMIUM (Continued)

Group and Company (Continued)

(e) During the period from February 4, 2013 to July 11, 2013, pursuant to the written resolutions of all the shareholders of the Company, the Company issued 93,274,345 shares with a nominal value of USD0.0001 each to its existing shareholders. Among these 93,274,345 shares:

— 37,000,000 shares were subscribed for at a total cash consideration of USD37,000,000 (equivalent to RMB233,930,000). The cash contribution of USD37,000,000 (equivalent to RMB233,930,000) was received before December 31, 2012 and recorded as other reserves as at December 31, 2012. On February 4, 2013, upon the issuance of the shares, such other reserves were transferred to share capital and share premium.

— 34,615,675 shares were subscribed for at a total cash consideration of USD52,737,000 (equivalent to RMB322,012,000) received during the year. The newly issued shares have the same characteristics with those previously issued.

— Pursuant to an instrument of transfer on July 11 2013, the Company acquired 100% equity interests in PWM Investment, which contain the Orthopedic Implant Business from each of its existing shareholders, namely, Cross Mark, WP X and Sparkle Wealthy and the consideration is satisfied by the Company issuing and allotting 21,658,670 new shares. The newly issued shares have the same characteristics with those previously issued.

(f) Pursuant to a written resolution of all the shareholders of the Company passed on October 14, 2013, 1,105,725,655 ordinary shares of the Company were issued at par value as fully paid in proportion to their then existing shareholdings in the Company. The amount was paid up in full by applying an amount of RMB685,000 standing to the credit of the share premium account of the Company.

(g) On November 8, 2013 and November 21, 2013, upon its listing on the Main Board of The Stock Exchange of Hong Kong Limited and upon the exercise of over-allotment option, the Company issued 400,000,000 new ordinary shares and 60,000,000 new ordinary shares at par value of USD0.0001 per share for cash consideration of HK$3.18 each respectively, and raised gross proceeds of approximately HKD1,462,800,000 (equivalent to RMB1,149,453,000).

(h) Share issuance cost mainly included underwriting commission, lawyer's fees, reporting accountant's fee and other related costs. Incremental costs that were directly attributable to the issue of the new ordinary shares amounting to RMB56,633,000 was treated as a deduction from share premium. Other share issuance costs which were not directly attributable to the issue of the new ordinary shares amounting to RMB33,024,000 were recognised as expenses in the consolidated income statement.

17 OTHER RESERVES

Group

	Other Reserves				
	Merger Reserve (i) RMB'000	Translation Reserve RMB'000	Capital reserve (ii) RMB'000	Share option reserve RMB'000	Total RMB'000
Balance at January 1, 2012	21,959	2,002	27,910	—	51,871
Currency translation differences	—	423	—	—	423
Capital contributions by their then equity owners	285,685	—	—	—	285,685
Changes in ownership interests in subsidiaries without change of control — introduction of certain financial investors (Note 31(a)(ii))	—	—	6,428	—	6,428
Changes in ownership interests in subsidiaries without change of control — acquiring additional interests (Note 31(b))	—	—	(69,637)	—	(69,637)
Consideration paid to the then equity owners and the non-controlling interests for acquisition of a subsidiary under common control	(9,750)	—	(2)	—	(9,752)
Balance at December 31, 2012	297,894	2,425	(35,301)	—	265,018
Currency translation differences	**—**	**2,865**	**—**	**—**	**2,865**
Changes in ownership interests in subsidiaries without change of control — acquiring additional interests (Note 31 (c) and (d))	**—**	**—**	**(48,656)**	**—**	**(48,656)**
Changes in ownership interests in subsidiaries without change of control — completion of reorganisation	**—**	**—**	**82,254**	**—**	**82,254**
Issuance of ordinary shares by way of capitalisation of other reserves (Note16(e))	**(233,930)**	**—**	**—**	**—**	**(233,930)**
Share option reserve (Note18)	**—**	**—**	**—**	**19,856**	**19,856**
Balance at December 31, 2013	**63,964**	**5,290**	**(1,703)**	**19,856**	**87,407**

17 OTHER RESERVES (Continued)

Group (Continued)

(i) The Company was incorporated during the year ended December 31, 2011 and the Reorganisation was not completed prior to December 31, 2012. The merger reserve represents: (1) the total consideration paid for the acquisition of subsidiaries under common control upon the Reorganisation; and (2) the cash contribution to the Group by the then equity owners.

(ii) Capital reserve mainly represents the differences between the considerations paid/received and the relevant carrying value of the net assets of the subsidiaries acquired/disposed of for the transactions with non-controlling interests (Note 31), and the difference between the carrying amount and undiscounted amount of interest-free loan received from a related party, net of tax.

Company

	Other Reserves				
	Merger Reserve (i) RMB'000	**Translation Reserve** RMB'000	**Capital reserve** RMB'000	**Share option reserve** RMB'000	**Total** RMB'000
Balance at January 1, 2012	—	—	—	—	—
Issuance of ordinary shares by way of capitalisation of other reserves (Note i)	233,930	—	—	—	233,930
Balance at December 31, 2012	233,930	—	—	—	233,930
Issuance of ordinary shares before IPO	(233,930)	—	—	—	(233,930)
Share option reserve (Note 18)	—	—	—	19,856	19,856
Balance at December 31, 2013	—	—	—	19,856	19,856

(i) As at December 31, 2012, the existing shareholders made cash contribution to subscribe for 37,000,000 shares of the company at a consideration of RMB233,930,000. The amount was included, as "other reserves" which was transferred to share premium and share capital accounts when the existing shares were issued on February 4, 2013.

18 SHARE BASED PAYMENTS

(i) Share options

On July 6, 2013, the board of directors of the Company 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 share holders passed on July 3, 2013 and amended by resolution of our shareholders on October 14, 2013. The options under the Scheme shall vest in four 4 equal tranches (being 25% of each option granted, and each tranche is hereinafter referred to as a "Tranche") on the four (4) dates (day immediately following the expiry of six 6 months after the November 8, 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 circular dated October 28, 2013.

(ii) Outstanding share options

Movements in the number of share options outstanding:

	Number of share options 2013
At January 1	—
Granted	70,891,722
At December 31	70,891,722

Details of the exercise prices and the respective numbers of share options which remained outstanding as at December 31, 2013 are as follows:

Exercisable period	**Exercise price**	**Number of share options 2013**
Tranche I	RMB0.63	17,722,931
Tranche II	RMB0.63	17,722,931
Tranche III	RMB0.63	17,722,930
Tranche IV	RMB0.63	17,722,930
		70,891,722

18 SHARE BASED PAYMENTS (Continued)

(iii) Fair value of share options

The directors of the Company have used the Binomial Model to determine the fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, was agreed by the management of the Group in applying the Binomial Model, which are summarised below.

Risk free rate	3.59%
Dividend yield	1%
Expected volatility	38%

The weighed average fair value of options granted was RMB0.94, RMB0.97, RMB0.99 and RMB1.00 respectively for each Tranche.

19 TRADE AND OTHER PAYABLES

Group

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Trade payables	**33,874**	16,014
Salary and staff welfare payables	**24,431**	18,341
Advances from customers	**9,801**	20,561
Interest payables	**—**	160
Consideration payable for transaction with non-controlling interests (Note 31(a))	**9,712**	180,000
Operating expense payables	**7,231**	—
Research and development expenses payables	**2,400**	—
Value added tax and other taxes	**5,906**	4,170
Deposits	**—**	721
Payables for purchase of land use rights	**8,000**	1,000
Bills payable	**—**	230
Auditors' remuneration	**1,600**	—
Listing expenses	**8,615**	—
Other payables	**2,943**	1,518
	114,513	242,715

As at December 31, 2012 and 2013, except for the advances from customers which are not financial liabilities, all trade and other payables of the Group were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

19 TRADE AND OTHER PAYABLES (Continued)

Group (Continued)

At December 31, 2012 and 2013, the ageing analysis of the trade payables based on invoice date are as follows:

	As at December 31, 2013 RMB'000	2012 RMB'000
Up to 3 months	26,713	13,741
3 to 6 months	3,768	310
6 months to 12 months	2,978	40
1 year to 2 years	126	582
2 years to 3 years	278	50
Over 3 years	11	1,291
	33,874	16,014

The ageing of bills payable is within 180 days, which is within the credit term.

All of the carrying amounts of the Group's trade payables are denominated in RMB.

20 BORROWINGS

	As at December 31, 2013 RMB'000	2012 RMB'000
Current bank borrowings — secured/guaranteed (a)	93,000	30,000

20 BORROWINGS (Continued)

(a) The details of the secured/guaranteed borrowings are as follows:

	As at December 31, 2013 RMB'000	2012 RMB'000
Secured by the pledge of buildings with an aggregate carrying amount of RMB6,595,000 at December 31, 2012 and of RMB5,884,000 at December 31, 2013, respectively	**15,000**	10,000
Secured by the pledge of land use right with an aggregate carrying amount of RMB27,928,000 at December 31, 2013	**25,000**	—
Secured by the pledge of buildings with an aggregate carrying amount of RMB27,422,000 at December 31, 2012, and guaranteed by Fert Medical Device Co., Ltd and subsequently released in September 2013, and jointly guaranteed by Zhang Wendong, a family member of Ms Liu, and his family member and subsequently released in September 2013	**—**	20,000
Secured by the pledge of restricted cash with an aggregate carrying amount of RMB37,000,000 at December 31, 2013	**35,000**	—
Guaranteed by He Zhibo, a senior management of the Group	**10,000**	—
Jointly guaranteed by Wu Dong, a senior management of the Group, and his family member	**8,000**	—
	93,000	30,000

All of the Group's borrowings are denominated in RMB.

The maturity of the borrowings is as follows:

	As at December 31, 2013 RMB'000	2012 RMB'000
On demand or within 1 year	**93,000**	30,000

The weighted average effective interest rates at each balance sheet date were as follows:

	As at December 31, 2013	2012
Current bank borrowings	**7%**	7%

The fair value of the borrowings approximated their carrying amount, as the impact of discounting is not significant.

21 DEFERRED INCOME TAX

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:

	As at December 31, 2013 RMB'000	2012 RMB'000
Deferred tax assets:		
— Deferred tax asset to be recovered after more than 12 months	—	150
— Deferred tax asset to be recovered within 12 months	8,385	5,775
	8,385	5,925
Deferred tax liabilities:		
— Deferred tax liability to be recovered after more than 12 months	(12,705)	(7,897)
— Deferred tax liability to be recovered within 12 months	(3,374)	(492)
	(16,079)	(8,389)
Deferred tax liabilities — net	**(7,694)**	(2,464)

21 DEFERRED INCOME TAX (Continued)

Movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Deferred tax assets:

	Provision for impairment of receivables RMB'000	Write-down of inventories to the realisable value RMB'000	Salary and staff welfare payable RMB'000	Others RMB'000	Total RMB'000
At January 1, 2012	415	930	2,454	208	4,007
Recognised in consolidated income statement	270	199	51	151	671
Acquisition of a subsidiary (Note 32 (a))	351	878	17	1	1,247
At December 31, 2012	1,036	2,007	2,522	360	5,925
At January 1, 2013	**1,036**	**2,007**	**2,522**	**360**	**5,925**
Recognised in consolidated income statement	**480**	**(9)**	**60**	**1,948**	**2,479**
Acquisition of a subsidiary (Note 32 (b))	**—**	**1,297**	**—**	**—**	**1,297**
Disposal of subsidiaries	**(340)**	**(878)**	**(39)**	**(59)**	**(1,316)**
At December 31, 2013	**1,176**	**2,417**	**2,543**	**2,249**	**8,385**

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of related tax benefits through future taxable profits is probable. The Group did not recognise deferred income tax assets for tax losses carried forward with the amount of RMB17,252,000 (2012: RMB642,000). These tax losses will expire in 2014 to 2018.

21 DEFERRED INCOME TAX (Continued)

Deferred tax liabilities:

	Fair value surplus arising from acquisition of subsidiaries RMB'000	Deferred tax liabilities arising from the difference between the carrying amount and undiscounted amount of interest-free loan received from a related party RMB'000	Total RMB'000
At January 1, 2012	(8,748)	(1,913)	(10,661)
Acquisition of a subsidiary (Note 32 (a))	(61)	—	(61)
Recognised in consolidated income statement	912	1,421	2,333
At December 31, 2012	(7,897)	(492)	(8,389)
At January 1, 2013	**(7,897)**	**(492)**	**(8,389)**
Acquisition of subsidiaries (Note 32 (b) and (c))	**(9,289)**	**—**	**(9,289)**
Recognised in consolidated income statement	**1,051**	**492**	**1,543**
Disposal of a subsidiary	**56**	**—**	**56**
At December 31, 2013	**(16,079)**	**—**	**(16,079)**

22 DEFERRED INCOME

Deferred income represents government grants relating to acquisition of property, plant and equipment. These government grants are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. The movement of deferred income during the year are as follows:

	Year ended December 31, 2013 RMB'000	2012 RMB'000
At beginning of year	**400**	—
Additions	**2,000**	421
Credited to income statements	**(159)**	(21)
At end of year	**2,241**	400

23 OTHER GAINS — NET

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Government grants		
— relating to costs	**5,557**	4,693
— relating to assets	**159**	21
Sales of scraps	**514**	—
Loss on disposal of subsidiaries (Note 9)	**(398)**	—
Loss on disposal of property, plant and equipment	**(749)**	(3,343)
Others	**496**	199
	5,579	1,570

24 EXPENSES BY NATURE

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Raw materials and consumable used (Note 12)	**76,336**	72,113
Changes in inventories of finished goods and work in progress	**1,911**	(12,958)
Employee benefits expenses (Note 25)	**108,832**	55,839
Depreciation of property, plant and equipment (Note 7)	**15,510**	13,441
Advertising, promotions and business development costs	**36,449**	28,853
Office and communication expenses	**7,109**	3,624
Direct research costs	**15,160**	4,948
Travelling and entertainment expenses	**7,153**	7,593
Taxes and levies	**4,892**	4,412
Provision for impairment of receivables (Note 13)	**3,280**	1,802
Write-down of inventories to realisable value (Note 12)	**42**	1,324
Low-value consumables	**3,281**	2,283
Operating lease payments	**6,176**	1,838
Transportation costs	**4,554**	4,095
Amortisation of land use rights (Note 6)	**887**	419
Amortisation of intangible assets (Note 8)	**4,926**	4,072
Professional fee	**3,040**	2,874
Listing expenses	**33,024**	—
Auditors' remuneration	**1,600**	150
Utilities	**8,325**	5,787
Others	**1,798**	2,121
Total cost of sales, selling expenses, administrative expenses and research and development expenses	**344,285**	204,630

25 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Wages, salaries and bonuses	**78,504**	47,826
Staff welfare	**2,443**	1,697
Social security costs	**5,793**	4,728
Housing fund	**2,236**	1,588
Share-based compensation expenses (Note 18(i))	**19,856**	—
	108,832	55,839

(a) Directors and chief executive's emoluments

The emoluments of each director and the chief executive during the year are set out below:

For the year ended December 31, 2013

Name of directors	Share-based Compensation RMB'000	Wages, salaries and bonuses RMB'000	Staff welfare RMB'000	Social security and housing fund RMB'000	Total RMB'000
Chief executive officer and executive director					
— Mr. Jiang Liwei (i)	1,784	1,184	—	77	3,045
Non-executive directors					
— Mr. Lin Junshan (i)	3,568	300	—	—	3,868
— Ms. Yue'e Zhang	714	—	—	—	714
— Mr. Feng Dai (i)	—	—	—	—	—
Independent non-executive directors					
— Mr. Chen Geng (ii)	357	39	—	—	396
— Mr. Wang Xiaogang (ii)	357	39	—	—	396
— Mr. Zhang Xingdong (ii)	—	39	—	—	39

25 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

(a) Directors and chief executive's emoluments (Continued)

For the year ended December 31, 2012

Name of directors	Share-based compensation RMB'000	Wages, salaries and bonuses RMB'000	Staff welfare RMB'000	Social security and housing fund RMB'000	Total RMB'000
Chief executive officer and executive director					
— Mr. Jiang Liwei (i)	—	—	—	—	—
Non-executive directors					
— Mr. Lin Junshan (i)	—	—	—	—	—
— Ms. Yue'e Zhang	—	—	—	—	—
— Mr. Feng Dai (i)	—	—	—	—	—
Independent non-executive directors					
— Mr. Chen Geng (ii)	—	—	—	—	—
— Mr. Wang Xiaogang (ii)	—	—	—	—	—
— Mr. Zhang Xingdong (ii)	—	—	—	—	—

(i) Mr. Jiang Liwei, Mr. Lin Junshan and Mr. Feng Dai were appointed as directors or the chief executive officer since June 2013.

(ii) Mr. Chen Geng, Mr. Wang Xiaogang and Mr. Zhang Xingdong were appointed as directors since October 2013.

25 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

(b) Five highest paid individuals

For the year, the five highest paid individuals include one director. The emoluments payable to the five highest paid individuals during the year are as follows:

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Share-based compensation	**10,525**	—
Wages, salaries and bonuses	**2,875**	1,655
Social security costs	**89**	43
Housing fund	**52**	29
	13,541	1,727

The emoluments of these individuals fell within the following bands:

	Number of individuals Year ended December 31, 2013	2012
Emolument bands		
Nil to HK$ 1,000,000	**—**	5
HK$ 1,000,001—HK$1,500,000	**1**	—
HK$ 2,000,001—HK$2,500,000	**1**	—
HK$ 2,500,001—HK$3,000,000	**1**	—
HK$ 3,500,001—HK$4,000,000	**1**	—
HK$ 4,500,001—HK$5,000,000	**1**	—
	5	5

During the year, none of the directors of the Company and the five highest paid individuals of the Group (i) received any compensation for loss of office as a director or management of any member of the Group; or (ii) waived or has agreed to waive any emoluments.

26 FINANCE COSTS — NET

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Finance income:		
— Interest income on short-term bank deposits	**(6,774)**	(329)
Total finance income	**(6,774)**	(329)
Finance costs:		
— Interest expense on bank borrowings	**5,024**	500
— Accretion of interest-free loan received from a related party (Note 30(b))	**1,970**	5,680
— Net foreign exchange loss	**4,294**	2,909
Total finance cost	**11,288**	9,089
Finance costs — net	**4,514**	8,760

27 INCOME TAX EXPENSE

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Current income tax	**26,882**	22,542
Deferred income tax (Note 21)	**(4,022)**	(3,004)
Income tax expense	**22,860**	19,538

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

(a) Cayman Islands profits tax:

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

(b) Hong Kong profits tax:

Companies incorporated in Hong Kong are subject to the Hong Kong profits tax at a rate of 16.5% during the year.

27 INCOME TAX EXPENSE (Continued)

(c) The PRC Corporate Income Tax (the "CIT")

Except for Fert Technology and Walkman Biomaterial, the CIT of the Group in respect of its operations in mainland China is calculated at the tax rate of 25% on the estimated assessable profits for each of the year, based on the existing legislation interpretation and practices in respect thereof.

Fert Technology and Walkman Biomaterial were 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. They will continue to enjoy the preferential tax rate in the subsequent periods, provided that they continue to be qualified as "High and New Technology Enterprises" during such periods.

(d) WHT

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant 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.

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:

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Profit before income tax	**113,863**	119,721
Tax calculated at statutory tax rates applicable to profits in the respective countries	**28,466**	29,931
Tax effects of		
Preferential income tax rates applicable to subsidiaries	**(9,782)**	(11,156)
Tax losses for which no deferred income tax asset was recognised	**4,158**	266
Additional deductible allowance for research and development expenses (a)	**(1,016)**	(551)
Deemed income for tax purpose	**369**	527
Expenses not deductible for tax purpose	**665**	521
Tax charge	**22,860**	19,538

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

28 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations:

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Profit before income tax	**113,863**	119,721
Adjustments for:		
Depreciation of property, plant and equipment (Note 7)	**15,510**	13,441
Amortisation of land use rights (Note 6)	**887**	419
Amortisation of intangible assets (Note 8)	**4,926**	4,072
Finance costs (Note 26)	**6,994**	6,180
Loss on disposal of property, plant and equipment (Note 23)	**749**	3,343
Loss on disposal of subsidiaries	**398**	—
Share-based compensation expenses (Note18)	**19,856**	—
Interest income	**(6,774)**	—
Provision for impairment of receivables (Note 13)	**3,280**	1,802
Provision for write-down of inventories (Note 12)	**42**	1,324
	159,731	150,302
Change in working capital		
Inventories	**(23,685)**	(10,741)
Trade and other receivables	**(82,122)**	(88,103)
Amounts due from related parties	**(7,692)**	(12)
Deferred income	**(159)**	400
Trade and other payables	**41,189**	(5,514)
Cash generated from operating activities	**87,262**	46,332

(b) In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment comprised:

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Net book amount (Note 7)	**3,279**	3,459
Loss on disposal of property, plant and equipment (Note 23)	**(749)**	(3,343)
Proceeds from disposal of property, plant and equipment	**2,530**	116

28 CASH GENERATED FROM OPERATIONS (Continued)

(c) In the consolidated cash flow statement, acquisition of subsidiaries — net of cash acquired comprise:

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Cash consideration paid (Note 32)	(30,988)	—
Cash and cash equivalents in the subsidiaries acquired (Note 32)	37,237	20,907
Cash prepaid in respect of acquiring subsidiaries (Note 11)	—	(82,000)
	6,249	(61,093)

(d) In the consolidated cash flow statement, disposal of subsidiaries comprise:

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Cash consideration	19,400	—
Cash and cash equivalents in the subsidiaries disposed	(4,108)	—
Cash receivable from disposal of subsidiaries (Note 13)	(15,520)	—
	(228)	—

29 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

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

	As at December 31, 2013 RMB'000	2012 RMB'000
Property, plant and equipment	28,954	23,547
Acquisition of a subsidiary	—	23,000
	28,954	46,547

29 COMMITMENTS AND CONTINGENCIES (Continued)

(b) Operating lease commitments

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The non-cancellable lease terms are between 1 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at the market rate. The Group is required to give at least a month notice for the termination of these agreements. The lease expenditure and related management fee, water and electricity (if necessary) charged to the consolidated income statement during the year are disclosed in Note 24.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Group

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
No later than 1 year	**1,220**	1,021
Later than 1 year and no later than 5 years	**337**	1,007
	1,557	2,028

(c) Contingencies

There is no contingency as at December 31, 2013.

30 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in making financial or operational decisions. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

The directors of the Company are of the view that the following companies were related parties that had transactions or balances with the Group during the year:

Name of related parties	Relationship with the Group	Period covered
Zhang Wendong	A family member of Ms. Liu	Started from January 1, 2010
Wu Dong	Senior management of Shenzhen Bone	Started from January 31, 2013 (date of acquisition of Shenzhen Bone)
Cross Mark	Parent of the Company	Started from January 1, 2010
Tianjin Pharmaceutical Holdings Zhongjian Kangda Medical Devices Co.,Ltd. (天津醫藥集團眾健康達醫療器械有限公司, "Zhong Jian Kang Da")	Significant influence to a major subsidiary of the Group	Started from May 31, 2012 (date of acquisition of Tianjin Renli) Ended after September 30, 2013 (date of disposal of Tianjin Renli)
Shenzhen HaoHao Medical Equipment Co.,Ltd. (深圳市昊昊醫療器材有限公司, "Shenzhen HaoHao")	Controlled by senior management of the Group	Started from January 31, 2013 (date of acquisition of Shenzhen Bone) and ceased from July 8, 2013 (date of change of shareholder)

Saved as disclosed, elsewhere in the report during the year, the following transactions were carried out between the Group and related parties. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

30 RELATED PARTY TRANSACTIONS (Continued)

	Year ended December 31, 2013 RMB'000	2012 RMB'000
Discontinued related party transactions		
Sales to related parties :		
Shenzhen HaoHao	3,458	—
Zhong Jian Kang Da	—	127
Financial guarantees provided by related parties		
Zhang Wendong	32,000	20,000
Wu Dong	4,000	—
	36,000	20,000
Loans provided to related parties:		
Zhong Jian Kang Da	—	1,000
	—	1,000

(a) Balances with related parties

Group

	As at December 31, 2013 RMB'000	2012 RMB'000
Amounts due from related parties — current		
Trade receivable		
Zhong Jian Kang Da	—	12
Non- trade receivable		
Zhang Wendong	—	383
Total	—	395

30 RELATED PARTY TRANSACTIONS (Continued)

(a) Balances with related parties (Continued)

Group (Continued)

The amounts due from Shenzhen HaoHao are trade in nature. The aging is within one year, which is within the Group's credit term.

The maximum exposure to credit risk at each of the reporting dates is the carrying value of the amounts due from related parties.

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Amounts due to related parties — Current		
Zhang Wendong	**—**	98,030
Zhong Jian Kang Da	**—**	10,123
Wu Dong	**66**	—
	66	108,153

Amounts due to related parties are all non-trade payables.

Except for the interest-free loan received from Mr. Zhang Wendong with the amount of RMB100,000,000 as described below, all the other amounts due to related parties will be settled upon demand of these related parties.

(b) Interest-free loan received from Mr. Zhang Wendong

The movements of the interest-free loan during the year are as follows:

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
January 1	**98,030**	92,350
Accretion (Note 26)	**1,970**	5,680
Repayment	**(100,000)**	—
December 31	**—**	98,030
Less: current portion	**—**	(98,030)
Non-current portion	**—**	—

Company

Amounts due from subsidiaries are non-trade receivable and will be settled upon demand of the Company. Amounts due to subsidiaries are interest free, non-trade payables and will be settled upon demand of these subsidiaries.

31 TRANSACTIONS WITH NON-CONTROLLING INTERESTS ("NCI")

(a) Introduction of certain financial investor

Introduction of Sparkle Wealthy

In September 2012, Sparkle Wealthy acquired an additional 3% equity interest of PWM Investment at a cash consideration of RMB6,014,000. In September and December 2012, the then-existing non-controlling interests of that subsidiary of the Group, namely, WP X and Sparkle Wealthy made capital contributions to PWM Investment on a pro rata basis to their then shareholding percentages with an aggregate amount of approximately RMB52,331,000. Subsequently in October 2012, PWM Investment made a follow-on investment in Walkman Biomaterial with a capital contribution in US$ equivalent to RMB105,000,000. After these transactions, the Group's effective equity interests in Walkman Biomaterial were changed to 40.85%. As the Group still has the power to govern the financial and operating policy of Walkman Biomaterial by securing a majority of voting rights in the meeting of board of directors, Walkman Biomaterial is regarded as a subsidiary of the Group. Accordingly, the transaction is accounted for as an equity transaction.

The Group recognised an increase in non-controlling interests of RMB51,917,000. The effect of changes in the ownership interest of Walkman Biomaterial on the equity attributable to owners of the Company during the year ended December 31, 2012 is summarised as follows:

	RMB'000
Consideration received from the transaction with non-controlling interests	58,345
Carrying amount of non-controlling interests acquired	(51,917)
Gain on disposal within equity	6,428

(b) Acquiring additional interests of Fert Technology

The Group originally held 55.625% equity interest in Fert Technology. In December 2012, Health Access, a wholly owned subsidiary of the Group acquired the remaining 44.375% equity interest from Beijing Langjing Technology Co., Ltd., an independent third party at a cash consideration of RMB180,000,000. The cash consideration was paid during the year.

The carrying amount of the non-controlling interests in Fert technology on the date of acquisition was RMB110,363,000. The Group recognised a decrease in non-controlling interests of RMB110,363,000 and a decrease in equity attributable to owners of the Company of RMB69,637,000. The effect of changes in the ownership interest of Fert Technology on the equity attributable to owners of the Company during the year ended December 31, 2012 is summarised as follows:

	RMB'000
Consideration payable to non-controlling interests	(180,000)
Carrying amount of non-controlling interests acquired	110,363
Excess of consideration paid recognised within equity	(69,637)

31 TRANSACTIONS WITH NON-CONTROLLING INTERESTS ("NCI") (Continued)

(c) Acquiring additional interests of Walkman Biomaterial

PWM Investment, a subsidiary of the group, originally held 79.02% equity interest in Walkman Biomaterial. In May 2013, PWM Investment acquired the remaining 20.98% equity interest non-controlling interests owners at a cash consideration of RMB120,000,000.The cash consideration was paid during the year.

The carrying amount of the non-controlling interests in Walkman Biomaterial on the date of acquisition was RMB82,712,000. The Group recognised a decrease in non-controlling interests of RMB82,712,000 and a decrease in equity attributable to owners of the Company of RMB37,288,000. The effect of changes in the ownership interest of Walkman Biomaterial on the equity attributable to owners of the Company during the year is summarised as follows:

	RMB'000
Consideration payable to non-controlling interests	(120,000)
Carrying amount of non-controlling interests acquired	82,712
Excess of consideration paid recognised within equity	(37,288)

(d) Acquiring additional interests of Shenzhen Bone

PWM Investment and Walkman Biomaterial originally held 60% equity interest in Shenzhen Bone. In June 2013, PWM Investment, a subsidiary of the Group, acquired the remaining 40% equity interest from Mr. Wu Dong and Mrs. Xie Yunxia at a cash consideration of RMB58,440,000.

The carrying amount of the non-controlling interests in Shenzhen Bone on the date of acquisition was RMB47,072,000.The Group recognised a decrease in non-controlling interests of RMB47,072,000 and a decrease in equity attributable to owners of the Company of RMB11,368,000 The effect of changes in the ownership interest of Shenzhen Bone on the equity attributable to owners of the Company during year is summarised as follows:

	RMB'000
Consideration payable to non-controlling interests	(58,440)
Carrying amount of non-controlling interests acquired	47,072
Excess of consideration paid recognised within equity	(11,368)

32 BUSINESS COMBINATION

(a) Acquisition of Tianjin Renli

On May 31, 2012, Walkman Biomaterial, a subsidiary of the Group, acquired 60% equity interest in Tianjin Renli with a cash consideration of RMB18,000,000, which was paid and recorded as long term prepayment (Note 11) as at December 31, 2011.

As a result of the acquisition, the Group is expected to increase its presence in the orthopedic implants markets. It also expects to reduce costs through economies of scale. The goodwill of RMB12,831,000 arising from the acquisition is attributable to the economies of scale expected from expanding of the business scope of the Orthopedic Implant Business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs have been charged to administrative expenses in the consolidated income statement for the year ended December 31, 2012.

The revenue included in the consolidated income statement since May 2012 contributed by Tianjin Renli was RMB2,521,000. Tianjin Renli also contributed losses of RMB1,320,000 over the same period. Had Tianjin Renli been consolidated from January 1, 2012, the consolidated income statement would show pro-forma revenue of RMB333,579,000 and net profit of RMB97,064,000 for the year ended December 31, 2012.

The following table summarises the consideration for acquisition of Tianjin Renli, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	RMB'000
Consideration:	
At May 31, 2012	
— Cash consideration	18,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 7)	1,800
Inventories	7,551
Long-term prepayments	178
Trade and other receivables	4,333
Deferred income tax assets (Note 21)	1,247
Cash and cash equivalents	20,907
Current liabilities	(13,969)
Deferred income tax liabilities (Note 21)	(61)
Total identifiable net assets	21,986
Non-controlling interest	(16,817)
Goodwill (Note 8)	12,831
Total	18,000

32 BUSINESS COMBINATION (Continued)

(b) Acquisition of Shenzhen Bone

On January 31, 2013, PWM Investment and Walkman Biomaterial acquired an aggregated 60% equity interest in Shenzhen Bone with a cash consideration of RMB105,000,000, of which RMB82,000,000 was paid and recorded as a long-term prepayment (Note 11) as at December 31, 2012.

Valuation information about the fair value measurement using significant unobservable inputs (Level 3) adopted by the valuation of the intangible assets(other than goodwill) were as follows:

Approach	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable Inputs to fair value
Income approach	Gross margin	54%	The higher the gross margin, the higher the fair value
	Terminal growth rate for free cash flow	2.5%	The higher the growth rate, the higher the fair value
	Discount rate	19.3%	The higher the discount rate, the lower the fair value

As a result of the acquisition, the Group is expected to further expand its orthopedic implant product portfolio. It also expects to reduce costs through economies of scale. The goodwill of RMB88,973,000 arising from the acquisition is attributable to acquired customer base and economies of scale expected from consolidating the operations of the existing Orthopedic Implant Business and Bone Medical. None of the goodwill recognised is expected to be deductible for income tax purposes.

32 BUSINESS COMBINATION (Continued)

(b) Acquisition of Shenzhen Bone (Continued)

The following table summarises the consideration paid for Bone Medical, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	RMB'000
Consideration:	
At January 31, 2013	
— Cash consideration	105,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 7)	491
Intangible assets — technology know-how (Note 8)	13,903
Long-term prepayment for plant, property and equipment	15,340
Inventories	8,899
Deferred income tax assets (Note 21)	1,297
Trade and other receivables	1,452
Cash and cash equivalents	37,237
Current liabilities	(17,299)
Current borrowings	(4,000)
Deferred income tax liabilities (Note 21)	(3,503)
Total identifiable net assets	53,817
Non-controlling interest	(37,790)
Goodwill (Note 8)	88,973
Total	105,000

(c) Acquisition of Xuzhou Yijia

On May 31, 2013, Fert Technology acquired 100% equity interest in Xuzhou Yijia, a company engaged in Infusion Set Business, at a cash consideration of RMB20,000,000.

As a result of the acquisition, the Group is expected to further expand its production capacity of Infusion Set. It also expects to reduce costs through economies of scale. The goodwill of RMB12,736,000 arising from the acquisition is attributable to acquired economies of scale expected from consolidating the production and operation of the existing land use right, building and production line. None of the goodwill recognised is expected to be deductible for income tax purposes.

32 BUSINESS COMBINATION (Continued)

(c) Acquisition of Xuzhou Yijia (Continued)

The following table summarises the consideration paid for Xuzhou Yijia, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	RMB'000
Consideration:	
At May 31, 2013	
— Cash consideration	20,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 7)	18,540
Land use rights (Note 6)	9,410
Current liabilities	(5,000)
Current borrowings	(9,900)
Deferred income tax liabilities (Note 21)	(5,786)
Total identifiable net assets	7,264
Goodwill (Note 8)	12,736
Total	20,000

As at December 31, 2013, Xuzhou Yijia is still in the process of applying the ownership certificates of certain land with the aggregated carrying amounts amounted to RMB14,977,000.

33 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 (Note 16).

	2013	2012
Profit attributable to equity holders of the Company (RMB'000)	**77,905**	44,668
Weighted average number of ordinary shares in issue (thousands)	**1,247,860**	1,106,726
Basic earnings per share (RMB cents per share)	**6.24**	4.04

33 EARNINGS PER SHARE (Continued)

(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 share: share options. The share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2013	2012
Profit attributable to equity holders of the Company (RMB'000)	**77,905**	44,668
Weighted average number of ordinary shares in issue (thousands)	**1,247,860**	1,106,726
Adjustments for share options (thousands)	**27,458**	—
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,275,318**	1,106,726
Diluted earnings per share (RMB cents per share)	**6.11**	4.04

34 DIVIDENDS

The Board does not propose a final dividend for the year ended December 31, 2013 (2012: Nil).

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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