PW MEDTECH GROUP LIMITED
普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2014

(Stock Code: 01358.HK)

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

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

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CORPORATE **Profile**

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

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

The Group is a leading company in the regenerative medical biomaterial segment, with its key products currently widely used in neurosurgery areas in China. The Group currently has the largest market share of artificial dura mater in China, a product widely used in craniotomy operations. The Group has been expanding into new medical applications of regenerative biomaterial products in other areas with R&D investments, technology advancement and continuous expansion of the well established leading distribution network in China for neurosurgical medical devices.

Currently as China's second largest advanced infusion sets manufacturer and the largest 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 infusion sets. The Group is one of the first manufacturers which obtained the approval of the CFDA to manufacture precision filter infusion sets, and one of the first three manufacturers approved by the CFDA for producing non-PVC-based infusion sets. The Group also holds patented double-layer tubing design for non-PVC-based infusion sets.

The Group is one of the top domestic companies in China manufacturing orthopedic implants in terms of market shares, 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.

2014

- **Acquired Beijing Tianxinfu and expanded into the Regenerative Medical Biomaterial Business**

2013

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

2012

- Launched patented double-layer tubing infusion set, with TPU as the inner tubing and PVC as the outer tubing
- Launched patented bridge-link combined fixation system

2011

- Acquired Fert Technology and entered into the advanced Infusion Set Business
- Investment from Warburg Pincus

2010

2008

- Acquired Walkman Biomaterial and entered into the Orthopedic Implant Business

2002

- Beijing Tianxinfu was founded in 2002

2001

- Walkman Biomaterial was founded in 2001

1997

- Fert Technology was founded in 1997

FINANCIAL
Highlights

- Revenue for the year ended December 31, 2014 amounted to approximately RMB608.1 million, representing an increase of 33.0% from approximately RMB457.1 million recorded in 2013.

- Gross profit for the year ended December 31, 2014 amounted to approximately RMB442.9 million, representing an increase of 42.7% from approximately RMB310.4 million recorded in 2013.

- Profit attributable to owners of the Company for the year ended December 31, 2014 amounted to approximately RMB176.6 million, representing an increase of 126.7% from approximately RMB77.9 million recorded in 2013.

- Unaudited adjusted net profit in 2014, which was derived by excluding non-operational and one-off items comprising the merger and acquisition costs and the share-based compensation expenses (2013: one-off items comprising the listing-related expenses and the share-based compensation expenses) together with their income tax effects, was approximately RMB204.7 million, representing an increase by 45.5% over approximately RMB140.7 million in 2013.

- Basic earnings per Share and diluted earnings per Share in 2014 were RMB10.57 cents (2013: RMB6.24 cents) and RMB10.30 cents (2013: RMB6.11 cents), respectively, representing an increase of 69.4% and 68.6% from 2013, respectively.

	For the Year ended December 31,				
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014 RMB'000**
Revenue	60,816	175,267	331,541	457,083	**608,059**
Gross Profit	44,187	109,117	218,847	310,427	**442,889**
Profit before income tax	17,268	57,328	119,721	113,863	**211,322**
Income tax expense	(2,936)	(7,982)	(19,538)	(22,860)	**(34,692)**
Profit for the year	14,332	49,346	100,183	91,003	**176,630**
Profit attributable to:					
Owners of the Company	7,117	22,103	44,668	77,905	**176,630**
Non-controlling interests	7,215	27,243	55,515	13,098	**—**
Unaudited adjusted net profit (Note)	14,332	49,346	100,183	140,686	**204,678**

	As at December 31				
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014 RMB'000**
Total Assets	166,967	542,160	921,313	2,129,161	**2,382,537**
Total Liabilities	38,441	288,912	396,612	230,465	**271,211**
Equity attributable to the owners of the Company	51,837	91,722	349,537	1,898,696	**2,110,159**

Note: 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, listing-related expenses and costs for merger and acquisition.

CHAIRMAN'S
Statement

It is a great honor for me, on behalf of the Board of PW Medtech, to present the annual report of the Group for the financial year ended December 31, 2014.

2014 was an important year for the growth and development of the Group. 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, valuable opportunities have been presented to the medical device industry in China.

As a leader in the medical device industry of China, the Group is leveraging on its distinctive strengths to seize the opportunities. Further to achieving continuous growth in its Infusion Set Business and Orthopedic Implant Business, the Group has successfully expanded into the area of Regenerative Medical Biomaterial Business segment, an area which has massive growth potential and prospects in China's medical device industry and creates new growth drivers for the Group.

BUSINESS REVIEW

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

As a result of sustained growth of all the three business segments in 2014, together with the completion of the acquisition of Regenerative Medical Biomaterial Business in August 2014, the Group has achieved significant growth over the past year.

In 2014, the Group's revenue, profit before tax and profit attributable to the owners of the Company were RMB608.1 million, RMB211.3 million and RMB176.6 million, respectively representing an increase of 33.0%, 85.5% and 126.7% over 2013, respectively. After excluding non-operational and one-off items comprising (i) listing and merger and acquisition costs of RMB3.9 million (2013: RMB33.0 million), and (ii) share-based compensation expenses of RMB24.1 million (2013: RMB19.9 million) and their respective tax impact, the unaudited adjusted net profit increased by 45.5% to RMB204.7 million in 2014, from RMB140.7 million in 2013. In 2014, the Group recorded a gross profit of RMB442.9 million, representing an increase of 42.7% over 2013. The newly acquired Regenerative Medical Biomaterial Business had a higher gross profit margin than the other business segments, and the overall gross profit margin of the Group increased to 72.8% in 2014 (2013: 67.9%).

Over the past years, with extensive product portfolio and strong R&D capabilities, the Group has expanded its product lines and sales network through strategic acquisitions and efficient integrations. As for Regenerative Medical Biomaterial Business, the Group has been working with large scale Class III hospitals to upgrade its current products to develop a series of regenerative medical biomaterial products with new applications, functions and features in order to diversify product portfolio. The product registration of a brand new product, namely anti-adhesion membrane for tendon and ligament, has been obtained, and the product is expected to be launched in the first half of 2015. Meanwhile, the Group continues to develop the other two main pipeline products, namely the oral cavity membrane and second generation of artificial dura mater, of which the clinical trials will be started in 2015.

As a pioneer in the advanced infusion set segment, the Group benefited from the trend of replacing conventional PVC infusion sets with advanced ones due to the increasingly widespread education on the safety of infusion sets. By developing a wide range of advanced infusion products with safer material and better functions, the advanced infusion set products continue to contribute to the Group's overall profit. In 2014, the Group has successfully introduced to the market a variety of new types of non-PVC based infusion sets with additional function of light-resistance, more additional varieties of filter pore size, and various combinations of these attributes. Precision filter infusion sets with refined filter pore sizes and infusion pump tubing were also added to the Group's advanced infusion set portfolio.

In 2013, the Group added the implants and instruments of modified u-shape posterior spinal fixation system and modified thoracolumbar fusion cage to its spine product portfolio of the Orthopedic Implant Business, which improved its capability of providing comprehensive solutions to hospitals and customers.

The Group has placed great focus on R&D. To support the introduction of brand new products, we are committed to dedicating more resources to enhance our research capability. The success of R&D depends primarily on a professional R&D team and R&D strategy that caters to the market demands in China. The Group's R&D team has attracted professional talents from various disciplinary backgrounds, focused on cooperative development with 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.

To meet the growing market demand, the Group has not only enhanced the utilization rate of existing plants, but is also expanding its production capacity. 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 2015, due to continuous aging population, steady economic growth, increasing public health investment, changing lifestyle, expansive nationwide healthcare insurance and urbanization in China, China's medical device market, especially the medical consumables market, will continue to enjoy sustainable and healthy growth. The industry's growth is also expected to be impacted by the government's new policies in the medical and healthcare industries, especially in the areas of tendering and medical reimbursement. We believe that the Regenerative Medical Biomaterial Business, the Infusion Set Business and the Orthopedic Implant Business will witness further expansion in the coming years.

We will further increase the investment in R&D and strengthen our relationship with hospitals and research institutions to develop new products and broaden and deepen the product mix, and will enhance our promotion efforts across the national distribution market to increase market penetration. While maintaining the rapid growth of the three existing business segments, 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 will actively seek acquisition opportunities to achieve sustainable and rapid business growth. The Group firmly believes that through continuous integration of its resources, it will effectively enhance its overall operational efficiency and profitability.

APPRECIATION

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

Chairman of the Board
Yue'e ZHANG

March 20, 2015

CORPORATE **Information**

BOARD OF DIRECTORS

Executive Directors

Ms. Yue'e ZHANG *(Chairman)*
Mr. JIANG Liwei *(CEO)*

Non-executive Directors

Mr. LIN Junshan
Mr. FANG Min

Independent Non-executive Directors

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

COMPANY SECRETARY

Ms. SO Yee Kwan, *ACS, ACIS*

AUTHORISED REPRESENTATIVES UNDER LISTING RULES

Mr. JIANG Liwei
Ms. SO Yee Kwan

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. CHEN Geng *(Chairman)*
Mr. ZHANG Xingdong
Mr. FANG Min

NOMINATION COMMITTEE

Ms. Yue'e ZHANG *(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
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Grand Cayman KY1-1208
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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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

HONG KONG LEGAL ADVISOR

Wilson Sonsini Goodrich & Rosati
Suite 1509, 15/F, 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
P.O. 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

1358.HK

WEBSITE

www.pwmedtech.com

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

DIRECTORS

The Board currently consists of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. The following table sets forth information regarding the Directors.

Name	Age	Position	Date of Appointment as Director
Executive Directors			
Ms. Yue'e ZHANG (張月娥)	51	Chairman and executive Director	May 13, 2011
Mr. JIANG Liwei (姜黎威)	47	CEO and executive Director	June 21, 2013
Non-executive Directors			
Mr. LIN Junshan (林君山)	52	Non-executive Director	June 21, 2013
Mr. FANG Min (方敏)	35	Non-executive Director	March 20, 2015
Independent non-executive Directors			
Mr. ZHANG Xingdong (張興棟)	77	Independent non-executive Director	October 14, 2013
Mr. CHEN Geng (陳庚)	44	Independent non-executive Director	October 14, 2013
Mr. WANG Xiaogang (王小剛)	41	Independent non-executive Director	October 14, 2013

Executive Directors

Ms. Yue'e ZHANG (張月娥), aged 51, is the chairman of the Board, an executive Director and the chairman of the Nomination Committee. Ms. ZHANG was appointed as the chairman of the Board and the chairman of the Nomination Committee, re-designated from a non-executive Director to an executive Director and ceased to be a member of the Audit Committee on February 3, 2015. She is also a director of certain subsidiaries of the Company. 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. and she is also an early founder of Lepu Medical Technology (Beijing) Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300003). Ms. ZHANG has worked in the medical device industry for over 20 years and has accumulated considerable experience in product design, R&D, and management and investment. Ms. ZHANG graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in materials science and engineering in July 1985, and later received two master's degrees relating to materials science and management from Xi'an University of Technology (西安理工大學) and Florida International University in July 1988 and April 1996, respectively. Ms. ZHANG is the daughter of Ms. Yufeng LIU (the ultimate controlling Shareholder who wholly owns Cross Mark Limited, the controlling Shareholder). Ms. ZHANG resigned as a director of Cross Mark Limited on September 18, 2014.

Mr. JIANG Liwei (姜黎威), aged 47, is the CEO and an executive Director. 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 (China) Medical Instrument Co., Ltd. (創生醫療器械(中國)有限公司) from 2005 to 2008. He also held various management positions with Zimmer (Shanghai) Medical International Trading Co., Ltd. (捷邁(上海)醫療國際貿易有限公司) from 1999 to 2005 and Smith & Nephew Medical (Shanghai) Limited (施樂輝醫用產品國際貿易(上海)有限公司) from 1997 to 1999. Mr. JIANG was a resident doctor for a few years upon graduation from Shanghai Second Medical University (上海第二醫科大學) (now School of Medicine, Shanghai Jiaotong University (上海交通大學醫學院)) with a bachelor's degree in clinical medicine in July 1991.

Non-executive Directors

Mr. LIN Junshan (林君山), aged 52, is a non-executive Director and a member of the Audit Committee. Mr. LIN ceased to be the Company's chairman of the Board and the chairman of the Nomination Committee, and was appointed as a member of the Audit Committee on February 3, 2015. Mr. LIN joined the Group as a director of Walkman Biomaterial in April 2010. He is also a director of certain subsidiaries of the Company. Before joining our Group, Mr. LIN was a chief engineer and professoriate senior engineer of CSR Qingdao Sifang Co., Ltd. (南車青島四方機車車輛股份有限公司) (formerly known as "CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.") from January 2007 to June 2013. After 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.

Mr. FANG Min (方敏), aged 35, is a non-executive Director and a member of the Remuneration Committee. In addition to his positions in the Company, Mr. FANG has been a principal at Beijing Warburg Pincus Investment Consulting Company Limited, Shanghai Branch ("**Warburg Pincus**", an affiliate of WP X Asia Medical Devices Holdings Limited, which is one of the substantial Shareholders) since July 2011, and a core member of its China healthcare team. Mr. FANG has been a director of China Biological Products, Inc. (a company listed on NASDAQ, symbol: CBPO) since March 2015. From March 2010 to July 2011, he was a vice president at Carlyle Asia Private Equity. From July 2007 to February 2010, Mr. FANG was an associate at Warburg Pincus. Prior to joining Warburg Pincus, he worked at The Boston Consulting Group focusing on providing management consultancy for pharmaceutical and medical device companies from September 2001 to June 2005. Mr. FANG received a B.A. of International Finance from Fudan University in June 2001 and an M.B.A. from the Stanford Graduate School of Business in June 2007.

Independent Non-executive Directors

Mr. ZHANG Xingdong (張興棟), aged 77, is an independent non-executive Director and a member of the Remuneration Committee and the Nomination Committee. 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 council member of 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 44, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee. Mr. CHEN has been the vice president of Peking University Resources (Holdings) Company Limited (name changed from "EC-Founder (Holdings) Company Limited" on October 25, 2013; a company listed on the Main Board of the Stock Exchange, stock code: 618) since May 2013. He served as EC-Founder (Holdings) Company Limited'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 the PRC, garnering extensive experience in finance and management. Mr. CHEN has obtained the qualification of senior economist (高級經濟師) from China State Construction Engineering Corporation Limited (中國建築工程總公司) in October 2010. He graduated from Northwest University (西北大學) with a bachelor's degree in administrative management in July 1993 and later received an EMBA degree from Guanghua School of Management, Peking University (北京大學光華管理學院) in January 2005.

Mr. WANG Xiaogang (王小剛), aged 41, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee. Mr. WANG served as a managing director of China Aerospace Industry Investment Fund Management (Beijing) Co., Ltd. (航天產業投資基金管理(北京)有限公司) from February 2011 to August 2014. He was previously a partner at PricewaterhouseCoopers Consulting (Shenzhen) Co., Ltd. (普華永道諮詢(深圳)有限公司) ("**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 of our Group:

Name	Age	Year Joined	Position
Mr. JIANG Liwei (姜黎威)	47	2013	CEO and executive Director
Mr. WANG Jie (王傑)	41	2012	Chief financial officer
Mr. HUA Wei (華煒)	44	2011	Vice president
Mr. CHEN Yikun (陳怡琨)	38	2014	Vice president

Mr. JIANG Liwei (姜黎威), aged 47, is the CEO and an executive Director. His biographical details are set out above under the section headed "Profile of Directors and Senior Management — Executive Directors" in this annual report.

Mr. WANG Jie (王傑), aged 41, 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 44, 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 38, is the Company's vice president. Prior to joining our Group in January 2014, Mr. CHEN was a senior manager at PricewaterhouseCoopers LLP and has over 10 years of experience in assurance and advisory practice. From 2005 to 2006, Mr. CHEN served as a project manager in merger and acquisition in China Resources Petrochems (Group) Co., Ltd. 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.

BUSINESS AND MARKET REVIEW FOR YEAR 2014

For the year ended December 31, 2014, with the modest recovery of the global economy and the support of domestic consumption, the economy of the PRC has maintained steady growth while still facing uncertainties. The continuous process of urbanization, increasing governmental investments into public healthcare sector and the aging population contributed to the increase in demand for quality medical services. This in turn brought significant growth opportunities for China's medical device industry. In recent years, China's medical device industry has been experiencing rapid growth due to the government's substantial investment in the healthcare sector, fast development of the public medical insurance system and high disease rate caused by the aging population.

PW Medtech is a leading medical device company focusing on fast-growing and high-margin segments of China's medical device industry. As one of the leading domestic companies in the development manufacturing and sale of (i) Regenerative Medical Biomaterial Business, (ii) Infusion Set Business and (iii) Orthopedic Implant Business in China, the Company is well aware of the opportunities presented by its own competitive strengths and distinctive characteristics.

The regenerative medical biomaterial industry in China achieved significant progress in recent years. Regenerative medical biomaterial, a high-tech innovative material used for clinical diagnosis, treatment, repair or replacement on worn tissues or organs, is equipped with unique features comparing with traditional materials. With extensive application coverage, it could be used as a substitute for a variety of damaged tissues or organs, and is expected to become an industry trend to replace traditional materials in the future. The Group, as a top player in the regenerative medical biomaterial industry in China, will take full advantage of the favorable industry competition landscape to actively capture market share, in order to further consolidate its leading industry position.

China is the largest market for infusion sets in the world. The infusion set industry in China is experiencing a period of significant product innovation induced by increasing public health awareness about infusion safety, rising per capita annual disposable income in urban households and increasing government attention on PVC risks. The sales of advanced infusion sets are expected to continue to grow at double digit growth rate, which will be higher than the growth of conventional infusion sets in the next ten years because an increasing number of low-end products will gradually be replaced by advanced infusion set products which are considered to be safer and less risky. Therefore, as a manufacturer focusing on advanced infusion sets, the Group continues to take advantage of its technical strength to fully respond to vast market demand, and further consolidate its market position in the advanced infusion set industry.

Orthopedic implant segment is a fast-growing sector in the medical device industry in China. Benefiting from the increasing per capita income and widening medical care coverage, the per capita healthcare expenditure is increasing progressively in China. The deepening healthcare reforms improved the healthcare infrastructure with more qualified medical staff for performing orthopedic surgeries, driving the orthopedic implant market in China to grow rapidly. However, orthopedic implants are less acceptable in the PRC than developed countries, such as the United States, implying a huge potential in the domestic market. Meanwhile, the increasing urban population will become a growth momentum to boost the orthopedic implant market. Among the three sub-categories of orthopedic implant products (trauma implants, spine implants and joint implants), trauma implant segment represents the largest share of the orthopedic implant market of China, although spine and joint implants show a higher growth rate than trauma implants. Benefiting from the expanding market demand of orthopedic implant products in China and their technical threshold, the orthopedic implant manufacturers with a full product line, technology know-how, robust R&D strength and the capability of unceasingly launching new products will achieve rapid growth.

As a result of sustained growth of all the three business segments in 2014, and with the completion of the acquisition of the Regenerative Medical Biomaterial Business, the Group has achieved significant growth over the past year.

In 2014, the Group's revenue, profit before tax and profit attributable to the owners of the Company were RMB608.1 million, RMB211.3 million and RMB176.6 million, representing an increase of 33.0%, 85.5% and 126.7% over 2013, respectively. After excluding non-operational and one-off items comprising (i) listing and merger and acquisition costs of RMB3.9 million (2013: RMB33.0 million), and (ii) share-based compensation expenses of RMB24.1 million (2013: RMB19.9 million) and their respective tax impact, the unaudited adjusted net profit increased by 45.5% to RMB204.7 million in 2014, from RMB140.7 million in 2013. In 2014, the Group recorded a gross profit of RMB442.9 million, representing an increase of 42.7% over 2013. The acquired Regenerative Medical Biomaterial Business had a higher gross profit margin than the other business segments, and the overall gross profit margin of the Group increased to 72.8% in 2014 (2013: 67.9%).

Business Strategies

As a leading company in the medical device industry in China, the Group has further expanded its product portfolio and manufacturing capacity, enhanced its innovation and R&D capabilities, extended domestic distribution network and diversified the product line by strategic acquisitions in 2014. Meanwhile, the Group successfully entered into the regenerative medical biomaterial segment, which has massive growth potential and prospects, and therefore created new growth drivers.

Acquisition of Tianxinfu Group and Expanding into the Regenerative Medical Biomaterial Segment

In August 2014, through two wholly-owned subsidiaries, the Company completed the acquisition of the 100% equity interest in Tianxinfu Group at a total consideration of approximately RMB802.6 million. Beijing Tianxinfu is a high-tech enterprise engaged in the R&D, manufacturing and sales of regenerative medical biomaterial and orthopedic implant products.

Beijing Tianxinfu is a leading company in the regenerative medical biomaterial segment in China, with its major regenerative medical biomaterial products, including artificial dura mater, artificial spinal dura and artificial nerve sheath, widely used in neurosurgery areas in China. Beijing Tianxinfu's artificial dura mater are widely used in craniotomy operations and has the largest market share in Chinese artificial dura mater sales in 2013, according to market research performed by Frost and Sullivan, an independent third party industry consultant. The revenue of Regenerative Medical Biomaterial Business contributed for 96.2% of Beijing Tianxinfu's post acquisition sales. The regenerative medical biomaterial segment and neurosurgery segment are segments with massive growth potential and prospects in China's medical device industry. After completion of the acquisition and the successful integration of Beijing Tianxinfu's business in 2014, the Group expanded into the biomaterial segment and created new growth drivers by expanding into more medical applications of the biomaterial products in new areas with R&D investments and technology advancement (see also the sections headed "Expansion of Product Portfolio" and "Emphasis on Innovation and R&D" in this annual report). The Group has also obtained Beijing Tianxinfu's well established distribution network for neurosurgical medical devices, which is in a leading position in China (see also the section headed "Expansion of Distribution Network" in this annual report). With our continuing investment and allocation of experiences and resources in R&D, distribution and administrative management, we expect this segment will continue to create new growth drivers for the Group.

Expansion of Product Portfolio

As for Regenerative Medical Biomaterial Business, the Group has been working with large scale Class III hospitals to upgrade its current products to develop a series of regenerative medical biomaterial products with new applications, functions and features in order to diversify product portfolio. The product registration of a brand new product, namely antiadhesion membrane for tendon and ligament, has been obtained, and the product is expected to be launched in the first half of 2015. Meanwhile, the Group continues to develop the other two main pipeline products, namely the oral cavity membrane and second generation of artificial dura mater, of which the clinical trials will be started in 2015.

To deliver products for safer and more effective infusion treatments, the Group has been developing a series of advanced infusion set products with new functions, new features or new combinations of these advanced features. For precision filter infusion sets, we successfully obtained the product registrations of, and added into our product portfolio, the infusion sets with refined precision filter with pore size of 0.2 micon and light-resistant infusion pump tubing. For the non-PVC based infusion sets, we have obtained three new product registrations and launched new types of non-PVC infusion sets, expanding our non-PVC based infusion product portfolio with additional function of light-resistance, additional varieties of pore sizes of precision filters, and various combinations of these attributes.

The Orthopedic Implant Business has seen much progress in the Group's continuous research on optimizing the three main product categories: trauma products, spine products and joint products. For trauma products, the Group is further improving the bridge-link combined fixation system which was commercially launched in July 2012. For spine implants, the Group has successfully launched modified u-shape posterior spinal fixation system and instruments and modified thoracolumbar fusion cage and instruments in 2014.

Emphasis on Innovation and R&D

As a leader in development of innovative medical products in China, the Group currently possesses an experienced R&D team consisting of approximately 100 members. As at December 31, 2014, the Group had totally 44 Class-III medical device registration licenses and obtained 77 patents, including 8 licenses and 17 patents for regenerative medical biomaterial products, 10 licenses and 32 patents for infusion set products and 26 licenses and 28 patents for orthopedic implant products, and had applied for 16 licenses and 44 patents.

Expansion of Distribution Network

The Group operates a widespread and fast-growing nationwide distribution network, which covers 31 provinces, municipalities and autonomous regions in the PRC. The Group currently has three experienced and dedicated sales and marketing teams to support and consolidate the nationwide distribution network and strengthen product promotion. Approximately half of the sales and marketing staff have medical experience, among which, key salespersons in each business segment have an average of 10 years' experience in their respective areas. Their experience and expertise help them to communicate with doctors and nurses in a succinct and effective manner.

Increase of Production Capacity

Currently, the Group has one plant for the regenerative medical biomaterial segment in Changping District (Beijing), three plants for the orthopedic implant segment in Tianjin, Anyang (Henan Province) and Shenzhen (Guangdong Province), and two plants for the infusion set segment in Fengtai District (Beijing) and Xuzhou (Jiangsu Province). The Group is also planning to add two additional plants in Linyi (Shandong Province) and Pinggu District (Beijing) to expand its production capacity for infusion sets. Meanwhile, the Group plans to increase the production capacity of trauma and spine implants of the facility in Tianjin.

Development of Enterprise Resource Planning ("ERP") System

In response to the rapid business expansion in 2014, the Group has completed the application of the ERP system to our major 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. The newly acquired business of Beijing Tianxinfu is expected to finish the set up and installation of the ERP system in the first half of 2015.

OUTLOOK AND FUTURE BUSINESS STRATEGIES

Looking forward, due to the continuous aging population, steady economic growth, expansion in public health investment, changing lifestyle, expansion of nationwide healthcare insurance and urbanization in China, China's medical device market, especially the medical consumables market, will continue to enjoy sustainable and healthy growth. The industry's growth is also expected to be impacted by the government's new policies in the medical and health care industries, especially in the areas of tendering and medical reimbursement.

In order to fully seize the great market opportunities in the regenerative medical biomaterial, advanced infusion set and orthopedic implant markets, the Group's plan for further development in the coming year and future will focus on the following five key strategies:

Expansion of Product Portfolio

The Group will continue to broaden its product portfolio by strengthening its R&D efforts and entering into strategic acquisitions.

As for the Regenerative Medical Biomaterial Business, the Group will continue to work with large scale Class III hospitals to upgrade the current products and develop a series of new regenerative medical biomaterial products with new applications, functions and features in order to diversify product portfolio. Further to the launch of brand new products of anti-adhesion membrane for tendon and ligament in the first half of 2015, as the product registration has been completed in the first quarter of 2015, the Group will continue to accelerate the product registration process for oral cavity membrane and second generation of artificial dura mater, of which the clinical trial will be started in 2015.

As for the Infusion Set Business, with a view to delivering safer and improved infusion treatments, the Group plans to develop a series of new advanced infusion set products with new functions and features. The Group will also expand the non-PVC-infusion set portfolio by introducing new features and broadened applications to non-PVC-infusion sets.

As for the Orthopedic Implant Business, the Group will continue to research on optimizing the three main product categories: trauma products, spine products and joint products. The Group will continue to work on both the initial introduction of brand new products (for example, the trabecular metal product currently under development) and the improvement of existing products in trauma and spine segments. The Group will continue to devise new ideas and develop advanced materials to satisfy varied patient demands for the hip and knee implants.

Emphasis on Innovation and R&D

The Group will continue to invest in product innovation and R&D in future, and cooperate closely with surgeons, hospitals, university research centers and other research institutions to integrate results from R&D and develop products which meet market demands.

Expansion of Distribution Network

In response to the ever-increasing market demand, the Group will continue to make efforts in developing the sales and marketing teams in order for them to support the Group's extensive distribution network and, promote the Group's products and brand name to surgeons, nurses and hospitals. After the acquisition of Beijing Tianxinfu, the Group obtained one of the largest distribution networks in China in neurosurgical area, covering approximately one thousand hospitals with over 150 distributors. In relation to the Infusion Set Business and Regenerative Medical Biomaterial Business, the Group will focus initially on the Class III hospitals in larger-than-average cities in the more developed regions of China, and then penetrate into smaller hospitals and cities. For the Orthopedic Implant Business, the Group will continue to focus on expanding its business with Class II hospitals in the second and third tier cities, and concentrate on developing sales and marketing capabilities for the joint implant business.

Increase Production Capacity

In view of the growing potential of the orthopedic implant market in China, the increasingly popular advanced infusion sets are now replacing conventional infusion sets. In the next 3 to 5 years, the Group will continue to invest in its existing plants, including those in use, and those under construction, to expand its production capacity for advanced infusion sets. Meanwhile, the Group sets to increase the production capacity of the facility in Tianjin for trauma and spine implants.

Strategic Acquisitions

In previous years, the Group has successfully expanded its product portfolio, obtained patented technologies and recruited R&D talents through strategic acquisitions. At the same time, the Group has taken an effective approach to integrate the acquired businesses by means of improving management, expanding distribution network and strengthening marketing approaches, resulting in improved operational efficiency and profitability, strengthened support to fast business growth and consolidated market leadership. In the coming years, the Group will continue to identify fast-growing, high-margin and high-potential opportunities in the medical device industry by utilizing its capabilities on strategic acquisitions, which will in turn provide support to the rapid business growth and consolidate market leadership in the medical device industry.

FINANCIAL REVIEW

Overview

	For the year ended December 31,		
	2014 RMB'000 (except for EPS)	2013 RMB'000 (except for EPS)	Change %
Revenue			
— Infusion Set Business	**362,788**	317,391	14.3%
— Orthopedic Implant Business	**165,760**	139,692	18.7%
— Regenerative Medical Biomaterial Business	**79,511**	—	N/A
Total revenue	**608,059**	457,083	33.0%
Gross Profit	**442,889**	310,427	42.7%
Earnings before interests, tax, depreciation and amortization ("**EBITDA**")	**266,453**	142,180	87.4%
Earnings before interests and tax ("**EBIT**")	**227,066**	120,857	87.9%
Profit for the year	**176,630**	91,003	94.1%
Profit attributable to owners of the Company	**176,630**	77,905	126.7%
Unaudited adjusted EBITDA[1]	**294,501**	195,060	51.0%
Unaudited adjusted EBIT[1]	**255,114**	173,737	46.8%
Unaudited adjusted net profit[1]	**204,678**	140,686	45.5%
Basic earnings per Share ("**EPS**", in RMB cents)	**10.57**	6.24	69.4%
Diluted EPS (RMB cents)	**10.30**	6.11	68.6%

(1): Unaudited adjusted net profit, unaudited adjusted EBIT and unaudited adjusted EBITDA were derived by excluding non-operational and one-off items, comprising share-based compensation expenses, listing-related expenses (incurred in year 2013), merger and acquisition costs (incurred in year 2014) and their income tax effects (if any), from our profit, EBIT and EBITDA for the years ended December 31, 2014 and 2013.

Revenue

The revenue of the Group increased by 33.0% from RMB457.1 million in 2013 to RMB608.1 million in 2014, reflecting an increase in the sale of Infusion Set Business and Orthopedic Implant Business, together with the additional revenue contributed by the newly acquired subsidiaries of Regenerative Medical Biomaterial Business since the completion of the acquisition in August 2014.

Revenue from the Regenerative Medical Biomaterial Business for the five-month period ended December 31, 2014 (the period after the completion of the acquisition during the year 2014) amounted to approximately RMB79.5 million, which accounts for approximately 13.1% of the Group's revenue for the year ended December 31, 2014.

According to the unaudited management accounts of the relevant subsidiaries comprising the Regenerative Medical Biomaterial Business for the year ended December 31, 2014, prepared under HKFRSs, the Regenerative Medical Biomaterial Business revenue of the relevant subsidiaries in 2014 was approximately RMB175.8 million, which increased by 21.4% comparing to the relevant subsidiaries' Regenerative Medical Biomaterial Business sales of RMB144.8 million in 2013. The increase is mainly contributed by the increase in sales volume as a result of increased market demand and the Group's expansion of sales network.

Revenue from the Infusion Set Business amounted to RMB362.8 million in 2014, representing an increase of 14.3% from 2013. The increase is mainly derived from the rapid growth in the sales of non-PVC-based infusion sets, the expansion of the Company's sales network and the increased recognition of its advanced infusion set products.

Revenue from the Orthopedic Implant Business amounted to RMB165.8 million in 2014, representing an increase of 18.7% from 2013, which is mainly attributable to the introduction of new spine products, the expansion of the Company's sales network and the consolidation of Beijing Tianxinfu's post-acquisition orthopedic implant sales amounted to approximately RMB3.1 million.

Gross Profit

The Group's gross profit increased by 42.7% from approximately RMB310.4 million in 2013 to approximately RMB442.9 million in 2014. The gross profit margin increased from 67.9% in 2013 to 72.8% in 2014, which is primarily attributable to the acquisition of the Regenerative Medical Biomaterial Business with a higher gross margin, together with enhanced economies of scale. The product mix changed with more sales in higher margin products in the Infusion Set Business in 2014. For the Orthopedic Implant Business, the Group has ceased, or decreased the proportion of, the sales of certain low margin products.

The gross profit rate of the Group's Regenerative Medical Biomaterial Business was 85.1%, which included effect of the additional cost of sales from the amortization of the intangible assets of technology know-how identified and recorded in the Group's consolidated financial statement during the purchase accounting process under HKFRSs (see the section headed "Intangible assets"for details) amounted to RMB8.5 million for the five months ended December 31, 2014. By excluding the effect of above mentioned amortization of the intangible assets identified from the purchase accounting process under HKFRS so as to be at a comparable basis with this segment's pre-acquisition performance, the gross profit rate of the Group's Regenerative Medical Biomaterial Business would have been 95.8%.

Selling Expenses

Selling expenses increased by 52.2% from approximately RMB61.9 million in 2013 to approximately RMB94.2 million in 2014. This increase was mainly attributable to the additional selling expense incurred by the newly acquired Regenerative Medical Biomaterial Business, and the Group's additional efforts in expanding the sales team and sales network in the Infusion Set Business and the Orthopedic Implant Business.

Administrative Expenses

Administrative expenses decreased by 4.0% from approximately RMB112.5 million in 2013 to approximately RMB108.0 million in 2014. By excluding the share-based compensation cost of approximately RMB24.1 million (2013: approximately RMB19.9 million), non-recurring merger and acquisition costs relating to the acquisition of Tianxinfu Group in 2014 of approximately RMB3.9 million (2013: non-recurring listing expenses amounted to approximately RMB33.0 million), the normalized administrative expenses increased by 34.2%, mainly due to the additional administrative expenses incurred by the acquired Regenerative Medical Biomaterial Business, together with the increased remuneration for employees and third-party professionals and the increase in other managerial expenses after the Company being listed in November 2013.

R&D Expenses

R&D expenses increased by 51.7% from approximately RMB23.2 million in 2013 to approximately RMB35.2 million in 2014, mainly due to the expansion of the R&D team, the increased investment in R&D, together with the R&D expenses incurred by the acquired Regenerative Medical Biomaterial Business.

Finance Expenses — Net

The net finance expense decreased slightly by RMB2.1 million, as a result of increased finance income partly offset by increased finance costs. Finance income increased by approximately RMB15.4 million from approximately RMB6.8 million in 2013, to approximately RMB22.2 million in 2014, primarily due to the interest income derived from the bank deposits of the unused IPO proceeds. The finance costs in 2014 increased by approximately RMB13.4 million from approximately RMB11.3 million in 2013 to approximately RMB24.7 million, mainly due to the interest expenses incurred for the additional short-term bank borrowings to finance the consideration paid by a wholly owned domestic subsidiary of the Group for the acquisition of the Regenerative Medical Biomaterial Business, before the administrative procedures to inject the overseas fund into the above mentioned domestic subsidiary being completed.

Income Tax Expense

For the year ended December 31, 2014, income tax expense amounted to approximately RMB34.7 million, increased by approximately RMB11.8 million as compared with the corresponding period last year. The effective tax rate decreased from 20.1% for the corresponding period last year to 16.4% in 2014. The main reason for the decrease was that certain non-deductible expenses incurred in 2013 (mainly the listing-related expenses), which increased the Group's overall 2013 effective tax rate, were non-recurring in nature and no longer had an effect on the Group's overall effective tax rate in 2014.

Net Profit and Unaudited Adjusted Net Profit

For the foregoing reasons, the net profit of the Group in 2014 increased by 94.1%, from approximately RMB91.0 million in 2013 to RMB176.6 million in 2014.

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also used 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 as performance indicators of our business. Our unaudited adjusted net profit in 2014, derived by excluding non-operational and one-off items comprising the merger and acquisition costs of approximately RMB3.9 million and the share-based compensation expenses of approximately RMB24.1 million (2013: one-off items comprising the listing-related expenses of approximately RMB33.0 million and the share-based compensation expenses of RMB19.9 million) together with the corresponding income tax expense, was approximately RMB204.7 million, which represented an increase by 45.5% over approximately RMB140.7 million in 2013.

Trade and Other Receivables

The Group's trade receivables were primarily the outstanding proceeds from credit sales.

As of December 31, 2014, the trade and other receivables of the Group were approximately RMB371.2 million, representing an increase of approximately RMB129.9 million, as compared to approximately RMB241.3 million as of December 31, 2013. The increase of trade and other receivables included the increase of trade receivables of approximately RMB128.0 million in 2014. The increase of trade receivables is mainly due to the increase in sales and prolonged credit period for sales made to hospitals and distributors.

Inventories

Inventories slightly increased by 6.3%, from approximately RMB95.1 million as of December 31, 2013 to approximately RMB101.1 million as of December 31, 2014. The increase of inventories was mainly due to the additional inventories of the newly acquired Regenerative Medical Biomaterial Business.

Property, Plant and Equipment

Property, plant and equipment included buildings, machinery and equipment and construction under progress. As of December 31, 2014, the property, plant and equipment of the Group amounted to approximately RMB389.6 million, representing an increase of approximately RMB188.5 million, as compared to approximately RMB201.1 million as of December 31, 2013. The increase was primarily due to the acquisition and construction of new facilities and production lines to expand production facilities.

Intangible Assets

The Group's intangible assets mainly include goodwill, technology know-how, trademarks, computer software and customer relationship. The Group's goodwill, technology know-how and trademarks are mainly identified and recorded during the purchase accounting process for the acquisitions of subsidiaries. As of December 31, 2014, the net value of the Group's intangible assets was RMB994.9 million, representing an increase of RMB689.6 million as compared to RMB305.3 million as of December 31, 2013. The increase was primarily due to the goodwill of RMB373.2 million, and the technology know-how and trademarks of RMB329.4 million identified separately from the consideration paid for the acquisition of Tianxinfu Group (see the section headed "Acquisition of Tianxinfu Group and Expanding into the Regenerative Medical Biomaterial Segment"for details of the acquisition) in accordance with HKFRS. The goodwill is subject to impairment test at each period end, while the technology know-how and trademarks are amortized with straight line method for 15 years from August 1, 2014. The amortization of the intangible assets identified from the consideration paid for the acquisition of Tianxinfu Group for the five months ended December 31, 2014 was RMB9.2 million, of which RMB8.5 million was included in the cost of goods sold before gross profit margin and RMB0.7 million was included in the selling expenses.

Financial Resources and Liquidity

As at December 31, 2014, the Group's cash and bank balances amounted to approximately RMB153.8 million (2013: RMB1,145.6 million) and the Group's restricted cash balances amounted to approximately RMB260 million (2013: RMB37 million). As at December 31, 2014, the Group's bank borrowing balances amounted to approximately RMB75 million (2013: RMB93 million). The decrease in cash and bank was primarily due to the cash consideration of RMB802.6 million paid for the acquisition of Beijing Tianxinfu, and the increase in restricted cash.

As at December 31, 2014, the weighted average effective interest rate of the Group's current bank borrowings was 7.0% (2013: 7.0%), and none of the Group's current bank borrowings was at a fixed interest rate. The Board is of the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditures.

Pledge of Assets

Details of the Group's bank loans which are secured by the assets of the Group are included in Note 23 to the Group's consolidated financial statements. Save 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.

Commitments

As of December 31, 2014, the Group has a total capital commitment of approximately RMB24.5 million, comprising mainly contracted capital expenditure for property, plant and equipment.

Contingent Liabilities

There is no material contingent liability as at December 31, 2014.

Capital Expenditure

During the year ended December 31, 2014, the Group incurred expenditure of RMB1.2 million on the purchase of intangible assets including computer software; expenditure of RMB37.2 million on the purchase of property, plant and equipment; expenditure of RMB142.1 million on the construction under progress including facilities and production lines; and expenditure of RMB4.6 million on the acquisition of land use right.

Gearing Ratio

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 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.

	As at December 31	
	2014	2013
	RMB'000	RMB'000
Total borrowings	**75,000**	93,066
Total equity	**2,111,326**	1,898,696
Total capital	**2,186,326**	1,991,762
Gearing ratio (%)	**3.43%**	4.67%

Foreign Exchange Risk

The Group mainly operates its business in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to 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.

All of the Group's bank borrowings and restricted cash are denominated in RMB. The currencies in which the cash and cash equivalents are denominated have been disclosed in Note 18 to the Group's consolidated financial statements.

Cash Flow and Fair Value Interest Rate Risk

Other than bank balances with variable interest rates, the Group has no other significant interest-bearing assets. Management does not anticipate any significant impact to interest-bearing assets 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. 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, and trade and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problems. The credit risk of bank balances is limited because the counterparties are banks with good reputation and most of them are the four largest state-owned commercial banks in China, or public listed companies. Most of the bank deposits of the Group are placed with financial commercial banks with a BBB+ or higher Standard & Poor's 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 and past history of making payments, taking into account the 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 with reference to 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 each year to ensure adequate impairment losses are made for irrecoverable amounts.

The Board has committed to maintaining high corporate governance standards. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

The Company has applied the principles as set out in the CG Code.

The Board considers that during the year ended December 31, 2014, the Company has applied the principles and complied with the code provisions set out in the CG Code. Key corporate governance principles and practices of the Company are summarized below.

A. THE BOARD

A1. Responsibilities and Delegation

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

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

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

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

A2. Board Composition

The composition of the Board during the year ended December 31, 2014 and up to the date of this report is as follows:

Executive Directors:

Ms. Yue'e ZHANG (Note 1)	*(Chairman of the Board and Chairman of the Nomination Committee)*
Mr. JIANG Liwei	*(CEO)*

Non-executive Directors:

Mr. LIN Junshan (Note 1)	*(Member of the Audit Committee)*
Mr. FANG Min (Note 2)	*(Member of the Remuneration Committee)*
Mr. FENG Dai (Note 2)	*(Former Member of the Remuneration Committee)*

Independent non-executive Directors:

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

Notes:

1. With effect from February 3, 2015:

    (i) Ms. Yue'e ZHANG has been re-designated from a non-executive Director to an executive Director;

    (ii) Ms. Yue'e ZHANG has been appointed as the chairman of the Board and the chairman of the Nomination Committee in place of Mr. LIN Junshan; and

    (iii) Mr. LIN Junshan has been appointed as a member of the Audit Committee in place of Ms. Yue'e ZHANG.

2. With effect from March 20, 2015, Mr. FENG Dai has resigned and Mr. FANG Min has been appointed as a non-executive Director and a member of the Remuneration Committee.

Throughout the year ended December 31, 2014, the Board has met the requirements of the Listing Rules 3.10 and 3.10A of having a minimum of three independent non-executive Directors (representing at least one-third of the Board) with one of them, being Mr. WANG Xiaogang, possessing appropriate professional qualifications and accounting and related financial management expertise.

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

To the best knowledge of the Directors, the Directors and senior management have no financial, business, family or other material/relevant relationships with one another.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent with reference to the independence guidelines set out in the Listing Rules.

A3. Chairman and Chief Executive

The roles and duties of the chairman and the CEO are held by separate persons and have been clearly defined in writing in order to ensure a balance of power and authority and preserve a balanced judgement of views. Currently, Ms. Yue'e ZHANG (formerly Mr. LIN Junshan who had acted as the chairman of the Board until February 2, 2015) takes up the role of chairman of the Board and is responsible for the management of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner whereas Mr. JIANG Liwei is the CEO, taking care of the day-to-day management of the Group's business and implementing the Group's policies, strategic plans and business goals formulated by the Board.

A4. Appointment and Re-election of Directors

All Directors are appointed for a specific term, subject to renewal upon expiry of the existing term. Ms. Yue'e ZHANG is appointed for a term of 3 years commencing from February 3, 2015 pursuant to her appointment letter while Mr. JIANG Liwei is engaged on a service agreement from October 14, 2013 (the date of the contract) to the date of the Company's 2016 AGM. All the non-executive Directors (including the independent non-executive Directors) are appointed for a term of 3 years from their respective appointment dates pursuant to their letters of appointment.

According to 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 AGM provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors should be eligible for re-election at the relevant AGM. In addition, any new Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his/her appointment, whereas any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM. The Director appointed by the Board as aforesaid shall be eligible for re-election at the relevant general meeting.

At the forthcoming 2015 AGM, Mr. FANG Min, Mr. CHEN Geng and Mr. WANG Xiaogang shall retire pursuant to the Articles provisions as stated in the foregoing paragraph. All the above three retiring Directors, being eligible, will offer themselves for re-election at the 2015 AGM. The Board and the Nomination Committee recommended their re-appointment. The Company's circular, sent together with this annual report, contains detailed information of the above three Directors as required by the Listing Rules.

A5. Training and Continuing Development for Directors

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

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

The Directors are required to submit to the Company details of the training they received in each financial year for the Company's maintenance of proper training records of the Directors. According to the training records currently maintained by the Company, during the year ended December 31, 2014, the then Directors have complied with the code provision A.6.5 of the CG Code on participation in continuous professional training as follows:

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

Note: Mr. FENG Dai has resigned and Mr. FANG Min has been appointed as a Director with effect from March 20, 2015. Therefore, the disclosure of the training records in respect of the financial year ended December 31, 2014 is not applicable to Mr. FANG Min.

A6. Directors' Attendance Records at Meetings

The attendance records of each Director at the Board and Board committee meetings and the general meetings of the Company held during the year ended December 31, 2014 are set out below:

	Attendance/Number of Meetings					
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**	**Extraordinary General Meeting**
Executive Directors:						
Ms. Yue'e ZHANG (Note 1)	5/5	4/4	N/A	N/A	1/1	1/1
Mr. JIANG Liwei	5/5	N/A	N/A	N/A	1/1	1/1
Non-executive Directors						
Mr. LIN Junshan (Note 2)	5/5	N/A	N/A	1/1	1/1	1/1
Mr. FENG Dai (Note 3)	5/5	N/A	2/2	N/A	1/1	1/1
Mr. FANG Min (Note 3)	N/A	N/A	N/A	N/A	N/A	N/A
Independent non-executive Directors:						
Mr. ZHANG Xingdong	4/5	N/A	1/2	1/1	1/1	0/1
Mr. CHEN Geng	4/5	4/4	2/2	N/A	1/1	1/1
Mr. WANG Xiaogang	5/5	4/4	N/A	1/1	1/1	1/1

Notes: Subsequent to the year ended December 31, 2014:

1. Ms. Yue'e ZHANG has been appointed as the chairman of the Nomination Committee and has ceased to be a member of the Audit Committee, both with effect from February 3, 2015.

2. Mr. LIN Junshan has been appointed as a member of the Audit Committee and has ceased to be the chairman of the Nomination Committee, both with effect from February 3, 2015.

3. Mr. FENG Dai has resigned and Mr. FANG Min has been appointed as a non-executive Director and a member of the Remuneration Committee with effect from March 20, 2015. Therefore, the attendance at the above Board and Board committee meetings is not applicable to Mr. FANG Min.

In addition, Mr. LIN Junshan, the chairman of the Board during the year ended December 31, 2014, held a meeting with all the then non-executive Directors (including the independent non-executive Directors) without the presence of executive Director during the year.

A7. Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of their office or employment, are likely to possess inside information of the Company and/or its securities. Specific enquiry has been made of all the Directors and they have confirmed their compliance with the Model Code throughout the year ended December 31, 2014. In addition, no incident of non-compliance of the Model Code by the senior management of the Group was noted.

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

A8. Corporate Governance Functions

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

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

B. BOARD COMMITTEES

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

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

B1. Remuneration Committee

The Remuneration Committee comprises a total of three members, being one non-executive Director, namely Mr. FANG Min (replacing Mr. FENG Dai with effect from March 20, 2015), and two independent non-executive Directors, namely Mr. CHEN Geng (chairman of the Committee) and Mr. ZHANG Xingdong. Throughout the year ended December 31, 2014, the Company has met the Listing Rule requirements of having the majority of the Remuneration Committee members being independent non-executive directors as well as having the Committee chaired by an independent non-executive director.

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

During the year ended December 31, 2014, the Remuneration Committee has held two meetings in which the existing remuneration policy and structure and the remuneration packages of Directors and senior management were reviewed and relevant recommendations were made to the Board. The attendance records of each Committee member in these two meetings are set out in section A6 above.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended December 31, 2014 is set out below:

Remuneration band (HK$)	**Number of individual**
Nil to 1,000,000	—
1,000,001–1,500,000	1
1,500,001–2,000,000	1
2,000,001–2,500,000	—
2,500,001–3,000,000	1
3,000,001–3,500,000	—
3,500,001–4,000,000	1

The amount of remuneration includes the fair value of share-based compensation, wages, salaries, bonus, contribution to social securities and housing fund. Details of the remuneration of each Director for the year ended December 31, 2014 are set out in Note 28 to the financial statements contained in this annual report.

B2. Nomination Committee

The Nomination Committee comprises a total of three members, being one executive Director, namely Ms. Yue'e ZHANG (chairman of the Committee, replacing Mr. LIN Junshan with effect from February 3, 2015), and two independent non-executive Directors, namely Mr. ZHANG Xingdong and Mr. WANG Xiaogang. Throughout the year ended December 31, 2014, the Company has met the code provision A.5.1 of having a majority of the Committee members being independent non-executive directors and having the Committee chaired by the chairman of the Board.

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

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

The Company also recognizes and embraces the benefit of having a diverse Board to enhance the quality of its performance. To comply with the code provision A.5.6 of the CG Code, a Board diversity policy was adopted by the Company on December 12, 2013, pursuant to which the Nomination Committee is responsible for monitoring the implementation of the Board diversity policy and assessing the Board composition under diversified perspectives (including but not limited to gender, age, cultural and educational background, or professional experience). The Nomination Committee shall report its findings and make recommendation to the Board, if any. Such policy and objectives will be reviewed from time to time to ensure their appropriateness in determining the optimum composition of the Board.

During the year ended December 31, 2014, the Nomination Committee has held one meeting and performed the following major works:

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

– Recommendation of the re-appointment of the retiring Directors standing for re-election at the Company's AGM held on May 28, 2014; and

– Assessment of the independence of all the Company's independent non-executive Directors.

The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy.

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

B3. Audit Committee

The Company has met the Listing Rule requirements regarding the composition of the Audit Committee throughout the year ended December 31, 2014. The Audit Committee comprises a total of three members, being one non-executive Director, namely Mr. LIN Junshan (replacing Ms. Yue'e ZHANG with effect from February 3, 2015), and two independent non-executive Directors, namely Mr. WANG Xiaogang and Mr. CHEN Geng. The chairman of the Audit Committee is Mr. WANG Xiaogang who possesses the appropriate professional qualification, and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

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

During the year ended December 31, 2014, the Audit Committee has held four meetings and performed the following major works:

— Review and discussion of the annual financial statements, results announcement and report for the year ended December 31, 2013, the related accounting principles and practices adopted by the Group and the relevant audit findings, the report from the management on the Company's internal control and risk management review and processes; and recommendation of the re-appointment of the external auditor;

— Review and discussion of the interim financial statements, results announcement and report for the six months ended June 30, 2014 and the related accounting principles and practices adopted by the Group; and

— Discussion of the nature, plan and scope of the Group's audit for the year ended December 31, 2014.

The external auditor has attended four of the above four meetings to discuss with the Audit Committee members issues arising from the audit and financial reporting matters.

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

It is noted that there is no disagreement between the Board and the Audit Committee regarding the appointment of external auditor.

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

The Directors have acknowledged their responsibilities for preparing the financial statements of the Group for the year ended December 31, 2014.

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

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

D. INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard the interests of Shareholders and the Group's assets and for reviewing the effectiveness of such system on an annual basis. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis and reports to the Audit Committee and the Board on any findings and measures to address the variances and identified risks.

During the year under review, the Board, with the assistance of the Audit Committee, has reviewed the effectiveness of the internal control system of the Company, 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.

E. COMPANY SECRETARY

Ms. SO Yee Kwan ("**Ms. SO**") of Tricor Services Limited, an external service provider, has acted as the Company Secretary since August 23, 2014 (replacing Mr. William FU of Tricor Services Limited). The primary contact person at the Company with Ms. SO and Tricor Services Limited is Mr. CHEN Yikun, the vice president of the Company. Ms. SO is responsible for providing advice to the Board on corporate governance matters. Ms. SO has confirmed that she has taken no less than 15 hours of relevant professional training during the year ended December 31, 2014.

F. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company, PricewaterhouseCoopers, about their reporting responsibilities on the Company's financial statements for the year ended December 31, 2014 is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to PricewaterhouseCoopers in respect of audit services and non-audit services for the year ended December 31, 2014 are analyzed below:

Type of services provided by the external auditor	**Fees paid/payable** (RMB'000)
Annual audit services	2,400
Audit fee paid in relation to acquisition of Tianxinfu Group	1,700
Non-audit services — tax service	90
TOTAL:	4,190

G. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

Address:	1002-1003, Block C, Focus Square No. 6 Futong East Avenue Wangjing, Chaoyang District Beijing, the PRC (Attention: the Board of Directors)
Email:	ir@pwmedtech.com
Fax number:	(86) 10 84783657

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

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

H. SHAREHOLDERS' RIGHTS

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

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

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

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

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

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 (i) Regenerative Medical Biomaterial Business, (ii) Infusion Set Business and (iii) Orthopedic Implant Business.

The activities and particulars of the Company's subsidiaries are shown under Note 11 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, 2014 are set out on pages 49 to 57 of this annual report.

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2014 (2013: Nil).

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2015 AGM, the register of members of the Company will be closed from May 28, 2015 to June 2, 2015, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2015 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 in Hong Kong, 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 27, 2015.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 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 93 to 94 of this annual report.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 19 to the consolidated financial statements on pages 109 to 110 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 Note 20 to the consolidated financial statements on pages 111 to 112 of this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2014, the Company's distributable reserves were RMB1,629.7 million.

BORROWINGS

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

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 during the year ended December 31, 2014. The Company has conducted certain Share repurchases in January and March 2015. Please refer to the circular sent together with this annual report for more details.

PRE-EMPTIVE RIGHTS

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

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's global offering amounted to HK$1,348.7 million. As of December 31, 2014, such net proceeds 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.

Use of proceeds	Net proceeds from the Company's Global Offering (in HK$ Millions) Available	Utilised
• To purchase manufacturing equipment and complete the construction of the Company's new manufacturing facilities for infusion sets in Beijing and Shandong	337.2	143.8
• To expand the production capacity of the Company's orthopedic implant facilities in Shenzhen and Tianjin	229.3	68.8
• To invest in R&D of new products	108.0	30.0
• To implement the Company's expansion plans, which include making acquisitions and forming strategic alliances	404.6	397.5
• To expand the Company's distribution network and sales and marketing team, including hiring dedicated specialist sales staff	134.8	80.0
• Additional working capital and other general corporate purposes	134.8	133.7
Total	**1,348.7**	**853.8**

DIRECTORS

The Directors during the year ended December 31, 2014 and up to the date of this report are as follows:

Executive Directors

Ms. Yue'e ZHANG *(Chairman)*
Mr. JIANG Liwei *(CEO)*

Non-executive Directors

Mr. LIN Junshan
Mr. FANG Min (appointed on March 20, 2015)
Mr. FENG Dai (resigned on March 20, 2015)

Independent Non-executive Directors

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

In accordance with Articles 108 and 112 of the Articles, Mr. FANG Min, Mr. CHEN Geng and Mr. WANG Xiaogang will retire as Directors at the 2015 AGM. The above retiring Directors, being eligible, will offer themselves for re-election at the 2015 AGM.

The Company's circular to be despatched to the Shareholders will contain detailed information of the retiring Directors standing for re-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 on pages 9 to 12 in the section headed "Profile of Directors and Senior Management" to this annual report.

DIRECTORS' SERVICE CONTRACTS

The Company has issued a letter of appointment to Ms. Yue'e ZHANG, an executive Director, for a term of 3 years from February 3, 2015 while the other executive Director, Mr. JIANG Liwei 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 also issued a letter of appointment to each of the non-executive Directors and independent non-executive Directors on October 14, 2013 (except Mr. FANG Min whose letter of appointment was issued on March 20, 2015) 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 within one year without payment of compensation, other than statutory compensation.

CONTRACT WITH DIRECTORS AND CONTROLLING SHAREHOLDERS

No contract of significance has been entered into among the Company or any of its subsidiaries and the controlling Shareholder or any of its subsidiaries during the year ended December 31, 2014.

No contract of significance to the business of the Group 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 ended December 31, 2014.

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 Directors in aggregate for the year ended December 31, 2014 was approximately RMB10.6 million.

The remuneration (including salaries and other benefits, retirement benefit scheme contribution and share-based compensation) paid to our Group's five highest paid individuals for the year ended December 31, 2014 (excluding the two Directors whose emoluments are set out in Note 28(a) to the consolidated financial statements on pages 120 to 121 of this annual report) was approximately RMB6.9 million in aggregate.

For the year ended December 31, 2014, no emoluments were paid by our Group to any Director 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.

Details of the Directors' emoluments and emoluments of the five highest paid individual excluding Directors in the Group are set out in Note 28 to the consolidated financial statements on pages 120 to 122 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 21 to the consolidated financial statements on pages 113 to 114 of this annual report.

Except as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2014, by our Group to or on behalf of any of the Directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DEED OF NON-COMPETITION

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

The Covenantors declared that they have complied with the Non-competition Deed for the year ended December 31, 2014. The independent non-executive Directors have conducted such review for the year ended December 31, 2014 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 were entered into or in existence as at the end of the year or at any time during the year ended December 31, 2014.

LOAN AND GUARANTEE

During the year ended December 31, 2014, 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 pursuant to the resolutions of the Shareholders passed on July 3, 2013 and has amended the same pursuant to the resolutions of the Shareholders passed on October 14, 2013.

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

On July 6, 2013, options (exercisable for 10 years subject to vesting schedule as set out in the grant letter) to subscribe for an aggregate of 70,891,722 Shares were conditionally granted by the Company under the Pre-IPO Share Option Scheme to a total of 31 grantees, including one executive Director, two non-executive Directors, two independent non-executive Directors, five members of the senior management (excluding Directors) of the Group, one director of a subsidiary of the Company and 20 other employees of the Group. Such options were granted based on the performance of the grantees that have made important contributions or are important to the long term growth and profitability of the Group. Apart from the above share options, no options were granted under the Pre-IPO Share Option Scheme. In addition, no further options can be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. The total number of Shares currently available for issue under the Pre-IPO Share Option Scheme is 49,347,126 Shares, representing approximately 2.95% of the issued share capital of the Company as at the date of this annual report.

Details of movement of the share options granted under the Pre-IPO Share Option Scheme for the year ended December 31, 2014 are set out below:

	Number of options						
Name or category of option holders	**Outstanding as at January 1, 2014**	**Granted during the year**	**Exercised during the year (Note)**	**Cancelled during the year**	**Lapsed during the year**	**Outstanding as at December 31, 2014**	**Exercise price**
Directors of the Company							
Mr. JIANG Liwei	6,369,427	–	1,592,357	–	–	4,777,070	RMB0.626 per Share
Mr. LIN Junshan	12,738,854	–	3,184,714	–	–	9,554,140	RMB0.626 per Share
Ms. Yue'e ZHANG	2,547,771	–	–	2,547,771	–	–	RMB0.626 per Share
Mr. CHEN Geng	1,273,885	–	318,472	–	–	955,413	RMB0.626 per Share
Mr. WANG Xiaogang	1,273,885	–	318,472	–	–	955,413	RMB0.626 per Share

Name or category of option holders	Number of options: Outstanding as at January 1, 2014	Granted during the year	Exercised during the year (Note)	Cancelled during the year	Lapsed during the year	Outstanding as at December 31, 2014	Exercise price
Senior management and other employees of the Group							
26 individuals	46,687,900	—	11,512,746	—	2,070,064	33,105,090	RMB0.626 per Share
Total	70,891,722	—	16,926,761	2,547,771	2,070,064	49,347,126	

Note: The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$3.69 per Share.

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 our Company that they will not exercise the options granted to them under the Pre-IPO Share Option Scheme if as a result of which our Company would not be able to comply with the public float requirements of the Listing Rules.

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

The Pre-IPO Share Option Scheme does not fall within the ambit of, and are not subject to, the regulations under Chapter 17 of the Listing Rules. Details of the impact of options granted under the Pre-IPO Share Option Scheme on the financial statements since the date of grant and the subsequent financial periods are set out under Note 21 to the consolidated financial statements.

Share Option Scheme

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

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 9.56% 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 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 during the year ended December 31, 2014.

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, 2014, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(A) Long position in ordinary Shares

Name of Director	Capacity	Number of ordinary Shares interested	Approximate percentage+ of the Company's issued share capital
Ms. Yue'e ZHANG	Beneficial owner	50,000	0.003%
Mr. JIANG Liwei	Beneficial owner	1,046,357	0.06%
Mr. LIN Junshan	Beneficial owner	145,714	0.01%
Mr. CHEN Geng	Beneficial owner	318,472	0.02%

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

Name of Director	Capacity	Number of underlying Shares in respect of the share options granted	Approximate percentage+ of the Company's issued share capital
Mr. JIANG Liwei	Beneficial owner	4,777,070	0.28%
Mr. LIN Junshan	Beneficial owner	9,554,140	0.57%
Mr. CHEN Geng	Beneficial owner	955,413	0.06%
Mr. WANG Xiaogang	Beneficial owner	955,413	0.06%

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

\+ The percentage represents the number of ordinary Shares/underlying Shares interested divided by the number of the issued Shares as at December 31, 2014.

Save as disclosed above and in the section headed "Pre-IPO Share Option Scheme and Share Option Scheme" and to the best knowledge of the Directors, as at December 31, 2014, none of the Directors or the chief executive of the Company has any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at December 31, 2014, the following corporations/persons had interests of 5% or more in the issued Shares according to the register of interests required to be kept by the Company under section 336 of the SFO:

Long position in ordinary Shares

Name	Note	Capacity	Number of ordinary Shares interested	Approximate percentage+ of the Company's issued share capital
Cross Mark Limited		Beneficial owner	547,061,863	32.62%
Ms. Yufeng LIU	1	Interest of a controlled corporation	547,061,863	32.62%
Mr. ZHANG Zaixian	2	Interest of spouse	547,061,863	32.62%
WP X Asia Medical Devices Holdings Limited		Beneficial owner	327,148,418	19.51%
Warburg Pincus Private Equity X, L.P.	3	Interest of a controlled corporation	327,148,418	19.51%
Warburg Pincus X, L.P.	3	Interest of controlled corporations	327,148,418	19.51%
Warburg Pincus X, LLC	3	Interest of controlled corporations	327,148,418	19.51%
Warburg Pincus Partners LLC	3	Interest of controlled corporations	327,148,418	19.51%
Warburg Pincus & Co.	3	Interest of controlled corporations	327,148,418	19.51%
FMR LLC	4	Investment manager	133,330,000	7.95%

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) Pyramis Global Advisors, LLC., Fidelity Management & Research Company Inc., Fidelity Management & Research (H.K.) Inc. and Pyramis Global Advisors Trust Company are interested in 1,700,000 Shares, 108,670,000 Shares, 20,978,000 Shares and 1,982,000 Shares respectively. The above four entities are controlled by FMR LLC. Under the SFO, FMR LLC is deemed to be interested in the same number of Shares in which the four entities are interested.

\+ The percentage represents the number of ordinary Shares interested divided by the number of the issued Shares as at December 31, 2014.

Save as disclosed above and to the best knowledge of the Directors, as at December 31, 2014, no person had registered an interest or a short position in the Shares or underlying Shares as recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the Group's total revenue.

In the year under review, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total cost of sales.

None of the Directors or any of their close 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 beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

EMPLOYEES

The Group had approximately 1,670 employees as at December 31, 2014, as compared to 1,931 employees as at December 31, 2013. 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 is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence.

RETIREMENT BENEFITS SCHEME

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

CONTINUING CONNECTED TRANSACTION

During the year ended December 31, 2014, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules.

Save as disclosed under the section headed "Related Party Transactions" stated in Note 33 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, 2014.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended December 31, 2014 are set out in Note 33 to the consolidated financial statements contained herein.

None of the related party transactions constitutes connected transaction or continuing connected transaction which is subject to the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Board and management of the Company are committed to maintaining high standards of corporate governance. The Board believes that conducting the Group's business in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of Shareholders. The Company has adopted the code provisions set out in the CG Code as its own code to govern its corporate governance practices. The Board will continue to review and monitor the practices of the Company with an aim to maintaining a high standard of corporate governance.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 23 to 34 of this annual report.

AUDITOR

PricewaterhouseCoopers has been the auditor of the Company since the Listing Date and will retire at the 2015 AGM. A resolution will be proposed at the 2015 AGM to re-appoint PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board
Yue'e ZHANG
Chairman

Hong Kong, March 20, 2015

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 134, which comprise the consolidated and company balance sheets as at December 31, 2014, 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, 2014, 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 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
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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, 2014, and of the Group's profit and cash flows for the year ended December 31, 2014 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 20, 2015

CONSOLIDATED Balance Sheet

	Notes	As at December 31, 2014 RMB'000	2013 RMB'000
Assets			
Non-current assets			
Land use rights	6	**64,662**	51,759
Property, plant and equipment	7	**389,580**	201,121
Intangible assets	8	**994,894**	305,263
Deferred income tax assets	24	**14,777**	8,385
Long-term prepayments	14	**32,536**	43,672
		1,496,449	610,200
Current assets			
Inventories	15	**101,121**	95,052
Trade and other receivables	16	**371,151**	241,268
Restricted cash	17	**260,000**	37,000
Cash and cash equivalents	18	**153,816**	1,145,641
		886,088	1,518,961
Total assets		**2,382,537**	2,129,161
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	19	**1,036**	1,026
Share premium	19	**1,674,404**	1,647,840
Other reserves	20	**95,666**	87,407
Retained earnings		**339,053**	162,423
		2,110,159	1,898,696
Non-controlling interests		**1,167**	—
Total equity		**2,111,326**	1,898,696

	Notes	As at December 31, 2014 RMB'000	2013 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	24	**65,316**	16,079
Deferred income	25	**7,282**	2,241
		72,598	18,320
Current liabilities			
Amounts due to related parties	33	**—**	66
Trade and other payables	22	**114,318**	114,513
Current income tax liabilities		**9,295**	4,566
Borrowings	23	**75,000**	93,000
		198,613	212,145
Total liabilities		**271,211**	230,465
Total equity and liabilities		**2,382,537**	2,129,161
Net current assets		**687,475**	1,306,816
Total assets less current liabilities		**2,183,924**	1,917,016

The notes on pages 58 to 134 are an integral part of these consolidated financial statements.

The financial statements on pages 49 to 57 were approved by the Board of Directors on March 20, 2015 and were signed on its behalf.

JIANG Liwei
Director

BALANCE Sheet

	Notes	As at December 31, 2014 RMB'000	2013 RMB'000
Assets			
Non-current assets			
Investments in and loans to subsidiaries	11	**572,394**	558,532
Current assets			
Amounts due from subsidiaries	33	**1,071,634**	67,977
Trade and other receivables	16	**48**	2,882
Restricted cash	17	**—**	37,000
Cash and cash equivalents	18	**24,179**	985,517
		1,095,861	1,093,376
Total assets		**1,668,255**	1,651,908
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	19	**1,036**	1,026
Share premium	19	**1,674,404**	1,647,840
Other reserves	20	**28,012**	19,856
Accumulated losses		**(44,739)**	(27,997)
Total equity		**1,658,713**	1,640,725
Liabilities			
Current liabilities			
Amounts due to subsidiaries	33	**8,713**	8,417
Trade and other payables		**829**	2,766
		9,542	11,183

	Notes	As at December 31, 2014 RMB'000	2013 RMB'000
Total liabilities		**9,542**	11,183
Total equity and liabilities		**1,668,255**	1,651,908
Net current assets		**1,086,319**	1,082,193
Total assets less current liabilities		**1,658,713**	1,640,725

The notes on pages 58 to 134 are an integral part of these consolidated financial statements.

The financial statements on pages 49 to 57 were approved by the Board of Directors on March 20, 2015 and were signed on its behalf.

JIANG Liwei
Director

CONSOLIDATED Income Statement

	Notes	Year ended December 31, 2014 RMB'000	2013 RMB'000
Revenue	5	**608,059**	457,083
Cost of sales	27	**(165,170)**	(146,656)
Gross profit		**442,889**	310,427
Selling expenses	27	**(94,224)**	(61,942)
Administrative expenses	27	**(108,037)**	(112,477)
Research and development expenses	27	**(35,181)**	(23,210)
Other gains — net	26	**8,310**	5,579
Operating profit		**213,757**	118,377
Finance income	29	**22,228**	6,774
Finance costs	29	**(24,663)**	(11,288)
Finance costs — net	29	**(2,435)**	(4,514)
Profit before income tax		**211,322**	113,863
Income tax expense	30	**(34,692)**	(22,860)
Profit for the year		**176,630**	91,003
Profit attributable to:			
Owners of the Company		**176,630**	77,905
Non-controlling interests		**—**	13,098
		176,630	91,003
Earnings per share attributable to the owners of the Company for the year (expressed in RMB cents per share)			
— Basic	35	**10.57**	6.24
— Diluted	35	**10.30**	6.11
Dividends	36	**—**	—

The notes on pages 58 to 134 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF
Comprehensive Income

	Notes	Year ended December 31, 2014 RMB'000	2013 RMB'000
Profit for the year		**176,630**	91,003
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Change in value of available-for-sale financial assets		**774**	—
Disposal of available-for-sale financial assets		**(774)**	—
Currency translation differences		**103**	2,865
Other comprehensive income for the year, net of tax		**103**	2,865
Total comprehensive income for the year		**176,733**	93,868
Attributable to:			
— Owners of the Company		**176,733**	80,770
— Non-controlling interests		**—**	13,098
		176,733	93,868

The notes on pages 58 to 134 are an integral part of these consolidated financial statements.

	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							
Currency translation differences	—	—	2,865	—	2,865	—	2,865
Total other comprehensive income, net of tax	—	—	2,865	—	2,865	—	2,865
Total comprehensive income	—	—	2,865	77,905	80,770	13,098	93,868
Changes in ownership interests in subsidiaries without change of control — transaction with non-controlling interest	—	—	(48,656)	—	(48,656)	(129,784)	(178,440)
Changes in ownership interests in subsidiaries without change of control — completion of re-organisation	—	—	82,254	—	82,254	(82,254)	—
Disposal of subsidiaries	—	—	—	—	—	(14,014)	(14,014)
Issuance of ordinary shares before initial public offering("IPO") (Note 19(b))	58	555,987	(233,930)	—	322,115	—	322,115
Capitalisation of share premium (Note 19(c))	685	(685)	—	—	—	—	—
Issuance of new ordinary shares upon IPO (Note 19(d))	282	1,149,171	—	—	1,149,453	—	1,149,453
Share issuance cost (Note 19(e))	—	(56,633)	—	—	(56,633)	—	(56,633)
Share option reserve (Note 21)	—	—	19,856	—	19,856	—	19,856
Total contributions by and distributions to owners of the Company, recognised directly in equity	1,025	1,647,840	(180,476)	—	1,468,389	(226,052)	1,242,337
Non-controlling interests arising on business combination (Note 34(b))	—	—	—	—	—	37,790	37,790
Total transactions with owners, recognised directly in equity	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

CONSOLIDATED STATEMENT OF

Changes in Equity (continued)

	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, 2014	1,026	1,647,840	87,407	162,423	1,898,696	—	1,898,696
Comprehensive income							
Profit for the year	—	—	—	176,630	176,630	—	176,630
Other comprehensive income							
Currency translation differences	—	—	103	—	103	—	103
Change in value of available-for-sale financial assets	—	—	774	—	774	—	774
Disposal of available-for-sale financial assets	—	—	(774)	—	(774)	—	(774)
Total other comprehensive income, net of tax	—	—	103	—	103	—	103
Total comprehensive income	—	—	103	176,630	176,733	—	176,733
Proceeds from employee share option exercised (Note 19(f))	10	10,582	—	—	10,592	—	10,592
Transfer to share premium upon exercise of share option (Note 19(g))	—	15,982	(15,982)	—	—	—	—
Share option reserve (Note 21)	—	—	24,138	—	24,138	—	24,138
Total contributions by and distributions to owners of the Company, recognised directly in equity	10	26,564	8,156	—	34,730	—	34,730
Non-controlling interests arising on business combination	—	—	—	—	—	1,167	1,167
Total transactions with owners, recognised directly in equity	10	26,564	8,156	—	34,730	1,167	35,897
Balance at December 31, 2014	1,036	1,674,404	95,666	339,053	2,110,159	1,167	2,111,326

	Notes	Year ended December 31, 2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	**138,084**	87,262
Interest paid		**(15,744)**	(5,184)
Income tax paid		**(36,240)**	(29,271)
Net cash generated from operating activities		**86,100**	52,807
Cash flows from investing activities			
Acquisition of subsidiaries — net of cash acquired	31(c)	**(798,599)**	6,249
Disposal of subsidiaries	31(d)	**3,000**	(228)
Purchases of property, plant and equipment		**(37,209)**	(28,559)
Purchases of construction in progress	7	**(142,109)**	(69,519)
Purchases of land use rights		**(4,568)**	(4,075)
Purchases of intangible assets	8	**(1,161)**	(77)
Proceeds from disposal of available-for-sale financial assets	10	**127,311**	—
Loans provided to related parties		**—**	(1,000)
Loan repayments received from related parties		**—**	1,000
Interest income on investment in structured products		**—**	31
Disposal of investment in structured products		**—**	3,000
Proceeds from disposal of property, plant and equipment	31(b)	**827**	2,530
Net increase in restricted cash	17	**(223,000)**	(34,343)
Government grants relating to assets received		**5,400**	2,000
Net cash used in investing activities		**(1,070,108)**	(122,991)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares before IPO		**—**	322,115
Proceeds from issuance of new ordinary shares upon IPO		**—**	1,149,453
Proceeds from employee share options exercised	19(f)	**10,592**	—
Share issuance cost		**—**	(56,633)
Cash paid for acquiring additional interests in subsidiaries without change of control		**—**	(358,440)
Proceeds from borrowings		**240,000**	192,000
Repayment of borrowings		**(258,000)**	(142,900)
Repayment of loan provided by a related party		**—**	(100,000)
Net cash (used)/generated from financing activities		**(7,408)**	1,005,595
Net (decrease)/increase in cash and cash equivalents		**(991,416)**	935,411
Cash and cash equivalents at beginning of the year		**1,145,641**	212,466
Exchange losses on cash and cash equivalents		**(409)**	(2,236)
Cash and cash equivalents at end of the year		**153,816**	1,145,641

The notes on pages 58 to 134 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

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 (together, the "Group") are principally engaged in the development, manufacturing and sale of (i) advanced infusion set products (the "Infusion Set Business") and (ii) orthopedic implant products (the "Orthopedic Implant Business") in the People's Republic of China (the "PRC"). During the year, the Group acquired control of Beijing Tianxinfu Medical Appliance Co., Ltd. and its subsidiary (together, "Tianxinfu Group"), which is principally engaged in the development, manufacturing and sale of regenerative medical biomaterial products (the "Regenerative Medical Biomaterial Business") in the PRC.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 and available-for-sale financial assets, which are carried at fair value.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of the consolidated 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.

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 on January 1, 2014 and are relevant to the Group

- Amendment to HKAS 32 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. This amendment did not have a significant effect on the Group's consolidated financial statements.

- Amendment to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash-generating units ("CGUs") which had been included in HKAS 36 by the issue of HKFRS 13. This amendment did not have a significant effect on the Group's consolidated financial statements.

- Amendment to HKAS 39 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under HKAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. This amendment did not have a significant effect on the Group's consolidated financial statements.

- HKFRIC 21 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised. This amendment did not have a significant effect on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(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 on January 1, 2014 and have not been early adopted

- Annual improvements 2012, which include changes from the 2010-2012 cycle of the annual improvements project, that affect the following standards: HKFRS 8, 'Operating segments'. HKAS 16 'Property, plant and equipment' and HKAS 38, 'Intangible assets'. HKAS 24, 'Related party disclosures'. These amendments will be effective for annual periods beginning on or after July 1, 2014 and the Group is yet to assess the impact of these amendments on the Group's consolidated financial statements.

- 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' and HKAS 40, 'Investment property'. These amendments will be effective for annual periods beginning on or after July 1, 2014 and the Group is yet to assess the impact of these amendments on the Group's consolidated financial statements.

- Amendment to HKFRS 11 on accounting for acquisitions of interests in joint operations. The amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' (as defined in HKFRS 3, Business combinations. Specifically, an investor will need to: measure identifiable assets and liabilities at fair value; expense acquisition-related costs; recognise deferred tax; and recognise the residual as goodwill. All other principles of business combination accounting apply unless they conflict with HKFRS 11. The amendment is applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained. This amendment will be effective for annual periods beginning on or after January 1, 2016 and the Group is yet to assess the impact of this amendment on the Group's consolidated financial statements.

- Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortization. The amendments clarify when a method of depreciation or amortization based on revenue may be appropriate. The amendment to HKAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendment to HKAS 38 establishes a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances: where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. These amendments will be effective for annual periods beginning on or after January 1, 2016 and the Group is yet to assess the impact of this amendment on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(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 on January 1, 2014 and have not been early adopted (Continued)

- Amendments to HKFRS 10 and HKAS 28 on the sale or contribution of assets between an investor and its associate or joint venture. The amendments address an inconsistency between HKFRS 10 and HKAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. These amendments will be effective for annual periods beginning on or after January 1, 2016 and the Group is yet to assess the impact of this amendment on the Group's consolidated financial statements.

- Amendment to HKAS 27 on the equity method in separate financial statements. The amendment allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. This amendment will be effective for annual periods beginning on or after January 1, 2016 and the Group is yet to assess the impact of this amendment on the Group's consolidated financial statements.

- Annual improvements 2014, which include changes from the 2012-2014 cycle of the annual improvements project that affect the following standards: HKFRS 5, 'Non-current assets held for sale and discontinued operations', HKFRS 7, 'Financial instruments: Disclosures', HKAS 19, 'Employee benefits' and HKAS 34, 'Interim financial reporting'. These amendments will be effective for annual periods beginning on or after July 1, 2016 and the Group is yet to assess the impact of these amendments on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(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 on January 1, 2014 and have not been early adopted (Continued)

- HKFRS 15 'Revenue from contracts with customers'. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control. HKFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction contracts, and the related interpretations on revenue recognition: HKFRIC 13 Customer loyalty programmes, HKFRIC 15 Agreements for the construction of real estate, HKFRIC 18 Transfers of assets from customers and SIC-31 Revenue — barter transactions involving advertising services. This amendment will be effective for annual periods beginning on or after January 1, 2017 and the Group is yet to assess the impact of this amendment on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(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 on January 1, 2014 and have not been early adopted (Continued)

- HKFRS 9 'Financial instruments'. HKFRS 9 (2014), 'Financial instruments' replaces the whole of HKAS 39. HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortized cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss. HKFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses ("ECL") model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortized cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of HKAS 39. This amendment will be effective for annual periods beginning on or after January 1, 2018 and the Group is yet to assess the impact of this amendment on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(c) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after March 3, 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combination (Continued)

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(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.

2.3 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation

(a) **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.

(b) **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 costs — net". All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains — 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.

(c) **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 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 — 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 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) Trademarks 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

Intangible assets that have an indefinite useful life 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 13).

(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" and "cash and cash equivalents" in the consolidated balance sheet (Note 16, 17 and 18).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

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 at fair value, and transaction costs are expensed in profit or loss. 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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within "Other gains — net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as "other gains — net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets

(a) 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.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(b) Asset classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — is removed from equity and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — is removed from equity and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of cash flows, cash and cash equivalents includes cash in hand, 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 pledged to the bank for issuance of bankers' guarantee. Such restricted cash will be released when the Group settle the related borrowings.

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.

2.16 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(b) 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 realized 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 utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, 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. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax (Continued)

(c) 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 tax assets and liabilities relate to income tax 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.

2.20 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.23 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Revenue recognition (Continued)

(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.

2.26 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity 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 of the Company (the "Board"). 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, 2014, if USD had strengthened/weakened by 3% against RMB (2013: 3%) 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,	
	2014	2013
	RMB'000	RMB'000
Year ended:		
Increase/(decrease)		
— Strengthened 3% (2013: 3%)	**418**	3,416
— Weakened 3% (2013: 3%)	**(418)**	(3,416)

(ii) Cash flow and fair value interest rate risk

Other than bank balances with variable interest rates, the Group has no other significant interest-bearing assets. Management does not anticipate any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

The Group's interest rate risk arises 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, 2013, and 2014, the Group's interest-bearing debt are as follows:

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Debt at floating rate	**75,000**	93,000

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

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

As at December 31, 2013 and 2014, 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,	
	2014	2013
	RMB'000	RMB'000
Year ended:		
(Decrease)/increase		
— Strengthened 50 basis points	**(35)**	(16)
— Weakened 50 basis points	**35**	16

(iii) 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.

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and available-for-sale financial assets 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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.

Available-for-sale financial assets are short-term investments placed with state-owned financial institution in the PRC. There was no recent history of default and the executive directors of the Board of the Group are of the opinion that the credit risk related to the investment is low.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient committed facilities to fund their operations.

The following table details the remaining contractual maturities at the year end of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the year end) and the earliest date the Group may be required to pay.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Group

	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
At December 31, 2014			
Financial liabilities as included in trade and other payables	**60,882**	**—**	**60,882**
Borrowings, including interests	**76,650**	**—**	**76,650**
	137,532	**—**	**137,532**
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

Company

	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
At December 31, 2014			
Amount due to subsidiaries	**8,713**	**—**	**8,713**
Financial liabilities as included in trade and other payables	**829**	**—**	**829**
	9,542	**—**	**9,542**
At December 31, 2013			
Amount due to subsidiaries	8,417	—	8,417
Financial liabilities as included in trade and other payables	2,766	—	2,766
	11,183	—	11,183

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,	
	2014	2013
Total borrowings (RMB'000)	**75,000**	93,066
Total equity (RMB'000)	**2,111,326**	1,898,696
Total capital (RMB'000)	**2,186,326**	1,991,762
Gearing ratio (%)	**3.43**	4.67

3.3 Fair value estimation

(a) **The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:**

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- 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) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended December 31, 2014.

	Available-for-sale financial assets RMB'000
At beginning of the year	—
Acquisition of a subsidiary (Note 34(a))	126,537
Change in value of available-for-sale financial assets	774
Disposal	(127,311)
At end of the year	—

The following table presents the changes in level 3 instruments for the year ended December 31, 2013.

	Investment in structured products RMB'000
At beginning of the year	3,000
Addition	—
Disposal	(3,000)
At end of the year	—

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 CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

According to the valuations results produced by the management of the Company based on the assumptions as disclosed in Note 8, 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, Orthopedic Implant Business or Regenerative Medical Biomaterial Business respectively, had the gross margin been 1% 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) 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 7.7% (2013: 13.7%) of annual orthopaedic sales. Therefore, the Group has recognised revenue with a corresponding provision against revenue for estimated returns with 7.7% (2013: 13.7%) of annual orthopaedic sales for the year. If the estimate had been changed by is 1% higher/lower, revenue for the year ended December 31, 2014 would have been reduced/increased by RMB2,069,000 (2013: RMB1,888,000).

(g) Recognition of share based payment expenses

The fair value of share options granted are measured on the respective grant dates based on the fair value of the underlying shares. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group or, where applicable, if the performance conditions for vesting will be met at the end of the vesting period. The Group only recognizes an expense for those share options expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such share options expected to become vested, which may in turn significantly impact the determination of the share based payment expenses.

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;

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

— Regenerative Medical Biomaterial Business — manufacturing and sale of biomaterial duramax, duragide and artificial nerve.

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, 2014	Infusion Set Business RMB'000	Orthopedic Implant Business RMB'000	Regenerative Medical Biomaterial Business RMB'000	Total RMB'000
Revenue from external customers	362,788	165,760	79,511	608,059
Cost of sales	(113,342)	(40,002)	(11,826)	(165,170)
Gross profit	249,446	125,758	67,685	442,889
Selling expenses	(44,133)	(37,384)	(12,707)	(94,224)
Administrative expenses	(68,197)	(34,191)	(5,649)	(108,037)
Research and development expenses	(14,902)	(16,897)	(3,382)	(35,181)
Other gains — net	5,068	754	2,488	8,310
Segment profit	127,282	38,040	48,435	213,757
Finance income				22,228
Finance costs				(24,663)
Finance costs — net				(2,435)
Profit before tax				211,323
Segment assets	1,111,484	520,927	735,349	2,367,760
Deferred income tax assets				14,777
Total assets				2,382,537
Segment liabilities	146,396	27,475	32,024	205,895
Deferred income tax liabilities				65,316
Total liabilities				271,211
Other segment information				
Amortisation of land use rights(Note 6)	951	65	136	1,152
Depreciation of property, plant and equipment (Note 7)	12,176	10,668	1,199	24,043
Amortisation of intangible assets (Note 8)	4,084	958	9,150	14,192

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 profit	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			
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)

(a) Concentration of customers

Revenues of approximately RMB54,723,000 (2013: RMB53,485,000) 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,	
	2014	2013
	RMB'000	RMB'000
In the PRC, held on:		
Leases of between 47 to 50 years	**64,662**	51,759

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
Opening net book amount	**51,759**	31,161
Acquisition of subsidiaries (Note 34(a) and (c))	**13,586**	9,410
Additions	**469**	12,075
Amortisation charge (Note 27)	**(1,152)**	(887)
Closing net book amount:	**64,662**	51,759
Cost	**67,749**	53,395
Accumulated amortisation	**(3,087)**	(1,636)
	64,662	51,759

As at December 31, 2014, the Group is still in the process of applying the ownership certificates of certain land with the aggregated carrying amounts amounted to RMB10,916,000 (2013: RMB14,977,000).

6 LAND USE RIGHTS (Continued)

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

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
Cost of sales	**353**	587
Administrative expenses	**799**	300
	1,152	887

As at December 31, 2014, no land use rights were pledged for the Group's borrowings (2013: RMB27,928,000) (Note 23).

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, 2013							
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 a subsidiary (Note 34(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 27)	(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
Year ended December 31, 2014							
Opening net book amount	**69,370**	**11,747**	**5,594**	**66,306**	**4,418**	**43,686**	**201,121**
Additions	**16,125**	**3,006**	**1,920**	**25,083**	**2,188**	**142,109**	**190,431**
Acquisition of subsidiaries (Note 34(a))	**16,214**	**—**	**121**	**8,298**	**48**	**—**	**24,681**
Transfer	**24,186**	**1,105**	**—**	**26,713**	**—**	**(52,004)**	**—**
Disposals	**—**	**—**	**(14)**	**(2,486)**	**(110)**	**—**	**(2,610)**
Depreciation (Note 27)	**(5,801)**	**(2,202)**	**(1,518)**	**(13,189)**	**(1,333)**	**—**	**(24,043)**
Closing net book amount	**120,094**	**13,656**	**6,103**	**110,725**	**5,211**	**133,791**	**389,580**
At December 31, 2014							
Cost	**141,011**	**18,161**	**16,845**	**148,121**	**9,898**	**133,791**	**467,827**
Accumulated depreciation	**(20,917)**	**(4,505)**	**(10,742)**	**(37,396)**	**(4,687)**	**—**	**(78,247)**
Net book amount	**120,094**	**13,656**	**6,103**	**110,725**	**5,211**	**133,791**	**389,580**

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

As at December 31, 2014, the Group is still in the process of applying the building ownership certificates of certain buildings with the aggregated carrying amounts amounted to RMB14,927,000 (2013: RMB53,217,086).

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

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
Cost of sales	**15,033**	10,521
Administrative expenses	**7,074**	3,991
Selling and marketing expenses	**791**	511
Research and development expenses	**1,145**	487
	24,043	15,510

As at December 31, 2014, no buildings were pledged for the Group's borrowings (2013: RMB5,844,000) (Note 23).

8 INTANGIBLE ASSETS

	Goodwill RMB'000	Computer software RMB'000	Trademarks RMB'000	Technology know-how RMB'000	Customer relationship RMB'000	Total RMB'000
At January 1, 2013						
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 a subsidiary (Note 34(b) and (c))	101,709	—	—	13,903	—	115,612
Additions	—	77	—	—	—	77
Disposal of subsidiaries	(12,831)	—	—	—	—	(12,831)
Amortisation charge (Note 27)	—	(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
Year ended December 31, 2014						
Opening net book amount	**249,727**	**73**	**9,665**	**43,014**	**2,784**	**305,263**
Acquisition of subsidiaries (Note 34(a))	**373,229**	**—**	**22,956**	**306,477**	**—**	**702,662**
Additions	**—**	**1,161**	**—**	**—**	**—**	**1,161**
Amortisation charge (Note 27)	**—**	**(66)**	**(1,422)**	**(11,869)**	**(835)**	**(14,192)**
Closing net book amount	**622,956**	**1,168**	**31,199**	**337,622**	**1,949**	**994,894**
At December 31, 2014						
Cost	**622,956**	**1,359**	**34,711**	**356,820**	**5,012**	**1,020,858**
Accumulated amortisation	**—**	**(191)**	**(3,512)**	**(19,198)**	**(3,063)**	**(25,964)**
Net book amount	**622,956**	**1,168**	**31,199**	**337,622**	**1,949**	**994,894**

8 INTANGIBLE ASSETS (Continued)

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

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Cost of sales	**10,944**	3,281
Administrative expenses	**991**	26
Selling expenses	**2,257**	1,619
	14,192	4,926

Impairment tests for goodwill

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

	Infusion Set Business RMB'000	Orthopedic Implant Business RMB'000	Regenerative Medical Biomaterial Business RMB'000	Total RMB'000
As at December 31, 2013	160,754	88,973	—	249,727
As at December 31, 2014	**160,754**	**88,973**	**373,229**	**622,956**

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.

The key assumptions used for value-in-use calculations as at December 31, 2014 and 2013 are as follows:

	Infusion Set Business		Orthopedic Implant Business		Regenerative Medical Biomaterial Business	
	As at December 31, 2014	2013	As at December 31, 2014	2013	As at December 31, 2014	2013
Gross margin	**64.0%**	60.0%	**75.0%**	70.0%	**90%**	Not applicable
Growth rate	**2.5%**	2.5%	**2.5%**	2.5%	**4%**	Not applicable
Discount rate	**17.6%**	17.6%	**17.6%**	17.6%	**16%**	Not applicable

8 INTANGIBLE ASSETS (Continued)

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 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables RMB'000
Assets as per balance sheet	
Group	
At December 31, 2014	
Trade and other receivables(excluding prepayments)	**362,865**
Restricted cash	**260,000**
Cash and cash equivalents	**153,816**
At December 31, 2013	
Trade and other receivables(excluding prepayments)	233,983
Restricted cash	37,000
Cash and cash equivalents	1,145,641
Company	
At December 31, 2014	
Amounts due from subsidiaries	**1,071,634**
Trade and other receivables(excluding prepayments)	**48**
Cash and cash equivalents	**24,179**
At December 31, 2013	
Amounts due from subsidiaries	67,977
Trade and other receivables(excluding prepayments)	2,882
Restricted cash	37,000
Cash and cash equivalents	985,517

9 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Liabilities at amortised cost RMB'000
Liabilities per balance sheet	
Group	
At December 31, 2014	
Trade and other payables (excluding advance from customers, salary and staff welfare payables and value added tax and other taxes)	**60,883**
Borrowings	**75,000**
At December 31, 2013	
Amounts due to related parties	66
Trade and other payables (excluding advance from customers, salary and staff welfare payables and value added tax and other taxes)	74,375
Borrowings	93,000
Company	
At December 31, 2014	
Amounts due to subsidiaries	**8,713**
Trade and other payables	**829**
At December 31, 2013	
Amounts due to subsidiaries	8,417
Trade and other payables	2,766

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
At beginning of the year	**—**	—
Acquisition of a subsidiary (Note 34(a))	**126,537**	—
Change in value of available-for-sale financial assets	**774**	—
Disposal	**(127,311)**	—
At end of the year	**—**	—

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

The investments represent short-term investments placed in certain PRC state-owned banking institution with maturity within 1 year and non-determinable return rate. These investments are all denominated in RMB. The fair values of these investments are based on average estimated return rate of 2.60% for the year ended December 31, 2014.

11 INVESTMENTS IN AND LOANS TO SUBSIDIARIES

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
Investments in subsidiaries:		
— Investment in subsidiaries	**549,631**	549,631
— Deemed investment arising from share-based payment (Note 21)	**22,763**	8,901
	572,394	558,532

11 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, 2014	2013	Principal activities and place of operation
Directly owned:						
PWM Investment Holdings Company Limited	Hong Kong/ Limited liability company	October 30, 2009	211,447,750 ordinary shares of Hong Kong dollar ("HKD") 1 each	100%	100%	Investment holding in Hong Kong
Health Access Limited	Hong Kong/ Limited liability company	June 29, 2011	480,026,001 ordinary shares of HKD1 each	100%	100%	Investment holding in Hong Kong
Indirectly owned:						
Health Forward Holdings Limited ("Health Forward")	Hong Kong/ Limited liability company	January 21, 2010	10,000 ordinary shares of HKD1 each	100%	100%	Investment holding in Hong Kong
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	RMB104,300,000	100%	100%	Investment holding in PRC
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 in PRC
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	RMB126,000,000	100%	100%	Infusion Set Business in PRC
Tianjin Walkman Biomaterial Co., Ltd. (天津市威曼生物材料有限公司 "Walkman Biomaterial")	PRC/ Limited liability company	November 8, 2001	RMB1,000,000,000	100%	100%	Orthopedic Implant Business in PRC
Tianjin Shengge Biology Engineering Co., Ltd. (天津市聖格生物工程有限公司)	PRC/ Limited liability company	March 21, 2006	RMB10,000,000	100%	100%	Orthopedic Implant Business in PRC
Anyang Weli Medical Instrument Manufacturing Co., Ltd. (安陽市偉力醫療器械製造有限責任公司)	PRC/ Limited liability company	August 12, 1996	RMB3,000,000	100%	100%	Orthopedic Implant Business in PRC

11 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, 2014	2013	Principal activities and place of operation
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%	100%	Infusion Set Business in PRC
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%	100%	Infusion Set Business in PRC
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%	100%	Orthopedic Implant Business in PRC
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%	100%	Investment holding in PRC
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%	100%	Investment holding in PRC
Jiangsu PW Medtech Co., Ltd (江蘇普華和順有限公司)	PRC/ Limited liability company	April 10, 2014	RMB10,000,000	100%	—	Investment holding in PRC
Beijing Weikangtongda Medical Device Co., Ltd. (北京維康通達醫療器械技術有限公司)	PRC/ Limited liability company	July 31, 2014	RMB50,000,000	100%	—	Infusion Set Business in PRC
Beijing Tianxinfu Medical Appliance Co., Ltd. (北京天新福醫療器材有限公司 "Beijing Tianxinfu")	PRC/ Limited liability company	January 18, 2002	RMB25,000,000	100%	—	Regenerative Medical Biomaterial Business in PRC
Beijing Lima Tianxifu Medical Devices Co., Ltd. (北京麗瑪天新福醫療器械有限公司)	PRC/ Limited liability company	January 18, 2002	EURO3,200,000/ EURO1,518,500	75%*	—	Orthopedic Implant Business in PRC

* The directors of the Company consider that the non-controlling interests of the subsidiary were insignificant to the Group and thus the individual financial information of the subsidiary is not disclosed.

11 INVESTMENTS IN AND LOANS TO SUBSIDIARIES (Continued)

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.

(a) Information about principal subsidiaries

Set out below are the Group's principal subsidiaries at December 31, 2014 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 As at December 31,	
	2014	2013
Walkman Biomaterial	**100.00%**	100.00%
Shenzhen Bone	**100.00%**	100.00%
Fert Technology	**100.00%**	100.00%
Beijing Tianxinfu	**100.00%**	—

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

12 INVESTMENT IN AN ASSOCIATE

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
Investment in an associate (i)	**4,366**	—
Impairment provision (ii)	**(4,366)**	—
	—	—

(i) Beijing XinFu Mindacam Intelligent Engineering Co., Ltd. ("Xinfu Mindacam") was incorporated in the PRC on 23 May 2007 with limited liability under the Company Law of the PRC. The registered capital of the associate was USD 1,500,000, out of which 40% equity interests was contributed by Beijing Tianxinfu, at a consideration of USD 600,000 (equivalent to approximately RMB 4,366,000).

(ii) Xinfu Mindacam was inactive during the year. The Board considered that the carrying amount of the investment was not recoverable and full impairment was made against the investment.

The Board considered that there was no material associate which warrants disclosure of separate Financial Information.

13 INVESTMENT IN STRUCTURED PRODUCTS

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
At beginning of the year	**—**	3,000
Disposal	**—**	(3,000)
At end of the year	**—**	—

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 for the year ended December 31, 2013.

14 LONG-TERM PREPAYMENTS

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Prepayments for property, plant and equipment	**32,315**	43,428
Others	**221**	244
	32,536	43,672

15 INVENTORIES

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Raw materials	**33,886**	29,397
Work in progress	**19,805**	20,276
Finished goods	**47,430**	45,379
Cost of inventories	**101,121**	95,052

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB78,247,000 and RMB69,024,000 for the years ended December 31, 2013 and 2014 respectively.

15 INVENTORIES (Continued)

As at December 31, 2014 and 2013, the ageing analysis of the inventories are as follows:

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Within 12 months	**76,211**	84,189
1 year to 2 years	**19,780**	5,250
Over 2 years	**5,130**	5,613
	101,121	95,052

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

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
As at January 1	**7,570**	7,528
Provision for impairment of inventories (Note 27)	**546**	42
As at December 31	**8,116**	7,570

16 TRADE AND OTHER RECEIVABLES

Group

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Trade receivables	**339,498**	212,489
Less: provision for impairment	**(6,871)**	(7,849)
Trade receivables — net (a)	**332,627**	204,640
Bills receivable (b)	**992**	—
Prepayments	**8,286**	7,285
Receivables from disposal of subsidiaries	**12,520**	15,520
Other receivables(c)	**16,726**	13,823
	371,151	241,268

As at December 31, 2014 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, 2014 and 2013, the carrying amount of the trade and other receivables is denominated in RMB.

16 TRADE AND OTHER RECEIVABLES (Continued)

(a) As at December 31, 2014 and 2013, the ageing analysis of the trade receivables based on invoice date are as follows:

	As at December 31, 2014 RMB'000	2013 RMB'000
Up to 3 months	**144,552**	101,358
3 months to 6 months	**80,059**	48,657
6 months to 12 months	**89,230**	45,253
1 year to 2 years	**16,761**	7,129
2 years to 3 years	**2,025**	2,243
	332,627	204,640

Trade receivables arose mainly from Infusion Set Business and Orthopedic Implant Business, as sale from Regenerative Medical Biomaterial Business were normally settled by advance payments from customers. The Group agreed with the customers of Infusion Set Business and Orthopedic Implant Business in settling trade receivables with reference to credit periods within 180 days to 365 days or outstanding balances within certain limits. 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 of December 31, 2014 and 2013, trade receivables of RMB6,871,000 and RMB7,849,000 were past due and impaired, respectively. The impairment provision was RMB6,871,000 and RMB7,849,000 as at December 31, 2014 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.

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

	Year ended December 31, 2014 RMB'000	2013 RMB'000
As at January 1	**7,849**	4,569
(Reversal)/provision for impairment of receivables (Note 27)	**(978)**	3,280
As at December 31	**6,871**	7,849

16 TRADE AND OTHER RECEIVABLES (Continued)

(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,	
	2014	2013
	RMB'000	RMB'000
Interest receivable	**6,198**	2,882
Advances to employees	**2,890**	4,908
Receivables on government grants	**2,400**	—
Deposits	**1,936**	4,512
Receivables from disposal of property, plant and equipment	**1,480**	—
Others	**1,822**	1,521
	16,726	13,823

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,	
	2014	2013
	RMB'000	RMB'000
Interest receivables	**—**	2,859
Other	**48**	23
	48	2,882

17 RESTRICTED CASH

Group

	As at December 31, 2014 RMB'000	2013 RMB'000
Restricted bank deposit	**260,000**	37,000

Company

	As at December 31, 2014 RMB'000	2013 RMB'000
Restricted bank deposit	**—**	37,000

The restricted cash represents guaranteed deposits held in a separate reserve account pledged to the bank as security deposits under bank borrowing agreements. The original borrowing amount was RMB 240 million for the purpose of acquisition of Tianxinfu Group (Note 34(a)). After the acquisition, the borrowing amount was decreased to RMB 75 million (Note 23(a)) and the aforesaid guarantee will be released in May 2015. The carrying amount of the restricted cash is denominated in RMB.

18 CASH AND CASH EQUIVALENTS

Group

	As at December 31, 2014 RMB'000	2013 RMB'000
Cash on hand	**955**	688
Cash at banks	**144,361**	203,953
Short-term bank deposits	**8,500**	941,000
	153,816	1,145,641

18 CASH AND CASH EQUIVALENTS (Continued)

Group (Continued)

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, 2014 was 3.78% (2013: 3.20%).

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

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
RMB	**127,767**	1,031,144
HKD	**16,388**	39,979
USD	**9,557**	74,518
EUR	**104**	—
	153,816	1,145,641

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,	
	2014	2013
	RMB'000	RMB'000
Cash at banks	**24,179**	985,517

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

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
RMB	**7,631**	942,165
HKD	**16,294**	39,979
USD	**254**	3,373
	24,179	985,517

19 SHARE CAPITAL AND SHARE PREMIUM

The total authorized share capital of the Company comprises 5,000,000,000 ordinary shares (2013: 5,000,000,000 ordinary shares) with par value of USD0.0001 per share (2013: USD0.0001 per share).

	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
Balance at January 1, 2013	100	0.1	1	—	1
Share split (a)	999,900	—	—	—	—
Issuance of ordinary shares (b)	93,274,345	9.3	58	555,987	556,045
Capitalisation of share premium (c)	1,105,725,655	111	685	(685)	—
Issuance of new ordinary shares upon IPO (d)	460,000,000	46	282	1,149,171	1,149,453
Share issuance cost (e)	—	—	—	(56,633)	(56,633)
Balance at December 31, 2013	1,660,000,000	166.4	1,026	1,647,840	1,648,866
Balance at January 1, 2014	**1,660,000,000**	**166.4**	**1,026**	**1,647,840**	**1,648,866**
Proceeds from employee share options exercised (f)	**16,926,761**	**1.7**	**10**	**10,582**	**10,592**
Transfer from other reserves upon exercise of share option (g)	**—**	**—**	**—**	**15,982**	**15,982**
Balance at December 31, 2014	**1,676,926,761**	**168.1**	**1,036**	**1,674,404**	**1,675,440**

(a) On January 22, 2013, the Board 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.

(b) 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.

19 SHARE CAPITAL AND SHARE PREMIUM (Continued)

(b) (Continued)

— 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 Limited, WP X Asia Medical Devices Holdings Limited and Sparkle Wealthy Limited 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.

(c) 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.

(d) 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 HKD3.18 each respectively, and raised gross proceeds of approximately HKD1,462,800,000 (equivalent to RMB1,149,453,000).

(e) 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.

(f) Options exercised during the year ended December 31, 2014 resulted in 16,926,761 shares being issued, with exercise proceeds HKD13,335,000 (equivalent to RMB10,592,000). The related weighted average price at the time of exercise was HKD3.85 per share.

(g) Upon exercise of share options, share option reserve amounting to RMB15,982,000 was transferred to share premium.

20 OTHER RESERVES

Group

	Merger Reserve (i) RMB'000	Translation Reserve RMB'000	Capital reserve (ii) RMB'000	Share option reserve RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Balance at January 1, 2013	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	—	—	(48,656)	—	—	(48,656)
Changes in ownership interests in subsidiaries without change of control — completion of re-organisation	—	—	82,254	—	—	82,254
Issuance of ordinary shares by way of capitalisation of other reserves (Note19(b))	(233,930)	—	—	—	—	(233,930)
Share option reserve (Note21)	—	—	—	19,856	—	19,856
Balance at December 31, 2013	63,964	5,290	(1,703)	19,856	—	87,407
Currency translation differences	**—**	**103**	**—**	**—**	**—**	**103**
Changes in value of available-for-sale financial assets	**—**	**—**	**—**	**—**	**774**	**774**
Disposal of available-for-sale financial assets	**—**	**—**	**—**	**—**	**(774)**	**(774)**
Transfer to share premium upon exercise of share options (Note19(g))	**—**	**—**	**—**	**(15,982)**	**—**	**(15,982)**
Share option reserve (Note21)	**—**	**—**	**—**	**24,138**	**—**	**24,138**
Balance at December 31, 2014	**63,964**	**5,393**	**(1,703)**	**28,012**	**—**	**95,666**

20 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, and the difference between the carrying amount and undiscounted amount of interest-free loan received from a related party, net of tax.

Company

	Merger Reserve (i) RMB'000	Share option reserve RMB'000	Total RMB'000
Balance at January 1, 2013	233,930	—	233,930
Issuance of ordinary shares before IPO	(233,930)	—	(233,930)
Share option reserve (Note 21)	—	19,856	19,856
Balance at December 31, 2013	—	19,856	19,856
Transfer to share premium upon exercise of share option (Note19(g))	—	(15,982)	(15,982)
Share option reserve (Note 21)	—	24,138	24,138
Balance at December 31, 2014	—	28,012	28,012

(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.

21 SHARE BASED PAYMENTS

(i) Share options

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

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

The principal terms of the Scheme, approved and by resolution of our shareholders passed on July 3, 2013 and amended by resolution of our shareholders on October 14, 2013. The options under the Scheme shall vest in 4 equal tranches (being 25% of each option granted, and each tranche is hereinafter referred to as a "Tranche") on the four (4) dates (day immediately following the expiry of 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	
	2014	2013
At January 1,	**70,891,722**	—
Exercised	**(16,926,761)**	—
Forfeited	**(4,617,835)**	—
Granted	**—**	70,891,722
At December 31,	**49,347,126**	70,891,722

Details of the exercise prices and the respective numbers of share options which remained outstanding as at December 31, 2014 and 2013 are as follows:

		Number of share options	
Exercisable period	**Exercise price**	**2014**	2013
May 7, 2014	RMB0.63	**—**	17,722,931
May 7, 2015	RMB0.63	**16,449,044**	17,722,931
May 7, 2016	RMB0.63	**16,449,049**	17,722,930
May 7, 2017	RMB0.63	**16,449,033**	17,722,930
		49,347,126	70,891,722

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

22 TRADE AND OTHER PAYABLES

Group

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Trade payables	**29,126**	33,874
Salary and staff welfare payables	**34,350**	24,431
Advances from customers	**17,249**	9,801
Provisions for sales rebate	**9,049**	—
Deposits	**5,296**	940
Payables for purchase of land use rights	**3,901**	8,000
Value added tax and other taxes	**1,837**	5,906
Auditors' remuneration	**800**	1,600
Professional fee	**267**	—
Consideration payable for transaction with non-controlling interests	**—**	9,712
Research and development expenses payables	**—**	2,400
Listing expenses	**—**	8,615
Other payables	**12,443**	9,234
	114,318	114,513

As at December 31, 2014 and 2013, except for the salary and staff welfare payables, advances from customers and value added tax and other taxes which are not financial liabilities, all trade and other payables of the Group were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

22 TRADE AND OTHER PAYABLES (Continued)

Group (Continued)

As at December 31, 2014 and 2013, the ageing analysis of the trade payables based on invoice date are as follows:

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Up to 3 months	25,941	26,713
3 months to 6 months	538	3,768
6 months to 12 months	1,777	2,978
1 year to 2 years	721	126
2 years to 3 years	12	278
Over 3 years	137	11
	29,126	33,874

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

23 BORROWINGS

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Current bank borrowings — secured/guaranteed (a)	75,000	93,000

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

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Secured by the pledge of restricted cash with an aggregate carrying amount of RMB37,000,000 at December 31, 2013 and RMB260,000,000 at December 31, 2014	75,000	35,000
Secured by the pledge of buildings with an aggregate carrying amount of RMB5,844,000 at December 31, 2013	—	15,000
Secured by the pledge of land use right with an aggregate carrying amount of RMB 27,928,000 at December 31, 2013	—	25,000
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
	75,000	93,000

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

23 BORROWINGS (Continued)

(a) (Continued)

The maturity of the borrowings is as follows:

	As at December 31, 2014 RMB'000	2013 RMB'000
On demand or within 1 year	**75,000**	93,000

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

	As at December 31, 2014	2013
Current bank borrowings	**7%**	7%

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

24 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, 2014 RMB'000	2013 RMB'000
Deferred tax assets:		
— to be recovered within 12 months	**14,777**	8,385
	14,777	8,385
Deferred tax liabilities:		
— to be recovered after more than 12 months	**(60,788)**	(12,705)
— to be recovered within 12 months	**(4,528)**	(3,374)
	(65,316)	(16,079)
Deferred tax liabilities — net	**(50,539)**	(7,694)

24 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	Provision for sales rebate RMB'000	Others RMB'000	Total RMB'000
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 34(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
At January 1, 2014	**1,176**	**2,417**	**2,543**	**—**	**2,249**	**8,385**
Recognised in consolidated income statement	**(145)**	**58**	**504**	**278**	**3,046**	**3,741**
Acquisition of a subsidiary (Note 34(a))	**33**	**193**	**939**	**1,079**	**407**	**2,651**
At December 31, 2014	**1,064**	**2,668**	**3,986**	**1,357**	**5,702**	**14,777**

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 RMB42,852,000 (2013: RMB17,252,000). These tax losses will expire in 2015 to 2019.

24 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, 2013	(7,897)	(492)	(8,389)
Acquisition of a subsidiary (Note 34 (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)
At January 1, 2014	**(16,079)**	**—**	**(16,079)**
Acquisition of subsidiaries (Note 34 (a))	**(51,773)**	**—**	**(51,773)**
Recognised in consolidated income statement	**2,536**	**—**	**2,536**
At December 31, 2014	**(65,316)**	**—**	**(65,316)**

25 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, 2014 RMB'000	2013 RMB'000
At beginning of year	**2,241**	400
Additions	**5,400**	2,000
Credited to income statements	**(359)**	(159)
At end of year	**7,282**	2,241

26 OTHER GAINS — NET

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Government grants		
— relating to costs	**5,390**	5,557
— relating to assets	**359**	159
Realised gain on available-for-sale financial assets	**2,311**	—
Sales of scraps	**637**	514
Loss on disposal of subsidiaries	**—**	(398)
Loss on disposal of property, plant and equipment	**(303)**	(749)
Others	**(84)**	496
	8,310	5,579

27 EXPENSES BY NATURE

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Raw materials and consumable used	**62,947**	76,336
Changes in inventories of finished goods and work in progress (Note 15)	**6,077**	1,911
Employee benefits expenses (Note 28)	**141,663**	108,832
Depreciation of property, plant and equipment (Note 7)	**24,043**	15,510
Advertising, promotions and business development costs	**50,812**	36,449
Office and communication expenses	**10,420**	7,109
Direct research costs	**24,527**	15,160
Travelling and entertainment expenses	**9,202**	7,153
Taxes and levies	**8,072**	4,892
(Reversal)/provision for impairment of receivables(Note 16)	**(978)**	3,280
Provision for impairment of inventories (Note 15)	**546**	42
Low-value consumables	**4,712**	3,281
Operating lease payments	**7,744**	6,176
Transportation costs	**6,524**	4,554
Amortisation of land use rights (Note 6)	**1,152**	887
Amortisation of intangible assets (Note 8)	**14,192**	4,926
Professional fee	**12,376**	3,040
Listing expenses	**—**	33,024
Auditors' remuneration	**2,400**	1,600
Utilities	**10,118**	8,325
Others	**6,063**	1,798
Total cost of sales, selling expenses, administrative expenses and research and development expenses	**402,612**	344,285

28 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Wages, salaries and bonuses	**100,145**	78,504
Staff welfare	**5,250**	2,443
Social security costs	**9,061**	5,793
Housing fund	**3,069**	2,236
Share-based compensation expenses (Note 21)	**24,138**	19,856
	141,663	108,832

(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, 2014

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	2,431	1,500	—	75	4,006
Non-executive directors					
— Mr. Lin Junshan	4,862	300	—	—	5,162
— Ms. Yue'e Zhang (i)	—	—	—	—	—
— Mr. Feng Dai	—	—	—	—	—
Independent non-executive directors					
— Mr. Chen Geng	486	158	—	—	644
— Mr. Wang Xiaogang	486	158	—	—	644
— Mr. Zhang Xingdong	—	158	—	—	158

(i) Ms. Yue'e Zhang was elected as the chairman of the Board and was re-designated from a non-executive director to an executive director on February 3, 2015.

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

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

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

(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.

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

(b) Five highest paid individuals

For the year, the five highest paid individuals include two directors (2013: two) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2013: three) during the year are as follows:

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
Share-based compensation	**5,105**	3,746
Wages, salaries and bonuses	**1,560**	1,391
Social security costs	**147**	12
Housing fund	**55**	52
	6,867	5,201

The emoluments of these individuals fell within the following bands:

	Number of individuals	
	Year ended December 31,	
	2014	2013
Emolument bands		
Nil to HKD 1,000,000	**—**	—
HKD 1,000,001—HKD1,500,000	**—**	1
HKD 1,500,001—HKD2,000,000	**1**	—
HKD 2,000,001—HKD2,500,000	**—**	1
HKD 2,500,001—HKD3,000,000	**1**	1
HKD 3,500,001—HKD4,000,000	**1**	—
HKD 4,500,001—HKD5,000,000	**—**	—
HKD 5,000,001—HKD5,500,000	**—**	—
HKD 6,500,001—HKD7,000,000	**—**	—
	3	3

During the year, Ms. Yue'e Zhang waived emoluments of share based compensation with a fair value of RMB972,000 (2013: nil).

29 FINANCE COSTS — NET

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Finance income:		
— Interest income on short-term bank deposits	**(22,228)**	(6,774)
Finance costs:		
— Interest expense on bank borrowings	**15,744**	5,024
— Accretion of interest-free loan received from a related party (Note 33(b))	**—**	1,970
— Net foreign exchange loss	**8,919**	4,294
Total finance costs	**24,663**	11,288
Finance costs — net	**2,435**	4,514

30 INCOME TAX EXPENSE

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Current income tax	**40,969**	26,882
Deferred income tax (Note 24)	**(6,277)**	(4,022)
Income tax expense	**34,692**	22,860

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.

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

Except for Beijing Tianxinfu, Fert Technology, Shenzhen Bone 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.

30 INCOME TAX EXPENSE (Continued)

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

Beijing Tianxinfu, Fert Technology, Shenzhen Bone 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,	
	2014	2013
	RMB'000	RMB'000
Profit before income tax	**211,322**	113,863
Tax calculated at statutory tax rates applicable to profits in the respective countries	**52,831**	28,466
Tax effects of:		
Preferential income tax rates applicable to subsidiaries	**(23,489)**	(9,782)
Tax losses for which no deferred income tax asset was recognised	**6,086**	4,158
Additional deductible allowance for research and development expenses (i)	**(2,101)**	(1,016)
Deemed income for tax purpose	**383**	369
Expenses not deductible for tax purpose	**982**	665
Tax charge	**34,692**	22,860

(i) 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.

31 CASH GENERATED FROM OPERATIONS

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

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Profit before income tax	**211,322**	113,863
Adjustments for:		
Depreciation of property, plant and equipment (Note 7)	**24,043**	15,510
Amortisation of land use rights (Note 6)	**1,152**	887
Amortisation of intangible assets (Note 8)	**14,192**	4,926
Finance costs (Note 29)	**15,744**	6,994
Loss on disposal of property, plant and equipment (Note 26)	**303**	749
Realised gain on available-for-sale financial assets (Note 10)	**(2,311)**	—
Loss on disposal of subsidiaries	**—**	398
Share-based compensation expenses (Note 21)	**24,138**	19,856
Interest income	**(22,228)**	(6,774)
(Reversal)/provision for impairment of receivables (Note 16)	**(978)**	3,280
Provision for write-down of inventories (Note 15)	**546**	42
	265,923	159,731
Change in working capital		
Inventories	**2,987**	(23,685)
Trade and other receivables	**(128,905)**	(82,122)
Amounts due to related parties	**(66)**	(7,692)
Deferred income	**(359)**	(159)
Trade and other payables	**(1,496)**	41,189
Cash generated from operating activities	**138,084**	87,262

31 CASH GENERATED FROM OPERATIONS (Continued)

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

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Net book amount (Note 7)	**2,610**	3,279
Receivables from disposal of property, plant and equipment (Note 16)	**(1,480)**	—
Loss on disposal of property, plant and equipment (Note 26)	**(303)**	(749)
Proceeds from disposal of property, plant and equipment	**827**	2,530

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

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Cash consideration paid (Note 34)	**(802,632)**	(30,988)
Cash and cash equivalents in the subsidiaries acquired (Note 34)	**4,033**	37,237
	(798,599)	6,249

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

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Cash consideration	**—**	19,400
Cash and cash equivalents in the subsidiaries disposed	**—**	(4,108)
Receivables from disposal of subsidiaries (Note 16)	**—**	(15,520)
Cash receipt from disposal of subsidiaries	**3,000**	—
	3,000	(228)

32 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,	
	2014	2013
	RMB'000	RMB'000
Property, plant and equipment	**24,482**	28,954

(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 one-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 27.

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

Group

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
No later than 1 year	**3,387**	1,220
Later than 1 year and no later than 5 years	**9,283**	337
	12,670	1,557

(c) Contingencies

There is no material contingent liability as at December 31, 2014.

33 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 Limited	Parent of the Company	Started from January 1, 2010
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.

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
Discontinued related party transactions		
Sales to related parties :		
Shenzhen HaoHao	–	3,458
Financial guarantees provided by related parties		
Zhang Wendong	–	32,000
Wu Dong	–	4,000
	–	36,000

33 RELATED PARTY TRANSACTIONS (Continued)

(a) Balances with related parties

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,	
	2014	2013
	RMB'000	RMB'000
Amounts due to related parties — Current		
Wu Dong	—	66

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

(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,	
	2014	2013
	RMB'000	RMB'000
January 1	—	98,030
Accretion (Note 29)	—	1,970
Repayment	—	(100,000)
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.

34 BUSINESS COMBINATION

(a) Acquisition of Tianxinfu Group

On August 1, 2014, Health Forward and Fert Technology acquired 70% and 30% equity interest in Tianxinfu Group, at a cash consideration of RMB561,842,000 and RMB 240,790,000, respectively.

As a result of the acquisition, the Group is expected to gain entry into the Regenerative Medical Biomaterial Business. The goodwill of RMB373,229,000 arising from the acquisition is attributable to the synergy between Tianxinfu Group and the Group 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.

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

Consideration paid:

	RMB'000
At August 1, 2014	
— Cash consideration	**802,632**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 7)	**24,681**
Land use right (Note 6)	**13,586**
Intangible assets — technology know-how (Note 8)	**306,477**
Intangible assets — trademark (Note 8)	**22,956**
Deferred income tax assets (Note 24)	**2,651**
Inventories	**9,602**
Trade and other receivables	**1,520**
Available-for-sale financial assets (Note 10)	**126,537**
Cash and cash equivalents	**4,033**
Trade and other payables	**(29,700)**
Deferred income tax liabilities (Note 24)	**(51,773)**
Total identifiable net assets	**430,570**
Non-controlling interest	**(1,167)**
Goodwill (Note 8)	**373,229**
Total	**802,632**

Acquisition-related costs of RMB3,910,000 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended December 31, 2014.

34 BUSINESS COMBINATION (Continued)

(a) Acquisition of Tianxinfu Group (Continued)

The revenue included in the consolidated statement of comprehensive income since August 1, 2014 contributed by Tianxinfu Group was RMB82,663,000. Tianxinfu Group also contributed profit of RMB42,759,000 over the same period.

Had Tianxinfu Group been consolidated from January 1, 2014, the consolidated statement of comprehensive income would show pro-forma revenue of RMB707,686,000 and profit of RMB228,252,000.

(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.

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 RMB 88,973,000 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.

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.

34 BUSINESS COMBINATION (Continued)

(b) Acquisition of Shenzhen Bone (Continued)

	RMB'000
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 24)	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 24)	(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.

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.

34 BUSINESS COMBINATION (Continued)

(c) Acquisition of Xuzhou Yijia (Continued)

Consideration:

	RMB'000
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 24)	(5,786)
Total identifiable net assets	7,264
Goodwill (Note 8)	12,736
Total	20,000

35 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 18).

	2014	2013
Profit attributable to equity holders of the Company (RMB'000)	**176,630**	77,905
Weighted average number of ordinary shares in issue (thousands)	**1,670,397**	1,247,860
Basic earnings per share (RMB cents per share)	**10.57**	6.24

35 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.

	2014	2013
Profit attributable to equity holders of the Company (RMB'000)	**176,630**	77,905
Weighted average number of ordinary shares in issue (thousands)	**1,670,397**	1,247,860
Adjustments for share options (thousands)	**44,868**	27,458
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,715,265**	1,275,318
Diluted earnings per share (RMB cents per share)	**10.30**	6.11

36 DIVIDENDS

The Board does not propose a final dividend for the year ended December 31, 2014 (2013: Nil).

37 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with the financial statements of the Company to the extent of RMB16,742,000 (2013: RMB25,831,000).

38 SUBSEQUENT EVENTS

The Company repurchased 2,765,000 shares in January 2015 at a total consideration of HK$8,919,000. The shares have subsequently been cancelled in March 2015.

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

"2015 AGM"	the 2015 AGM to be held on June 2, 2015
"AGM"	annual general meeting of the Company
"Articles"	the articles of association of the Company
"Audit Committee"	the audit committee of the Company
"Beijing Tianxinfu"	Beijing Tianxinfu Medical Appliance Co., Ltd. (北京天新福醫療器材有限公司), a limited liability company established in the PRC on January 18, 2002 and acquired by the Group in August 2014
"Board of Directors" or "Board"	our board of Directors
"CEO"	chief executive officer of our Company
"CFDA"	the China Food and Drug Administration (中華人民共和國國家食品藥品監督管理總局)
"China" or "PRC"	the People's Republic of China, which for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
"CG Code"	the "Corporate Governance Code" as contained in Appendix 14 to the Listing Rules
"Company", "our Company", "Group", "our Group", "PW Medtech", "we" or "us"	PW Medtech Group Limited (普华和顺集团公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on May 13, 2011 and except where the context indicated otherwise its subsidiaries
"Company Secretary"	the secretary of the Company
"Director(s)"	the director(s) of our Company
"Fert Technology"	Beijing Fert Technology Co., Ltd. (北京伏爾特技術有限公司), a sino-foreign equity joint-venture enterprise established under the laws of the PRC on September 23, 1997 and indirectly wholly owned by the Company
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS(s)"	Hong Kong Financial Reporting Standards
"Infusion Set Business"	the development, manufacturing and sale of advanced infusion set products
"Listing Date"	November 8, 2013, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Company
"Orthopedic Implant Business"	the development, manufacturing and sale of orthopedic implants products
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Company on July 3, 2013 and amended on October 14, 2013
"Prospectus"	the prospectus of the Company dated October 28, 2013
"PVC"	polyvinyl chloride, a type of plastic material
"R&D"	research and development
"Regenerative Medical Biomaterial Business"	the development, manufacturing and sale of regenerative medical biomaterials products
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of par value US$0.0001 each in the issued share capital of our Company
"Shareholder(s)"	holder(s) of Shares
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on October 14, 2013
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tianxinfu Group"	Beijing Tianxinfu and its subsidiary
"Walkman Biomaterial"	Tianjin Walkman Biomaterial Co., Ltd. (天津市威曼生物材料有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on November 8, 2001 and indirectly wholly owned by our Company
"%"	per cent

Design And Produced By: EDICO Financial Press Services Limited

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