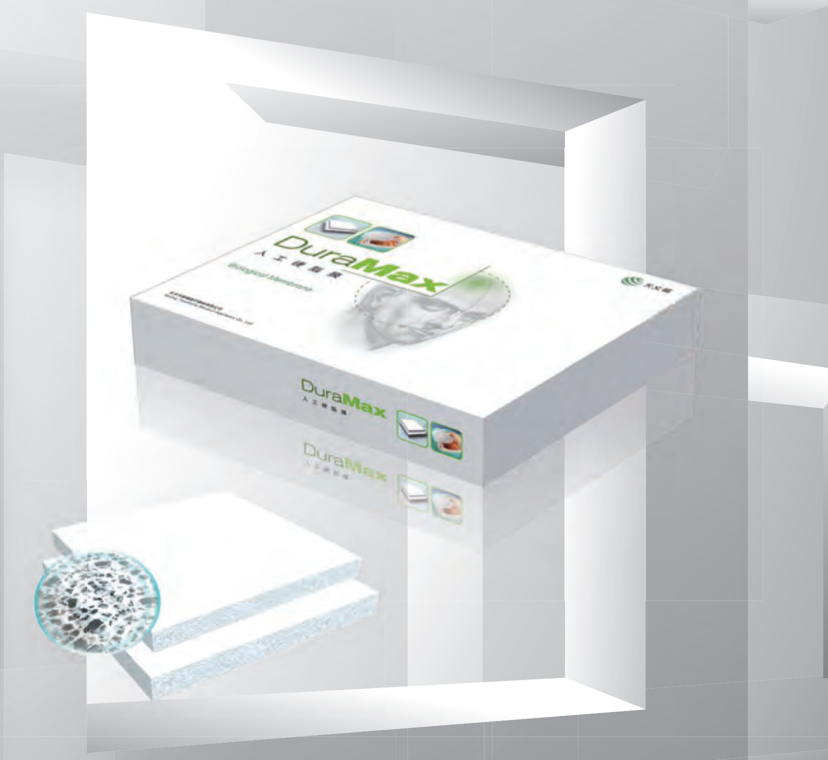
PW MEDTECH GROUP LIMITED
普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01358.HK)



ANNUAL REPORT 2016

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 and advanced infusion sets, with strong research and development capabilities and well-established distribution net-works.

A TRUE PIONEER IN THE CHINESE MEDICAL DEVICES INDUSTRY

CONTENTS

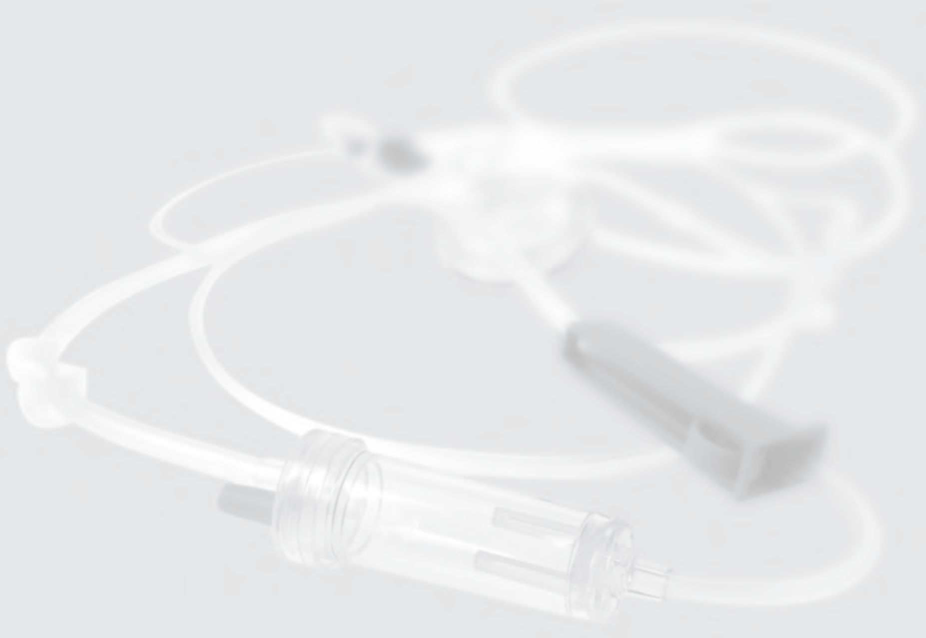
CORPORATE PROFILE

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 and advanced infusion sets, with strong R&D capabilities and well-established distribution networks.

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

The Group is a leading company in the field of artificial dura mater in China, which is a key regenerative medical biomaterial product line. The Group has the largest market share of artificial dura mater with its products widely used in craniotomy operations and neurosurgery areas in China. 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 networks in China for neurosurgical medical devices.

Currently as China's second largest and Beijing's largest advanced infusion sets manufacturer, the Group produces advanced infusion sets including non-PVC-based infusion sets, precision filter infusion sets and light resistant 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 of the production of non-PVC-based infusion sets. The Group also holds patented double-layer tubing design for non-PVC-based infusion sets.



MILESTONES

1997 — Fert Technology was founded

2001 — Walkman Biomaterial was founded

2002 — Tianxinfu and Shenzhen Bone were founded

2008 — Acquired Walkman Biomaterial and entered into Orthopedic Implant Business

2011 — Acquired Fert Technology and entered into Infusion Set Business

2013 — Acquired Xuzhou Yijia and further expanded into Infusion Set Business

— Acquired Shenzhen Bone and expanded into joint products

— Listed on the Main Board of the Stock Exchange on November 8, 2013

2014 — Acquired Tianxinfu and entered into Regenerative Medical Biomaterial Business

2016 — Disposed of equity interests in Walkman Biomaterial and Shenzhen Bone, two subsidiaries engaging in Orthopedic Implant Business

FINANCIAL HIGHLIGHTS

- Revenue from continuing operations for the year ended December 31, 2016 amounted to approximately RMB566.8 million, representing an increase of 9.9% from approximately RMB515.6 million in 2015.
- Gross profit from continuing operations for the year ended December 31, 2016 amounted to approximately RMB418.2 million, representing an increase of 8.2% from approximately RMB386.4 million in 2015.
- Profit attributable to owners of the Company for the year ended December 31, 2016 amounted to approximately RMB194.9 million, representing a decrease of 6.5% from approximately RMB208.6 million in 2015.
- Profit from continuing operations for the year ended December 31, 2016 amounted to approximately RMB240.2 million, representing an increase of 17.6% from approximately RMB204.2 million in 2015.

FINANCIAL SUMMARY

RESULTS SUMMARY

	For the Year ended December 31,				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000 (Restated)	**RMB'000**
Revenue*	331,541	457,083	608,059	515,587	**566,822**
Profit before income tax*	119,721	113,863	211,322	245,377	**283,225**
Profit for the year*	100,183	91,003	176,630	204,227	**240,157**
Profit attributable to:*					
Owners of the Company	44,668	77,905	176,630	204,227	**241,660**
Non-controlling interests	55,515	13,098	—	—	**(1,503)**

* 2015 and 2016 figures are presented as continuing operations. Other years include both continuing and discontinued operations.

ASSETS SUMMARY

	As at December 31,				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	921,313	2,129,161	2,382,537	2,539,276	**2,487,111**
Total liabilities	396,612	230,465	271,211	240,611	**153,109**
Equity attributable to owners of the Company	349,537	1,898,696	2,110,159	2,297,498	**2,334,338**

CHAIRMAN'S STATEMENT

It is a great honor for me, on behalf of the Board, to present the annual report of the Company for the financial year ended December 31, 2016.

During the "12th Five-Year" period, the development of medical device industry was included as one of the national development strategies; and during the "13th Five-Year" period, the medical device industry has been poised to embrace the stage of greater development. In particular, the development goal of "Healthy China" and the preparation of the "13th Five-Year Development Planning" for pharmaceutical industry and healthcare, which embody the Chinese government's attention on the development of medical device industry. The medical device sector has important functions of stimulating domestic demand and improving people's livelihood; and it is able to promote the technological innovation and manufacturing level development, serving as a strategic guidance point for our national economic transformation and structural adjustment. At the same time, with the deepening reform of the medical and health system, the enhancement of the control over medical insurance costs and the promotion of "two-invoice system (兩票制)" in distribution have required the industry to respond actively.

With the leading position in the medical device industry and its own strong R&D capabilities, the Group endeavours to seize the development opportunities and actively responds to challenges in the industry. Through the introduction of new products, product optimization, product portfolio diversification and further expansion of the distribution networks of main businesses, the Group is well-prepared to seize the opportunities in the industry and make improvement in the new normal economy.

BUSINESS REVIEW

For the year ended December 31, 2016, the Group's revenue from continuing operations and profit from continuing operations were RMB566.8 million and RMB240.2 million, representing an increase of 9.9% and 17.6% compared with those of 2015, respectively.

PW Medtech currently has two main business segments, being the Regenerative Medical Biomaterial Business, which mainly focuses on the manufacturing of artificial dura mater, and the Infusion Set Business, which is engaged in producing precision filter infusion sets and non-PVC-based infusion sets. PW Medtech has developed into a domestically leading enterprise in such two segments, with a number of high-tech subsidiaries. In the field of regenerative medical biomaterial, PW Medtech is currently the largest domestic artificial dura mater manufacturer. Thanks to the trust and reputation gained over the years by providing safe and effective products, the Group's artificial dura mater products under the brand of "Tianyifu (天義福)" have been ranking first in the domestic market for consecutive years in terms of market share, which are widely applied in the neurosurgery field. Another important segment of the Group is the Infusion Set Business. Throughout the years, the "Fert (伏爾特)" brand under the Group has been focusing on providing a safer and more efficient solution for infusion therapy, and has been maintaining the second largest market share in the domestic advanced infusion sets market and ranking number one in Beijing market for years.

Concerning about the threats to consumers' skin health posed by a wide range of skincare products of different qualities in the market, the Group penetrated into the cosmetic industry in 2016, introducing its new product — a medical-cosmetic-graded mask under the brand of "LE SEUL (諾頌)" by leveraging its experience on manufacturing and quality control in the medical biomaterial industry and insisting on "quality and safety come first" philosophy.

The Group has disposed of certain subsidiaries engaging in the Orthopedic Implant Business in December 2016, which is believed to be in the interest of the Group and the Shareholders as the Group will be able to better use its resources in other high growth segments currently in the Group, and other potential high growth businesses if any opportunity arises.

Apart from focusing on organic growth derived from its existing business segments, the Group also continues to seek strategic opportunities to develop through acquisitions and integration of advantages.

CHAIRMAN'S STATEMENT

FUTURE PROSPECTS

As a leader in the medical device industry of China, with the benefits driven by the favorable government policy and market potential, the Company will continue to focus on the Regenerative Medical Biomaterial Business and the Infusion Set Business in the future, taking biomaterials, neurosurgery and medical care as breakthroughs, and thus making contributions to the safety and efficiency of China's medical care industry. The Group will take advantage of the great favorable economic and industrial environments to introduce and nurture high-quality talents and improve production technologies, with a view to maintaining the competitive edges of our products in the market. With such solid support, the sales team will further expand the new product market while continuously maintaining the traditional sale channels.

APPRECIATION

On behalf of the Board, I would like to extend my heartfelt gratitude to all the respected Shareholders. PW Medtech will seize the opportunities presented by the development of the medical device industry to achieve sustainable business growth 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 30, 2017

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. LIN Junshan

Independent Non-executive Directors

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

COMPANY SECRETARY

Ms. SO Yee Kwan, *ACS, ACIS*

AUTHORISED REPRESENTATIVES UNDER THE 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. LIN Junshan
Mr. ZHANG Xingdong

NOMINATION COMMITTEE

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

AUDITOR

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

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

HONG KONG LEGAL ADVISOR

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE AND BOARD LOT

Stock Code: 1358
Board Lot: 1,000

WEBSITE

www.pwmedtech.com

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS

The Board currently consists of six Directors, comprising two executive Directors, one non-executive Director 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)	53	Chairman and executive Director	May 13, 2011
Mr. JIANG Liwei (姜黎威)	49	CEO and executive Director	June 21, 2013
Non-executive Director			
Mr. LIN Junshan (林君山)	54	Non-executive Director	June 21, 2013
Independent non-executive Directors			
Mr. ZHANG Xingdong (張興棟)	79	Independent non-executive Director	October 14, 2013
Mr. CHEN Geng (陳庚)	46	Independent non-executive Director	October 14, 2013
Mr. WANG Xiaogang (王小剛)	43	Independent non-executive Director	October 14, 2013

Executive Directors

Ms. Yue'e ZHANG (張月娥), aged 53, is the chairman of the Board, an executive Director and the chairman of the Nomination Committee. She is also a director of certain subsidiaries of the Company. In addition to her roles with our Group, Ms. ZHANG currently serves as the general manager 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).

Mr. JIANG Liwei (姜黎威), aged 49, is the CEO and an executive Director. He is also a director of a subsidiary of the Company. Mr. JIANG has over 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.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. LIN Junshan (林君山), aged 54, is a non-executive Director and a member of both the Audit Committee and the Remuneration Committee. Mr. LIN joined the Group in April 2010. He is also a director of 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 his graduation from Xi'an Jiaotong University (西安交通大學) with a doctorate degree in materials science and engineering in March 1990, Mr. LIN held various research positions in Shanghai Jiaotong University (上海交通大學), Osaka University (Japan) and Hitachi Mechanical Engineering Research Laboratory (now Hitachi Research Laboratory), Hitachi Ltd. from April 1990 to December 2006.

Independent Non-executive Directors

Mr. ZHANG Xingdong (張興棟), aged 79, is an independent non-executive Director and a member of both the Remuneration Committee and the Nomination Committee. Mr. ZHANG is a professor at Sichuan University (四川大學), and an Academician of the Chinese Academy of Engineering (中國工程院院士). He also serves as the President of the International Union of Societies for Biomaterials Science and Engineering (IUSBSE), Director of the CFDA Executive Committee on the Classification of Medical Devices, Director of National Technical Committee 248 on Biological Evaluation on Medical Device of Standardization, and Medical Biomaterial Chief Scientific Adviser of Sichuan Languang Development Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600466). He has more than 10 honorary titles, including Foreign Member of the U.S. National Academy of Engineering (美國國家工程院外籍院士), IUSBSE Fellow of Biomaterials Science and Engineering, Fellow of the American Institute of Medical and Biological Engineering etc. Mr. ZHANG has been dedicated to the R&D, and commercialization of tissue inducing biomaterials products and medical implants such as dental implants, osteoinductive synthetic bone, and artificial hip joints for more than 30 years. His research has received numerous awards, such as National Science and Technology Progress Award, National Natural Science Award, and Clemson Award for Applied Research. Mr. ZHANG graduated from Sichuan University with a bachelor's degree in solid state physics in 1960.

Mr. CHEN Geng (陳庚), aged 46, 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 and the vice president of New Auto Group (新奧特集團) from 2004 to 2005, and had worked in various investment firms in the PRC, garnering extensive experience in finance and management. Mr. CHEN has obtained the qualification of senior economist (高級經濟師) from China State Construction Engineering Corporation Limited (中國建築工程總公司) in October 2010. He graduated from Northwest University (西北大學) with a bachelor's degree in administrative management in July 1993 and later received an EMBA degree from Guanghua School of Management, Peking University (北京大學光華管理學院) in January 2005.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. WANG Xiaogang (王小剛), aged 43, 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), where his work focused primarily on financial advisory on investment, merger and acquisition related transactions. He joined PricewaterhouseCoopers Consulting (Shenzhen) Co., Ltd. in 1997. Mr. WANG obtained the qualification of Certified Public Accountant from Beijing Institute of Certified Public Accountants (北京註冊會計師協會) in June 1997 and the qualification to practice law in the PRC from the Ministry of Justice (司法部) in February 2007. Mr. WANG graduated from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) (now 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

Mr. JIANG Liwei (姜黎威), aged 49, 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 43, 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 2003, 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 46, 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 40, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND MARKET REVIEW FOR YEAR 2016

The year 2016 was the first year under "the 13th Five-Year Plan for National Economic and Social Development (國民經濟和社會發展第十三個五年規劃)". In 2016, the PRC's economy maintained steady GDP growth with a year-on-year increase of 6.7%. To achieve the development goal of "Healthy China", the Chinese government has proposed to build a new system of biomedical and high-performance medical device industry. In addition, the development strategy of "Made in China 2025 (中國製造2025)" has made high-performance medical device industry as one of the key development industries, which, together with other supporting policies, create a favorable development environment for domestic medical device manufacturers. Meanwhile, the expansion of medical insurance coverage and the growth of aging population have further brought great opportunities for development of the medical device market. On the other hand, as the medical and health system reforms deepen, the enhancement of controls over medical insurance costs and the promotion of "two-invoice system (兩票制)" in distribution channels require active responses from the industry. The industry is currently at a stage of development with both opportunities and challenges.

PW Medtech is a leading medical device company in the PRC with focus on fast-growing and high-margin segments of medical device industry of the PRC. Currently, the Group is principally engaged in two business segments: (i) the Regenerative Medical Biomaterial Business and (ii) the Infusion Set Business.

As one of the leading domestic companies in the industry, in order to further consolidate its leading market position and get prepared to cope with different market challenges, in 2016, the Group continued to further expand its product portfolio and production capacity, enhance its innovation and R&D capabilities and actively extend its distribution networks.

During the year ended December 31, 2016, the Group's revenue from continuing operations was RMB566.8 million, representing an increase of 9.9% over 2015. During the year ended December 31, 2016, the Group's profit from continuing operations and profit attributable to owners of the Company amounted to RMB240.2 million and RMB194.9 million, respectively, representing an increase of 17.6% and a decrease of 6.5% over 2015, respectively. The Group recorded a gross profit from continuing operations of RMB418.2 million during the year ended December 31, 2016, representing an increase of 8.2% over 2015. During the year ended December 31, 2016, the overall gross profit margin of continuing operations was 73.8% (2015: 74.9%).

During the year ended December 31, 2016, the Regenerative Medical Biomaterial Business and the Infusion Set Business contributed to approximately 42.6% and 56.4% of the Group's revenue from continuing operations, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS STRATEGIES AND FUTURE OUTLOOK

For the Regenerative Medical Biomaterial Business, as the largest manufacturer of artificial dura mater in the PRC, the Group has been committed to broadening product portfolio, elevating product quality and upgrading technology for years. The clinical trials of the oral repair membrane and the second generation of artificial dura mater made notable progress during the year ended December 31, 2016, and the application of the oral repair membrane is expected to penetrate into new areas of oral and maxillofacial surgery. In addition to the oral and maxillofacial surgery, in 2016, the Group also made positive progress in new regenerative biomaterial products in different areas, such as ophthalmology, oral surgery and orthopedic surgery. We expect to start the clinical trials for the development of certain new products in 2017.

In the second half of 2016, the Group further extended its production lines to the area of cosmetic products and launched a medical-cosmetic-graded facial mask brand of "LE SEUL (諾頌)", creating a new growth point. By virtue of extensive experience and leading technologies in quality control over medical biomaterials, the Group is actively creating medical-cosmetic-graded skincare products trusted by consumers, and the quality of such mask products is superior to that of similar products available in the domestic market. The skin health of consumers is highly protected by the Group's persistent commitment to product quality.

With regard to the Infusion Set Business, the Group has been focusing on providing safer and more effective solutions for infusion therapy to further reinforce its leading position in the market of advanced infusion medical devices and drive the development of such industry. In July 2016, the Group has obtained the product registration certificate for disposable intravenous cannula (留置針). In the future, the Group will keep focusing on infusion therapy and provide a more comprehensive product portfolio for infusion therapy, thus to make contributions to the safety and efficiency of China's medical care.

In order to invest more resources into its existing fast-growing segments and other potential fast-growing businesses and improve the efficiency of working capital management, the Group disposed of the Orthopedic Implant Business in December 2016. Please refer to the announcement of the Company dated December 27, 2016 for more details.

STRATEGIC ACQUISITIONS

In spite of the challenges brought by valuation inflation in the medical device industry in the PRC, the Group continues to seek fast-growing, high-margin and high-potential opportunities within or outside its current business segments.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPHASIS ON INNOVATION AND R&D

As an industry leader in the development of innovative products, the Group has a R&D team comprising approximately 100 experienced members. The team cooperates closely with surgeons, hospitals (especially Class III Grade A hospitals), top university research centers and other research institutions. As of December 31, 2016, the Group owned 74 patents, including 13 for regenerative medical biomaterial products and 61 for advanced infusion set products. Further, the Group has 22 ongoing applications for new patents. The Group will continue to invest in product innovation and R&D to maintain and reinforce its leading position in the industry.

EXPANSION OF DISTRIBUTION NETWORKS

The Group currently has two experienced and dedicated teams of professional sales and marketing to support and consolidate distribution networks in 31 provinces, municipalities and autonomous regions in China and enhance products promotion of all major business segments. Our core salesmen have an average of 10 years of experience in their respective fields and half of them have medical training background, which will help their professional and efficient communication with doctors and nurses.

FINANCIAL REVIEW

OVERVIEW

	For the year ended December 31,		
	2016 RMB'000 (except for EPS)	2015 RMB'000 (except for EPS) (Restated)	Change
Revenue			
— Regenerative Medical Biomaterial Business	**241,745**	210,088	15.1%
— Infusion Set Business	**319,583**	300,793	6.2%
— Other businesses	**5,494**	4,706	16.7%
Total revenue from continuing operations	**566,822**	515,587	9.9%
Gross Profit from continuing operations	**418,193**	386,417	8.2%
Profit for the year from continuing operations	**240,157**	204,227	17.6%
(Loss)/profit for the year from discontinued operations	**(46,711)**	4,355	(1,172.6%)
Profit for the year	**193,446**	208,582	(7.3%)
Profit attributable to owners of the Company	**194,949**	208,582	(6.5%)

By December 31, 2016, the Group transferred its entire interests in the Disposed Subsidiaries, which were mainly engaged in the Orthopedic Implant Business, to an independent third party. The operations of the Disposed Subsidiaries are classified as discontinued operations in the Group's consolidated income statement for the year ended December 31, 2016. The operations of the Company and the other remaining subsidiaries, which are mainly engaged in the Regenerative Medical Biomaterial Business, the Infusion Set Business and other businesses, are presented in the Group's consolidated income statement as continuing operations. The consolidated income statement for the comparative period is also restated on the aforesaid basis.

REVENUE FROM CONTINUING OPERATIONS

The revenue of the Group from continuing operations increased by 9.9% from approximately RMB515.6 million in 2015 to approximately RMB566.8 million in 2016, as a result of the increase in sales of all the business segments in the continuing operations. Revenue from the Regenerative Medical Biomaterial Business for the year ended December 31, 2016 amounted to approximately RMB241.7 million, representing an increase of 15.1% from approximately RMB210.1 million for the year ended December 31, 2015. Revenue from the Infusion Set Business amounted to approximately RMB319.6 million for the year ended December 31, 2016, representing an increase of 6.2% from approximately RMB300.8 million for the year ended December 31, 2015. The increases were mainly contributed by the increase in sales volume, as a result of increased market demand and the Group's expansion of sales networks. The other businesses of the Group comprised the Group's other operations not classified as the Regenerative Medical Biomaterial Business or the Infusion Set Business. The Group's beauty products in the brand name of "LE SEUL (諾頌)" newly launched in 2016 and the Group's remaining Orthopedic Implant Business in the brand name of "Tianyifu (天義福)" both contributed to the increase in sales of the other businesses of the Group.

FINANCIAL REVIEW

GROSS PROFIT FROM CONTINUING OPERATIONS

The Group's gross profit from continuing operations increased by 8.2% from approximately RMB386.4 million in 2015 to approximately RMB418.2 million in 2016. The gross profit margin of continuing operations decreased from 74.9% in 2015 to 73.8% in 2016, which was primarily attributable to the decrease of gross profit margin of the Infusion Set Business. The gross profit margin of the Regenerative Medical Biomaterial Business in 2016 remained at 85.5%, approximately the same as that in 2015 (2015: 85.8%). The gross profit margin of the Infusion Set Business in 2016 decreased to 65.8% from 68.2% in 2015, mainly due to the product mix changes with less proportion of the sales of higher margin products.

SELLING EXPENSES OF CONTINUING OPERATIONS

Selling expenses of continuing operations increased by 12.7% from approximately RMB68.6 million in 2015 to approximately RMB77.3 million in 2016. This increase was largely in line with the increase in overall sales, mainly attributable to the expansion of distribution networks and product categories.

ADMINISTRATIVE EXPENSES OF CONTINUING OPERATIONS

Administrative expenses of continuing operations decreased by 7.9% from approximately RMB61.5 million in 2015 to approximately RMB56.7 million in 2016. The overall decrease of approximately RMB4.8 million was the result of an overall increase of RMB1.8 million due to the expanded business scope and scale of the continuing operations, offset by a decrease of RMB6.6 million in the share-based compensation cost.

The share-based compensation cost decreased by RMB6.6 million, from a reversal of RMB1.1 million in the prior year to the reversal of RMB7.7 million for the year ended December 31, 2016. According to the Pre-IPO Share Option Scheme approved by resolution of our Shareholders passed on July 3, 2013 and amended by resolution of our Shareholders passed on October 14, 2013, the options under the Pre-IPO Share Option Scheme shall vest in four equal tranches (being 25% of each option granted, and each tranche is hereinafter referred to as a "Tranche") on four dates (the day immediately following the expiry of 6 months after November 8, 2013 (the "First Vesting Date"); the first anniversary of the First Vesting Date; the second anniversary of the First Vesting Date and the third anniversary of the First Vesting Date), respectively, with performance conditions. Details of the Pre-IPO Share Option Scheme were disclosed in the Prospectus. Pursuant to the Pre-IPO Share Option Scheme, certain performance conditions in respective fiscal years should be met before the vesting of share options. Share-based compensation expenses recognised in relation to the third Tranche were reversed in prior year given that certain performance conditions in relation to the year ended December 31, 2015 were not met, and the share-based compensation expenses recognised in relation to the fourth Tranche were also reversed for the current year given that certain performance conditions in relation to the year ended December 31, 2016 were not met.

R&D EXPENSES OF CONTINUING OPERATIONS

R&D expenses of continuing operations decreased by 17.7% from approximately RMB23.9 million in 2015 to approximately RMB19.7 million in 2016, mainly due to less cost intensive R&D activities incurred during the year ended December 31, 2016.

FINANCIAL REVIEW

FINANCE INCOME — NET, OF CONTINUING OPERATIONS

The Group had a net finance income of continuing operations of RMB4.5 million for the year ended December 31, 2016, decreased by approximately RMB0.8 million from RMB5.3 million in 2015. The decrease was mainly due to the decrease in the bank deposit balances.

INCOME TAX EXPENSES OF CONTINUING OPERATIONS

For the year ended December 31, 2016, income tax expenses of continuing operations amounted to approximately RMB43.1 million, slightly increased by approximately 4.7% as compared with approximately RMB41.2 million in 2015, which is in line with the increase in profit before income tax, slightly offset by the decrease in the effective tax rate. The effective tax rate decreased slightly from 16.8% in 2015 to 15.2% in 2016, primarily attributable to the increase of the proportion of the profit generated from certain subsidiaries with preferential income tax rate of 15%.

LOSS/PROFIT FROM DISCONTINUED OPERATIONS

A breakdown of the performance result of discontinued operations can be found in Note 30 to the Group's consolidated financial statements for the year ended December 31, 2016. The loss for the year from discontinued operations amounted to RMB46.7 million, mainly caused by the impairment provision of goodwill of approximately RMB79.4 million, largely reflecting the difference between the consideration of RMB450 million and the carrying value of the net assets of the Disposed Subsidiaries as at the completion date of the disposal transaction, which offset the income and profit from the discontinued operations for the year.

PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS AND NET PROFIT

For the foregoing reasons, the profit from continuing operations of the Group in 2016 increased by 17.6% from approximately RMB204.2 million in 2015 to RMB240.2 million in 2016.

After taking into account the loss from discontinued operations in 2016 (2015: profit of RMB4.4 million from discontinued operations), the Group's consolidated net profit for the year ended December 31, 2016 amounted to approximately RMB193.4 million, representing a decrease of 7.3% comparing to the consolidated net profit for the year ended December 31, 2015.

TRADE AND OTHER RECEIVABLES

The Group's trade receivables primarily comprised the outstanding payment from credit sales. As of December 31, 2016, the trade receivables of the Group was approximately RMB213.3 million, representing a decrease of approximately RMB144.3 million as compared to approximately RMB357.6 million trade receivables (including current and non-current portions) as of December 31, 2015. The decrease was mainly due to the fact that the trade receivables of the Disposed Subsidiaries were not included in the Group's consolidated balance sheet as of 31 December, 2016.

The Group's other receivables as of December 31, 2016 included approximately RMB443.8 million receivables from the disposal of the Disposed Subsidiaries, of which approximately RMB354.0 million had been settled in cash and received by the Group subsequently up to the date of this report.

FINANCIAL REVIEW

INVENTORIES

Inventories decreased by approximately 56.7%, from approximately RMB124.0 million as of December 31, 2015 to approximately RMB53.7 million as of December 31, 2016. The decrease of inventories was mainly due to the fact that the inventories of the Disposed Subsidiaries were no longer included in the Group's consolidated balance sheet as of December 31, 2016.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment included buildings and facilities, machinery and equipment and construction in progress. As of December 31, 2016, the property, plant and equipment of the Group amounted to approximately RMB687.2 million, representing an increase of approximately RMB27.9 million as compared to approximately RMB659.3 million as of December 31, 2015. The increase was primarily due to the construction of facilities to expand production capacities of continuing operations in an amount of approximately RMB234.3 million, offset by the decrease related to the disposal of the Disposed Subsidiaries in an amount of approximately RMB171.1 million and depreciation of approximately RMB34.7 million charged for the year ended December 31, 2016.

INTANGIBLE ASSETS

The Group's intangible assets mainly include goodwill, technology know-how, trademarks, computer software and customer relationship. The Group's goodwill, technology know-how and trademarks are mainly identified and recorded during the purchase accounting process for the acquisitions of subsidiaries in prior years. The goodwill is subject to impairment test at each period end, while the technology know-how and trademarks are amortised with straight line method for 15 years. As of December 31, 2016, the net value of the Group's intangible assets was approximately RMB841.4 million, representing a decrease of approximately RMB126.4 million as compared to RMB967.8 million as of December 31, 2015. The decrease was primarily due to the goodwill related to the disposal of subsidiaries in an amount of approximately RMB100.4 million, and amortisation of approximately RMB27.2 million charged during the year ended December 31, 2016.

FINANCIAL RESOURCES AND LIQUIDITY

As of December 31, 2016, the Group's cash and bank balances amounted to approximately RMB149.6 million (2015: RMB288.2 million) and the Group had no term deposits (2015: RMB40.0 million). As at December 31, 2016, the Group's bank borrowing balances was nil (2015: Nil).

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.

CHARGES ON ASSETS

Save as those disclosed in Note 32 to the consolidated financial statements, during the year ended December 31, 2016, 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.

FINANCIAL REVIEW

COMMITMENTS

As of December 31, 2016, the Group has a total capital commitment of approximately RMB17.1 million (2015: RMB175.5 million), comprising mainly contracted capital expenditure for construction or acquisition of property, plant and equipment.

CONTINGENT LIABILITIES

Save as those as disclosed in Note 32 to the consolidated financial statements, there is no material contingent liability as of December 31, 2016 (2015: Nil).

CAPITAL EXPENDITURE

During the year ended December 31, 2016, the Group incurred expenditure of RMB230.0 million on the construction in progress including facilities and production lines and expenditure of RMB4.3 million on the purchase of property, plant and equipment.

GEARING RATIO

The Group monitors capital on the basis of gearing ratio. This ratio is calculated as total borrowings divided by total capital. Since there was no borrowing as at December 31, 2016 and 2015, the gearing ratio was zero.

FOREIGN EXCHANGE RISK

The Group mainly operates its business in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong 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 ended December 31, 2016. Management may consider entering into currency hedging transactions to manage the Group's exposure towards fluctuations in exchange rates in future.

The currencies in which the cash and cash equivalents are denominated have been disclosed in Note 17 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. The management does not anticipate any significant impact to interest-bearing assets resulting from the changes in interest rates because the interest rates of bank balances are not expected to change significantly.

FINANCIAL REVIEW

CREDIT RISK

The carrying amounts of cash and cash equivalents and trade and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problems. The credit risk of bank balances is limited because the counterparties are banks with good reputation and most of them are state-owned commercial banks in China or public listed companies. Most of the bank deposits of the Group are placed with commercial banks with an acceptable credit rating. In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparties' financial position and past history of making payments and take into account information specific to the counterparties as well as pertaining to the economic environment in which the counterparties operate. Monitoring procedures have been implemented to ensure that 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.

SIGNIFICANT INVESTMENTS

The Group did not have any significant investments during the year ended December 31, 2016.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In December 2016, the Group entered into agreements with an independent third party to dispose of its interests in the Disposed Subsidiaries, which were mainly engaged in the Orthopedic Implant Business, for a total consideration of RMB450 million. The operations of the Disposed Subsidiaries are classified as discontinued operations in the Group's consolidated income statement. Details of the financial impact of the disposal of the Orthopedic Implant Business are set out in Note 30 to the consolidated financial statements on pages 115 to 117 of this annual report.

Save as disclosed above, the Group had no other material acquisitions or disposals of subsidiaries or associated companies of the Company during the year ended December 31, 2016.

CORPORATE GOVERNANCE REPORT

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

The Board considers that during the year ended December 31, 2016, 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 Shareholders at all times.

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

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

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

CORPORATE GOVERNANCE REPORT

A2. Board Composition

The composition of the Board during the year ended December 31, 2016 and up to the date of this report is as follows:

Executive Directors:

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

Non-executive Director:

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

Throughout the year ended December 31, 2016, 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 Director(s) scrutinize(s) the performance of management in achieving agreed corporate goals and objectives and monitor(s) 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.

CORPORATE GOVERNANCE REPORT

A3. Chairman and Chief Executive

The roles and duties of the chairman of the Board 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 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 and Mr. JIANG Liwei are appointed for a term of 3 years commencing from February 3, 2015 and June 1, 2016, respectively, pursuant to their respective appointment letters. All the non-executive Directors (including the independent non-executive Directors) are appointed for a term of 3 years from October 15, 2016 pursuant to their letters of appointment.

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

At the forthcoming 2017 AGM, Ms. Yue'e ZHANG and Mr. JIANG Liwei shall retire by rotation pursuant to the Articles provisions as stated in the foregoing paragraph. Both of the above two retiring Directors, being eligible, will offer themselves for re-election at the 2017 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 two Directors as required by the Listing Rules.

A5. Training and Continuing Development for Directors

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

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

CORPORATE GOVERNANCE REPORT

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, 2016, 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. ZHANG Xingdong	✓	✓
Mr. CHEN Geng	✓	✓
Mr. WANG Xiaogang	✓	✓

A6. Directors' Attendance Records at Meetings

The attendance records of each Director at the Board and Board committee meetings and the general meeting of the Company held during the year ended December 31, 2016 are set out below:

	Attendance/Number of Meetings				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	AGM
Executive Directors:					
Ms. Yue'e ZHANG	4/4	N/A	N/A	1/1	1/1
Mr. JIANG Liwei	4/4	N/A	N/A	N/A	1/1
Non-executive Director:					
Mr. LIN Junshan	4/4	3/3	1/1	N/A	1/1
Independent non-executive Directors:					
Mr. ZHANG Xingdong	3/4	N/A	1/1	1/1	0/1
Mr. CHEN Geng	4/4	3/3	1/1	N/A	1/1
Mr. WANG Xiaogang	4/4	3/3	N/A	1/1	1/1

In addition, the chairman of the Board held a meeting with the non-executive Directors (including the independent non-executive Directors) without the presence of executive Director during the year ended December 31, 2016.

CORPORATE GOVERNANCE REPORT

A7. Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of their office or employment, are likely to possess inside information of the Company and/or securities. Specific enquiry has been made of all the Directors and they have confirmed their compliance with the Model Code throughout the year ended December 31, 2016. In addition, no incident of non-compliance of the Model Code by the senior management of the Group was noted during the year ended December 31, 2016.

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

A8. Corporate Governance Functions

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

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

B. BOARD COMMITTEES

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

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

B1. Remuneration Committee

The Remuneration Committee comprises a total of three members, being one non-executive Director, namely Mr. LIN Junshan, and two independent non-executive Directors, namely Mr. CHEN Geng (chairman of the Committee) and Mr. ZHANG Xingdong. Throughout the year ended December 31, 2016, 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.

CORPORATE GOVERNANCE REPORT

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, 2016, the Remuneration Committee has held one meeting, in which the existing remuneration policy and structure of the Company and the remuneration packages of Directors and senior management were reviewed and relevant recommendations were made to the Board.

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

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended December 31, 2016 is set out below:

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

The amount of remuneration includes the amortisation of the fair value of share-based compensation, wages, salaries, bonus, contribution to social securities and housing fund. Details of the remuneration of each Director for the year ended December 31, 2016 are set out in Note 39 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), and two independent non-executive Directors, namely Mr. ZHANG Xingdong and Mr. WANG Xiaogang. Throughout the year ended December 31, 2016, 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.

CORPORATE GOVERNANCE REPORT

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, 2016, the Nomination Committee has held one meeting and performed the following major works:

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

— Recommendation of the re-appointment of the retiring Directors standing for re-election at the AGM held on May 31, 2016; and

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

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

B3. Audit Committee

The Company has met the Listing Rule requirements regarding the composition of the Audit Committee throughout the year ended December 31, 2016. The Audit Committee comprises a total of three members, being one non-executive Director, namely Mr. LIN Junshan, and two independent non-executive Directors, namely Mr. WANG Xiaogang and Mr. CHEN Geng. The chairman of the Audit Committee is Mr. WANG Xiaogang who possesses the appropriate professional qualification, and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

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

CORPORATE GOVERNANCE REPORT

During the year ended December 31, 2016, the Audit Committee has held three meetings and performed the following major works:

— Review and discussion of the annual financial statements, results announcement and report for the year ended December 31, 2015, the related accounting principles and practices adopted by the Group and the relevant audit findings, the report from the management on the Company's financial reporting system, internal control and risk management review and processes, the major internal audit issues for the year ended December 31, 2015 and the existing internal audit function of the Company; 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, 2016 and the related accounting principles and practices adopted by the Group;

— Discussion of the nature, plan and scope of the Group's audit and the audit fee for the year ended December 31, 2016; and

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

The external auditor has met the Audit Committee members twice for discussing issues arising from the audit and financial reporting matters.

The attendance records of each Committee member in the three 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, 2016.

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.

CORPORATE GOVERNANCE REPORT

D. RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. The management, in coordination with department heads, assess the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress. The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended December 31, 2016.

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

During the year ended December 31, 2016, the Board, as supported by the Audit Committee as well as the report from the management and the internal audit findings, reviewed the effectiveness of the Group's risk management and internal control systems, including the financial, operational and compliance controls, and considered that such systems are effective and adequate.

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

E. COMPANY SECRETARY

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

Ms. SO and Tricor are 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, 2016.

CORPORATE GOVERNANCE REPORT

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, 2016 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, 2016 are analysed below:

Type of services provided by the external auditor	**Fees paid/ payable** (RMB'000)
Audit services	2,700
Non-audit services	—
TOTAL:	2,700

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.

CORPORATE GOVERNANCE REPORT

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

H. SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report is the first environmental, social and governance report published by PW Medtech, which discloses the Group's practices and performances on sustainable development in a transparent and open manner, to enhance the Group's stakeholders' confidence and understanding in the Group.

Reporting Year

All information contained herein reflects the performance of PW Medtech on environmental protection and social care from January 2016 to December 2016. Subsequently, the Group will publish an environmental, social and governance report on a regular basis each year, which can be accessed by various sectors at any time, to continuously enhance the transparency of information disclosure.

Scope of Report

The report focuses on the operation of four Plants of PW Medtech at its principal places of business, i.e. Beijing, Tianjin and Shenzhen, and covers four subsidiaries including Tianxinfu, which is engaged in Regenerative Medical Biomaterial Business, Fert Technology, which is engaged in high-end Infusion Set Business, Walkman Biomaterial, which is engaged in Orthopedic Implant Business, and Shenzhen Bone, which is engaged in Orthopedic Implant Business. As the Group disposed of Walkman Biomaterial and Shenzhen Bone in December 2016, the environmental, social and governance information of both companies will not be disclosed in the 2017 annual report.

Reporting Standards

This report is prepared in accordance with the Guide issued by the Stock Exchange. It summarizes the performance of PW Medtech on environmental, social and governance aspects in a simplified manner. The information contained herein is sourced from official documents and statistics of the Group, as well as the combined information of monitoring, management and operations provided by subsidiaries in accordance with the Company's relevant policies. This report is prepared in both Chinese and English and is available on the Group's website www.pwmedtech.com. In the event of inconsistency, the Chinese version shall prevail.

Feedbacks

The Group's continuous improvements rely on your valuable opinions on our performance and reporting method. If you are in doubt or have any recommendations in regards to this report, you are welcome to email us at ir@pwmedtech.com, for the Group to constantly enhance its ESG works.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNICATION WITH THE STAKEHOLDERS

The Stock Exchange proposed four reporting principles in the Guide, including materiality, quantification, balance and consistency, as the preparation basis of the environmental, social and governance report. As stated by the Stock Exchange, stakeholders' engagement is a widely employed method for assessing materiality. By communicating with the stakeholders, corporations are able to understand wide ranging opinions, and identify crucial environmental and social issues.

For PW Medtech, stakeholders represent groups and individuals who have significant impacts on the Group's business, or those who are affected by the Group's business. The Group's stakeholders include not only staff, but also customers, business partners, investors, governmental authority and community groups in various types. In the last year, the Group communicated with key stakeholders through different channels. In preparation of this report, the Group intentionally engaged a professional consulting corporation to conduct a substantive analysis by interviewing management, and incorporated the advice from the expert consultants to clarify important reporting issues, to determine the direction of the Group's sustainable development.

Methods of communications with the stakeholders in 2016

Internal stakeholders	External stakeholders
• Directors • Senior management • Staff	• Shareholders
Methods of communication: Meeting, email, telephone, interview, visit and exchange, factory visit, roadshow and annual report	

The business of PW Medtech has impacts on various stakeholders, while stakeholders also have different expectations over the Group. Looking ahead, the Group will continuously strengthen communication with its stakeholders, collecting their opinions more extensively and in numerous ways, to further refine substantive analysis. In the meantime, the Group will also enhance the reporting principles in terms of quantification, balance and consistency, to define the contents in the report and the presentation of information in a way which is more likely to meet the stakeholders' expectations.

THE GROUP'S VISION

In 2016, PW Medtech was confronted with various changes and challenges in the external business environment. As the leader in the industry, the Group's foothold and competitiveness were originated from the provision of safe, high-quality and trustworthy medical devices products. Innovation and R&D have always been the drivers of the Group to achieve business growth. Meanwhile, the Group endeavoured to pursue balanced development of environment, society and economy, prevent negative impacts of its operation on the environment and society and exert positive effects on different stakeholders, to add new driver for the sustainable development of the Group.

PW Medtech realizes that environmental protection is attracting increasing concerns in the society and understands that greenhouse gas emission is exerting a severe impact on the global environment. The Group will review its carbon footprint, promote measures for energy conservation and carbon reduction, and enhance staff's awareness of environmental protection. The Group will also increase its attention and investment in environmental protection in the process of R&D and design, manufacturing, sales and distribution, and continue to improve the Group's operation process in accordance with national regulations and standards, striving to meet international standards.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As a responsible enterprise, PW Medtech values the demands and expectations of stakeholders. Stakeholders paid increasing attention to the Group's operation, e.g. health and safety issues as special concerns of staff. The work focus of the Group was to ensure the health and safety of staff. The Group provided stringent training to ensure that staff understand the working process and precautions. The Group also took protective measures, such as providing complete protective clothing, to create a safe working environment for staff.

PW Medtech will show its protection of environment and concern about the society in daily work and encourage staff's participation, to achieve harmony and balance between operation vitality and social responsibility of the Group. The preparation of the first environmental, social and governance report is the start of the Group's sustainable development. In the future, the Group will strengthen information transparency and look for more channels to improve communication with stakeholders on the strategies, visions and plans of sustainable development of the Group to find new opportunities for the Group's strategic development.

ENVIRONMENTAL PROTECTION

Climate change poses unprecedented challenges to the global economic development. Extreme weather caused by climate change directly or indirectly affects the ability of different institutions to access resources and maintain operations. In the 2015 Paris Climate Change Conference, 195 countries including the PRC agreed to implement the greenhouse gas reduction program to control the increase of global temperature within two degrees Celsius.

In November 2016, the Paris Agreement officially came into effect, aiming to limit the rise in global temperature with two degrees Celsius before the end of the century as compared to the time of pre-industrialization and further controls the range of such rise within 1.5 degrees Celsius

Facing the global trend of emission reduction, in addition to compliance with the environmental regulations and industry standards of the areas of business, PW Medtech has also established complete internal environmental management procedures, and implemented various monitoring measures for the operation sections involving generation of emissions and use of resources. It was committed to the monitoring and controls of the effects of the Group's operations on environment with a systematic model.

Emissions

The production processes of PW Medtech's four Plants in Beijing, Tianjin and Shenzhen, including biological R&D, chemical processing, metal polishing, cleaning and sterilization, mainly produced three emissions, i.e. waste, exhaust gas and sewage. The Group took management and supervision measures based on the sources and types of emissions.

The Plants implemented waste classification and provided clear guidelines on classification and collection for staff to separate ordinary life waste from hazardous wastes for treatment. Acid pickle, waste alkali, lubricating oil, oil-containing containers, waste duster cloth and other hazardous wastes must be separately identified and stored, and subject to uniform collection by a licensed contractor to prevent chemicals from percolating into ordinary rubbish, causing land pollution. The Group has also set out responsibilities of both parties and precautions in the contract entered into with the contractor to prevent leakage of chemicals caused by misoperation, and established a hazardous wastes database to record the volume of wastes on a continued basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PW Medtech also conducted sewage discharge under strict procedures. The Plants will perform neutralizing treatment for the sewage produced before discharging it with domestic sewage into the municipal pipes to prevent pollution of local waters. In addition, the Group has engaged a third-party inspection body to conduct spot check at the outfalls of the Plants to ensure compliance of sewage discharged with national standards.

The Plants also collected chemical exhaust gas, such as ethylene oxide used for sterilization, which was sent for treatment by a qualified organization after its conversion into liquid. It was prohibited from directly discharging exhaust gas into the air. In the process of mental polishing, closed equipment with a dust remover was adopted to prevent flying dust, reducing air pollution.

Use of Resources

PW Medtech understands that a sound resources management system can effectively improve the resources utilization efficiency. The main resources consumed by the production lines and offices of the Plants included metal, chemicals and other raw materials as well as electricity, fuel, water, paper, office supplies, etc. In this regard, the Plants themselves have developed appropriate resources control measures according to their actual operation conditions, with a view to reducing resources consumption.

Taking Fert Technology as an example, it has formulated and implemented the Provisions on Management of Raw Materials Warehouse to normalize the ways of placement and control of environment temperature, etc. of materials, and released materials under the principle of "first in first out" to avoid waste caused by improper storage or expired losses. The Plants also adopted institutionalized management to promote staff to form a work habit of using resources properly. For example, Tianxinfu stipulated the conditions on using corporate vehicles in the Provisions on Use of Corporate Vehicles to encourage staff to use public transport means to turn out for work; and it prepared the System for Management of Procurement and Release of Office Supplies, which specified that office supplies shall be subject to uniform procurement by the administrative department and be applied for and released on a need basis to put an end to waste.

Shenzhen Bone executed the System for Management of Saving of Water and Electricity to provide guidelines on supervision over various energy-saving benefits and daily use of air conditions and lightings, and water and electricity consumption. The Group will be more proactive in promoting its plants to learn from each other and improve their respective resources management system.

PW Medtech believes that clear objectives are necessary for improving resources utilization efficiency. For electricity, water, fuel and other resources required for operation of plants, certain plants have kept on recording the consumption. In the future, the Group will encourage departments to strengthen cooperation and set quantitative objectives for use of resources based on the accurate statistical data to continuously enhance the resources utilization efficiency in daily operations.

Environment and Natural Resources

Due to the nature of the business, various chemicals are inevitably used in the operations of PW Medtech. Any improper treatment will cause material impacts on the environment. The Group strictly complied with the Rules on Safety Management of Hazardous Chemicals and other relevant environmental laws and regulations, and kept a close eye on and assessed the effects of business on environment to ensure prompt identification, monitoring and management of important environmental events. The use of chemicals by the Group follows the principle of "substitution of toxic chemicals with non-toxic ones and substitution of highly toxic chemicals with lowly toxic ones", and a comprehensive safety check is conducted for the chemicals storage devices annually. Any problems found will be solved immediately. In 2016, the Plants had no violation in relation to environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The effects of environmental measures rely on the support of stakeholders. Therefore, PW Medtech will enhance staff's awareness of environmental protection, encourage partners to operate businesses in a sustainable way and strengthen information disclosure on environmental performance to realise continued improvement. In order to become a real green enterprise and guarantee tackling climate change as the core of business strategy, the Group will study the establishment of an environmental protection committee, incorporate environmental protection into operation plans in a more active manner and further improve corporate internal guidelines on environmental protection to proactively propel the implementation of various action plans on environmental protection.

SOCIAL CARE

Employment and Labour Practices

Staff is the most valuable asset of PW Medtech and also the driver of the Group's growth. The Group is of the view that every staff should be respected, and has therefore established a clear and fair employment mechanism to let staff have a thorough understanding of their rights and responsibilities in terms of compensation and welfare, code of conduct, career development, etc. The Staff Manual of the Group will be amended at due time in accordance with local laws, market environment and other external factors as well as the internal demands for business development, and the Group will hear the opinions of staff on individual amendments to maintain open communication with staff.

PW Medtech was committed to building a fair working environment for staff. The Group assessed business knowledge, work capacity and other factors for employment, promotion, remuneration, vacation and other benefits regardless of race, age, gender, religion, etc. For example, the Remuneration and Welfare Management System of Fert Technology and the Remuneration System of Shenzhen Bone clarified that the determination of remuneration and welfare only gave consideration to local regulations, industry level, corporate overall efficiency, personal performance and other objective factors, striving to achieve "external fairness, internal fairness and individual fairness". In 2016, the Group did not find any violations in respect of employment and labour practices.

As a productive enterprise, PW Medtech has always deemed safety and health as the primary tasks of plants management. The Group is of the view that, to effectively prevent occupational injuries and diseases, it is required to first identify and evaluate the safety risks of different work posts. Under the principle of "prevention first and integration of prevention and treatment", the Group identified the work types exposed to high risks , including chemicals treatment, experimental operation, metal welding and cutting, and work in the environment with high ultraviolet intensity, noise and dust, which was regarded as the key point of safety management. The Plants have respectively established safety operation procedures for these work types and provided safety training on basic safety knowledge or special processes for new employees to prevent accidents caused by misoperation. Besides, the management of the Plants further led all departments in joint execution of fire safety management system, which set out clear personnel division for fire prevention and control in terms of inspection of firefighting equipment, management of fire and electric operation, publicity and education, fire drill, etc.

In addition to the prevention of safety accidents, PW Medtech also cares about the occupational health of staff very much. In the early layout for putting plants into production, the Group separated the living areas for accommodation and dining of staff from production areas to keep staff away from the sources of danger, and also provided sufficient and suitable labour protection instruments for each staff. Besides, the Group arranged regular physical examination for staff engaged in special work types, and transferred the staff with abnormal examination results from the original posts and provided them with re-examination. The Group's safety and health management system is effective. In 2016, there was one slight injury caused by tumble and no violation in respect of safety and health.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PW Medtech attaches great importance to the personal development of staff. In this regard, it has formulated a comprehensive training and assessment system to support staff's career plan in a systematic way. For the demands of department functions and business development, the human resources department analysed staff's training needs on a yearly basis, and jointly prepared and executed annual training plan with other departments. The Plants offered diversified trainings for new employees and regular employees on industry regulations, rules and regulations, product technology and other basic knowledge as well as professional skills for sterilization and water production, sealing and welding, and other processes. In addition to internally organised training, the Group arranged staff to attend open courses, seminars, forums and other external trainings based on the training requirements of departments to enrich staff's knowledge. The Group also conducted annual performance assessment for staff, analysed and reviewed training achievements and established training files to summarise, record and give feedback of staff's performance, allowing continuous improvement of staff's working skills and professional knowledge.

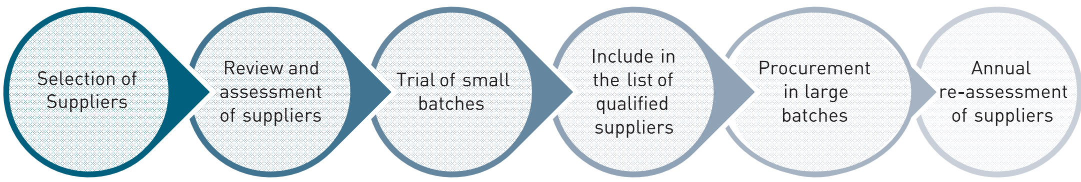
PW Medtech understands that employing child labour and forced labour is a violation of basic human rights and international labour conventions, and poses threats to the sustainable development of the society and economy. Therefore, the Group implemented relevant laws and regulations and conducted strict age examinations in employment, and only entered into and executed the employment contracts on a legal and voluntary basis. No illegal or unfair means were used to restrict the employment relationship between staff and the Group. In case of requirement of overtime in emergencies, the department concerned must obtain the consent of staff and submit an application in advance, and the Group will pay overtime wage or arrange compensation leave to safeguard labour's interests. In 2016, the Group has not identified any non-compliance cases involving child labour and forced labour.

International Labour Organisation, a professional institution of the United Nations, establishes labour standards through international labour conventions and proposals to improve working and living standards around the world. China is a founding member of International Labour Organisation and a permanent member of this organization.

Operations Practices

In the context of fierce market competition, customers have increasingly higher requirements on products and services. PW Medtech is deeply convinced that creating the maximum value for customers is the only way to win their trust and support. The Group's products are used on human body and are directly related to the safety and health of users. Thus, the Group highly stresses the operation and governance of plants and endeavours to meet regulations and industry standards in terms of management of supply chain, product quality and internal monitoring, and satisfy the expectations of medical personnel and patients by ensuring product quality with higher business ethics.

Supplier Management and Control Process of PW Medtech



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The product quality of PW Medtech depends on the due diligence of suppliers to a great extent. Therefore, the Plants have drawn up Supplier Management and Control Procedures, and a professional team composed of the procurement department, quality management department, technology department and other departments to assess and select products and service suppliers with a fair and transparent review mechanism. The team conducted preliminary review for the information of potential suppliers which was collected according to procurement requirements, and assessed the operation qualifications, quality management, after-sales service, etc. or go to the plants for site investigation. The Group only asked for samples from the suppliers who have passed preliminary review for quality inspection and trial. Only the suppliers with qualified results were included in the "List of Qualified Suppliers" and became the Group's partners after passing the comprehensive review. Moreover, the Group performed annual re-assessment to continuously supervise the performance of suppliers. The suppliers with poor review results were requested by the Group to conduct rectification and improvement within a specified period, or even disqualified as a supplier.

In addition to management of supplier chain, PW Medtech controls product quality in every stage, including production, delivery, after-sale, etc. The quality management departments of the Plants strictly executed relevant procedures and inspected semi-finished and finished products in accordance with requirements in the production process to ensure the products were in compliance with technical standards; otherwise, the products would be scrapped. The Plants provided staff with working guidelines on products handling, storage, packaging, protection and delivery to eliminate effects of any misoperation in working process on product quality. And the Group extended the fulfillment of product responsibility to the after-sales management, and provided training and technical support to authorised distributors, sales personnel and medical personnel to ensure proper operation of medical devices and further guaranteed users' safety and health. In 2016, the Group had no violation of laws and regulations in relation to product responsibility or relevant customer complaint or product recall.

As a responsible enterprise, PW Medtech is also committed to the prevention of illegal actions including corruption, bribery, extortion, fraud and money laundering. The Group has worked out a Code of Conduct for staff to give clear requirements on declaration of staff's receipt of presents, gifts and interests. The Plants enabled staff to have a clear understanding of relevant regulations and internal standards through distribution of Staff Manual, signing a Letter of Commitment on Integrity, inclusion of anti-corruption terms in the employment contract, etc. to foster a clean and honest corporate culture. In 2016, there were no corruption cases related to the Group and its staff.

Community Investment

The market's increasing emphasis on corporate social responsibility gives rise to the concept of "social business licensing", which stresses that enterprises should lay stress on long-term interests of the entire society in addition to short-term financial performance and shareholders' return.

As a progressive enterprise, PW Medtech understands the importance of meeting different stakeholders' expectations. The Group believes that when the interests of shareholders and all other stakeholders are balanced, the business can achieve long-term, stable and healthy development. Although no specific policy on community investment has been established, the Group, upholding its commitments to the society, will endeavour to understand the requirements of the communities in which it operates and further intensify its contact with the communities in which the Group operates to make contributions to the sustainable development of communities.

DIRECTORS' REPORT

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended December 31, 2016.

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 (i) the Regenerative Medical Biomaterial Business and (ii) the Infusion Set Business.

The activities and particulars of the Company's subsidiaries are shown in Note 11 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year ended December 31, 2016 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.

BUSINESS REVIEW

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

RESULTS AND DIVIDEND

The consolidated results of the Group for the year ended December 31, 2016 are set out on pages 56 to 63 of this annual report.

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2016 (2015: Nil).

CLOSURE OF THE REGISTER OF MEMBERS FOR 2017 AGM

For determining the entitlement to attend and vote at the 2017 AGM to be held on June 2, 2017, the register of members of the Company will be closed from May 29, 2017 to June 2, 2017, both days inclusive, and during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2017 AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. (Hong Kong time) on May 26, 2017.

DIRECTORS' REPORT

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 ended December 31, 2016 are set out in Note 7 to the consolidated financial statements on pages 90 to 91 of this annual report.

SHARE CAPITAL

The Company issued new ordinary Shares during the year ended December 31, 2016 upon exercise of share options by an employee of the Group. The reason for the issue of new ordinary Shares is set out in the section headed "Pre-IPO Share Option Scheme". Details of the movements in share capital of the Company during the year are set out in Note 18 to the consolidated financial statements on pages 103 to 104 of this annual report.

EQUITY-LINKED AGREEMENTS

During the year ended December 31, 2016, other than the Pre-IPO Share Option Scheme and Share Option Scheme as set out in the section under "Pre-IPO Share Option Scheme and Share Option Scheme" and Note 21 to the consolidated financial statements, the Company has not entered into any equity-linked agreement.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the year ended December 31, 2016 are set out in Note 19 to the consolidated financial statements on page 104 of this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2016, the Company's distributable reserves were RMB1,470.8 million.

BORROWINGS

As at December 31, 2016, the Company had no borrowings (2015: Nil).

DONATIONS

During the year ended December 31, 2016, the Group did not make any charitable donations (2015: Nil).

DIRECTORS' REPORT

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

During the year ended December 31, 2016, the Company repurchased on the Stock Exchange a total of 87,743,000 Shares at a total consideration of approximately HK$171.9 million. Such Shares were cancelled on February 15, May 12, July 7, August 9, September 30, October 25, November 15 and December 13, 2016 and January 11, 2017, respectively. Details of the Share repurchases are summarised as follows:

Month of repurchase	Total number of Shares repurchased	Repurchase price per Share Highest	Repurchase price per Share Lowest	Aggregate consideration
		HK$	HK$	HK$
January, 2016	20,666,000	1.60	1.53	32,439,200.40
March, 2016	6,546,000	1.73	1.66	11,134,516.80
April, 2016	15,210,000	2.06	1.70	28,577,526.90
May, 2016	383,000	1.99	1.98	761,770.00
June, 2016	8,405,000	2.00	1.97	16,771,520.00
July, 2016	3,773,000	2.00	1.99	7,545,670.00
August, 2016	7,931,000	2.18	2.08	17,172,750.00
September, 2016	8,333,000	2.30	2.15	19,067,210.00
October, 2016	959,000	2.40	2.40	2,301,600.00
November, 2016	8,281,000	2.46	2.40	20,329,230.00
December, 2016	7,256,000	2.46	1.78	15,758,040.00

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities during the year ended December 31, 2016. The purchase of the Shares was made for the benefit of the Shareholders with a view to enhancing the net asset value per Share and EPS.

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 IPO

The net proceeds from the IPO amounted to HK$1,348.7 million (equivalent to approximately RMB1,059.8 million) after deducting share issuance costs and listing expenses. As at December 31, 2016, the proceeds raised by the Company from the IPO have not been fully utilized. During the year ended December 31, 2016, such net proceeds were applied in accordance with the proposed applications as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. In 2017, the Company will use the proceeds raised from the IPO in accordance with its development strategies, market conditions and intended use of such proceeds.

DIRECTORS' REPORT

DIRECTORS

The Directors during the year ended December 31, 2016 and up to the date of this report are as follows:

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

Non-executive Director
Mr. LIN Junshan

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

In accordance with Article 108 of the Articles, Ms. Yue'e ZHANG and Mr. JIANG Liwei will retire as Directors at the 2017 AGM. The above retiring Directors, being eligible, will offer themselves for re-election at the 2017 AGM.

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 11 in the section headed "Profile of Directors and Senior Management" to this annual report.

DIRECTORS' SERVICE CONTRACTS

The Company has issued a letter of appointment to each of Ms. Yue'e ZHANG and Mr. JIANG Liwei, executive Directors, for a term of three years from February 3, 2015 and June 1, 2016, respectively. The Company has also issued a letter of appointment to each of the non-executive Director and independent non-executive Directors for a term of three years from October 15, 2016. The term of office of each of the Directors is subject to termination, and termination notice can be served either by the Director or the Company. The appointment may be renewed in accordance with the Articles and the applicable rules.

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

CONTRACT WITH DIRECTORS AND CONTROLLING SHAREHOLDER

No contract of significance has been entered into among the Company or any of its subsidiaries and the controlling Shareholder or any of its subsidiaries during the year ended December 31, 2016.

DIRECTOR'S INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT

No transaction, arrangement or contract of significance in relation to the business of the Group in which the Company or any of its subsidiaries was a party, and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2016.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

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

The remuneration (including fees, salaries and other benefits, retirement benefit scheme contribution) paid to the Directors in aggregate for the year ended December 31, 2016 was approximately RMB3.5 million.

The remuneration (including salaries and other benefits, retirement benefit scheme contribution) paid to the Group's five highest paid individuals in aggregate for the year ended December 31, 2016 was approximately RMB4.6 million.

For the year ended December 31, 2016, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended December 31, 2016.

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in Notes 39 and 27 to the consolidated financial statements on pages 125 and 112 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 105 to 106 of this annual report.

Save as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2016, by the Group to or on behalf of any of the Directors.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' REPORT

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, 2016. The independent non-executive Directors have conducted such review for the year ended December 31, 2016 and also reviewed the relevant undertakings and are satisfied that the Non-competition Deed has been fully complied.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) for the benefit of the Directors is currently in force and was in force throughout the year ended December 31, 2016.

PENSION SCHEME

Details of the pension scheme of the Company are set out in Note 2.18 to the consolidated financial statements.

MANAGEMENT CONTRACTS

Other than the Directors' appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the year ended December 31, 2016.

LOAN AND GUARANTEE

During the year ended December 31, 2016, 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.

DIRECTORS' REPORT

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 18,216,786 Shares, representing approximately 1.15% 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, 2016 are set out below:

	Number of options					
Name or category of option holders	Outstanding as at January 1, 2016	Granted during the year	Exercised during the year (Note 1)	Cancelled during the year	Lapsed during the year	Outstanding as at December 31, 2016
Directors of the Company						
Mr. JIANG Liwei	4,777,070	—	—	—	1,592,357	3,184,713
Mr. LIN Junshan	6,369,427	—	—	—	3,184,714	3,184,713
Mr. CHEN Geng	955,413	—	—	—	318,471	636,942
Mr. WANG Xiaogang	955,413	—	—	—	318,471	636,942
Senior management and other employees of the Group						
In aggregate	22,563,925	—	159,236	—	11,831,213	10,573,476
Total	35,621,248	—	159,236	—	17,245,226	18,216,786

Notes:

(1) The weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$1.56 per Share.

(2) The exercise price per Share of the above options granted was RMB0.626.

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

DIRECTORS' REPORT

A detailed summary of the terms (including the terms of the Pre-IPO Share Option Scheme, the calculation method of the exercise price, exercise periods, 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.

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

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 160,000,000 Shares, representing approximately 10.12% 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 offer of a grant of share options under the Share Option Scheme may be accepted within 14 days from the date of offer upon payment of a consideration of HK$1 by the grantee.

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

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

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

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

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at December 31, 2016, 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	0.07%
Mr. LIN Junshan	Beneficial owner	1,578,427	0.10%
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 underlying Shares over the Company's issued share capital
Mr. JIANG Liwei	Beneficial owner	3,184,713	0.20%
Mr. LIN Junshan	Beneficial owner	3,184,713	0.20%
Mr. CHEN Geng	Beneficial owner	636,942	0.04%
Mr. WANG Xiaogang	Beneficial owner	636,942	0.04%

Note: Details of the above share options granted by the Company are set out in the section headed "Pre-IPO 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, 2016.

Save as disclosed above and in the section headed "Pre-IPO Share Option Scheme" and to the best knowledge of the Directors, as at December 31, 2016, 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.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at December 31, 2016, 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	34.40%
Ms. Yufeng LIU	1	Interest of a controlled corporation	547,061,863	34.40%
Mr. ZHANG Zaixian	2	Interest of spouse	547,061,863	34.40%
Right Faith Holdings Limited		Beneficial owner	393,385,962	24.74%
Mr. Marc CHAN	3	Interest of controlled corporations	408,385,962	25.68%
China Reinsurance (Group) Corporation		Beneficial owner	79,928,000	5.03%
Central Huijin Investment Ltd.	4	Interest of a controlled corporation	79,928,000	5.03%

Notes:

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

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

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

(4) China Reinsurance (Group) Corporation is owned as to 71.56% by Central Huijin Investment Ltd. Under the SFO, Central Huijin Investment Ltd. is deemed to be interested in the same number of Shares in which China Reinsurance (Group) Corporation is interested.

\+ The percentage represents the number of ordinary Shares interested divided by the number of the issued Shares as at December 31, 2016.

Save as disclosed above and to the best knowledge of the Directors, as at December 31, 2016, 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.

DIRECTORS' REPORT

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the Group's largest customers accounted for approximately 6.2% of the Group's total revenue from continuing operations. The Group's five largest customers accounted for approximately 16.0% of the Group's total revenue from continuing operations.

In the year under review, the Group's largest suppliers accounted for 5.4% of the Group's total cost of sales from continuing operations. The Group's five largest suppliers accounted for 19.4% of the Group's total cost of sales from continuing operations.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the 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 1,383 employees as of December 31, 2016, as compared to 1,599 employees as of December 31, 2015. 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, 2016, 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.

DIRECTORS' REPORT

Save as disclosed under the section headed "Related Party Transactions" stated in Note 34 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, 2016.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended December 31, 2016 are set out in Note 34 to the consolidated financial statements contained herein.

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

PricewaterhouseCoopers has been appointed as the auditor of the Company since the Listing Date and will retire at the 2017 AGM. A resolution will be proposed at the 2017 AGM to re-appoint PricewaterhouseCoopers as the auditor of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended December 31, 2016, the Company is in compliance with the relevant laws and regulations that have a significant impact on the Company.

On behalf of the Board
Yue'e ZHANG
Chairman

Hong Kong, March 30, 2017

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of PW Medtech Group Limited
(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of PW Medtech Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 125, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment
- Adequacy of bad debt provision

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment	
Refer to note 4 and note 8 to the consolidated financial statements As at 31 December 2016, the carrying amount of goodwill was approximately RMB534 million. Goodwill acquired through business combinations has been primarily allocated to each of the cash-generating units ("CGUs"), including the Infusion Set Business and the Regenerative Medical Biomaterial Business with allocated amounts approximately RMB161 million and RMB373 million, respectively. The risk is greater for the Infusion Set Business of which the revenue growth in 2016 is slower compared to that of previous years. As required by accounting standards, management assessed all CGUs containing goodwill individually for impairment on an annual basis. The determination of recoverable amount, being the higher of value-in-use and fair value less costs to dispose, requires judgement of management. Recoverable amounts are based on management's estimation of short term and long term revenue growth rates forecast, and profit margin forecast and discount rate used in the cash-flow forecast. No goodwill impairment was made after the management's assessment. We focused on this area due to the size of the goodwill balance and because the impairment assessment involved significant judgements and estimates made by the management.	In our testing of management's annual goodwill impairment assessment: • we tested the mathematical accuracy of cash-flow forecasts of all CGUs; • we assessed the appropriateness of the valuation models and the discount rate, with the assistance of our internal valuation specialists, taking into account the cost of capital of the Company and comparable organizations in the market; • we compared short term revenue growth rates from the latest three year strategic plans of the Company with the Company's historical financial information and budget; • we compared the long term revenue growth rate with the economic forecasts in China; • we compared the major costs component forecast with the Company's historical financial information and budget; • we performed the sensitivity analysis on the key drivers of cash flow forecast, including the profit margin, the long term growth rate and discount rate. Based upon the above procedures, we considered that the management's goodwill impairment assessment was supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Adequacy of bad debt provision	
Refer to note 15 to the consolidated financial statements As at 31 December 2016, the trade receivables which aged over one year amounted to approximately RMB52,503,000 (2015: RMB107,602,000), which represented approximately 25% (2015: 30%) of the total trade receivables. The Group is therefore exposed to a risk of default in respect of trade receivables. The bad debt provision was RMB866,000 as at 31 December 2016 (2015: RMB8,076,000). Management assessed the collectability of trade receivables on individual basis, and then made estimates and judgements on the extent that they would not be recovered, after considering the past settlements of the individual customer, the sales to and settlements from individual customer during the year and the subsequent settlements. We focused on this area because the management's assessment for adequacy of bad debt provision involved estimates and judgements by management.	In our testing of the recoverability of trade receivables, • we understood and evaluated the Group's credit control procedures and bad debt assessment procedures; • on sample basis, we requested confirmations of client debtor balances. Where a response to our request was not received, we performed alternative procedures, by agreeing amounts recorded to underlying invoice and good delivery notes and agreeing the relevant trade receivable balances to post year end cash receipts, if any; • on sample basis, we performed analysis on past settlements of the individual customer, the sales to and settlements from individual customer during the year by inspecting bank payment slips, good delivery notes and sending confirmation to customers to confirm the transaction amount during the year. We also checked subsequent settlements by inspecting bank payment slips subsequent to the year end; • we checked the aging profile on trade receivables, focusing on older debts for which little or no provision had been made. We challenged management the explanation of the recoverability of these older unprovided amounts with reference to corroborating explanations and correspondence with the customers. Based upon the above, we found that judgements made by the management in relation to the assessment of adequacy of bad debt provision were supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

INDEPENDENT AUDITOR'S REPORT

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Michael W.H. Chan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March, 2017

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2016 RMB'000	2015 RMB'000
Assets			
Non-current assets			
Land use rights	6	**60,937**	64,110
Property, plant and equipment	7	**687,236**	659,328
Intangible assets	8	**841,381**	967,798
Deferred income tax assets	23	**4,357**	10,179
Long-term prepayments	13	**3,455**	3,980
Trade receivables	15	**—**	24,071
		1,597,366	1,729,466
Current assets			
Inventories	14	**53,745**	123,983
Trade and other receivables	15	**686,437**	357,603
Term deposits	16	**—**	40,000
Cash and cash equivalents	17	**149,563**	288,224
		889,745	809,810
Total assets		**2,487,111**	2,539,276
Equity			
Equity attributable to owners of the Company			
Share capital	18	**979**	1,034
Share premium	18	**1,528,311**	1,666,821
Treasury shares	18	**(8,890)**	—
Other reserves	19	**71,354**	82,008
Retained earnings	20	**742,584**	547,635
		2,334,338	2,297,498
Non-controlling interests		**(336)**	1,167
Total equity		**2,334,002**	2,298,665

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2016 RMB'000	2015 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	23	53,438	60,855
Deferred income	24	1,283	6,169
		54,721	67,024
Current liabilities			
Trade and other payables	22	94,763	170,266
Current income tax liabilities		3,625	3,321
		98,388	173,587
Total liabilities		153,109	240,611
Total equity and liabilities		2,487,111	2,539,276

The notes on pages 64 to 125 are an integral part of these consolidated financial statements.

The financial statements on pages 56 to 125 were approved by the Board of Directors on March 30, 2017 and were signed on its behalf.

Yue'e Zhang **Jiang Liwei**

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000 (Restated)
Continuing operations			
Revenue	5	566,822	515,587
Cost of sales	26	(148,629)	(129,170)
Gross profit		418,193	386,417
Selling expenses	26	(77,276)	(68,563)
Administrative expenses	26	(56,652)	(61,526)
Research and development expenses	26	(19,664)	(23,898)
Other gains — net	25	14,139	7,683
Operating profit		278,740	240,113
Finance income	28	4,485	6,518
Finance costs	28	—	(1,254)
Finance income — net	28	4,485	5,264
Profit before income tax		283,225	245,377
Income tax expenses	29	(43,068)	(41,150)
Profit for the year from continuing operations		240,157	204,227
Discontinued operations			
(Loss)/profit for the year from discontinued operations	30	(46,711)	4,355
Profit for the year		193,446	208,582
Profit/(loss) attributable to:			
Owners of the Company		194,949	208,582
Non-controlling interests		(1,503)	—
		193,446	208,582
Profit/(loss) attributable to owners of the Company arises from:			
Continuing operations		241,660	204,227
Discontinued operations		(46,711)	4,355
		194,949	208,582

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000 (Restated)
Earnings per share from continuing and discontinued operations attributable to owners of the Company for the year (expressed in RMB cents per share)			
Basic earnings per share	35		
From continuing operations		**14.87**	12.19
From discontinued operations		**(2.87)**	0.26
From profit for the year		**12.00**	12.45
Diluted earnings per share	35		
From continuing operations		**14.85**	12.05
From discontinued operations		**(2.87)**	0.26
From profit for the year		**11.98**	12.31

The notes on pages 64 to 125 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000 (Restated)
Profit for the year		193,446	208,582
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Currency translation differences	19	105	1,232
Other comprehensive income for the year, net of tax		105	1,232
Total comprehensive income for the year		193,551	209,814
Attributable to:			
— Owners of the Company		195,054	209,814
— Non-controlling interests		(1,503)	—
Total comprehensive income for the year		193,551	209,814
Total comprehensive income attributable to owners of the Company arises from:			
Continuing operations		241,765	205,459
Discontinued operations		(46,711)	4,355
		195,054	209,814

The notes on pages 64 to 125 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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 1 January 2015	1,036	1,674,404	95,666	339,053	2,110,159	1,167	2,111,326
Comprehensive income							
Profit for the year	—	—	—	208,582	208,582	—	208,582
Other comprehensive income							
Currency translation differences	—	—	1,232	—	1,232	—	1,232
Total comprehensive income	—	—	1,232	208,582	209,814	—	209,814
Proceeds from employee share option exercised (Note 18)	8	8,656	—	—	8,664	—	8,664
Buy-back of shares (Note 18)	(10)	(29,671)	—	—	(29,681)	—	(29,681)
Transfer to share premium upon exercise of share option (Note 18)	—	13,432	(13,432)	—	—	—	—
Share option reserve (Note 21)	—	—	(1,458)	—	(1,458)	—	(1,458)
Total transactions with owners in their capacity as owners	(2)	(7,583)	(14,890)	—	(22,475)	—	(22,475)
Balance at 31 December 2015	1,034	1,666,821	82,008	547,635	2,297,498	1,167	2,298,665

The notes on pages 64 to 125 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016	1,034	1,666,821	—	82,008	547,635	2,297,498	1,167	2,298,665
Comprehensive income								
Profit for the year	—	—	—	—	194,949	194,949	(1,503)	193,446
Other comprehensive income								
Currency translation differences	—	—	—	105	—	105	—	105
Total comprehensive income	—	—	—	105	194,949	195,054	(1,503)	193,551
Proceeds from employee share option exercised (Note 18(a))	—	102	—	—	—	102	—	102
Buy-back of shares (Note 18(b))	(55)	(138,776)	(8,890)	—	—	(147,721)	—	(147,721)
Transfer to share premium upon exercise of share option (Note 18(c))	—	164	—	(164)	—	—	—	—
Share option reserve (Note 21)	—	—	—	(10,595)	—	(10,595)	—	(10,595)
Total transactions with owners in their capacity as owners	(55)	(138,510)	(8,890)	(10,759)	—	(158,214)	—	(158,214)
Balance at 31 December 2016	979	1,528,311	(8,890)	71,354	742,584	2,334,338	(336)	2,334,002

The notes on pages 64 to 125 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	**324,380**	311,777
Interest paid		**—**	(1,254)
Income tax paid		**(57,617)**	(50,548)
Net cash generated from operating activities		**266,763**	259,975
Cash flows from investing activities			
Disposals of subsidiaries	31(c)	**(29,908)**	1,000
Payments for property, plant and equipment		**(4,366)**	(22,671)
Payments for construction in progress		**(270,562)**	(243,183)
Purchases of land use rights	6	**(630)**	(804)
Purchases of intangible assets	8	**(1,218)**	(90)
Purchases of available-for-sale financial assets	10	**(309,700)**	(280,000)
Proceeds from disposals of available-for-sale financial assets		**310,859**	280,422
Proceeds from disposals of property, plant and equipment	31(b)	**589**	6,404
Interest received		**3,979**	6,281
Net decrease in restricted cash		**—**	260,000
Net decrease/(increase) in term deposits	16	**40,000**	(40,000)
Net cash used in investing activities		**(260,957)**	(32,641)
Cash flows from financing activities			
Buy-back of shares	18(b)	**(147,721)**	(29,681)
Proceeds from employee share option exercised	18(a)	**102**	8,664
Proceeds from borrowings		**—**	190,000
Repayment of borrowings		**—**	(265,000)
Net cash used in financing activities		**(147,619)**	(96,017)
Net (decrease)/increase in cash and cash equivalents		**(141,813)**	131,317
Cash and cash equivalents at beginning of the year	17	**288,224**	153,816
Exchange gains on cash and cash equivalents		**3,152**	3,091
Cash and cash equivalents at end of the year		**149,563**	288,224

The notes on pages 64 to 125 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the development, manufacturing and sale of (i) regenerative medical biomaterial products (the "Regenerative Medical Biomaterial Business"); (ii) advanced infusion set products (the "Infusion Set Business"); and (iii) orthopedic implants products (the "Orthopedic Implant Business") in the People's Republic of China (the "PRC" or "China"). During the year, the Orthopedic Implant Business was disposed and presented as a discontinued operations (Note 30).

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 all applicable 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 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 amended standards adopted by the Group*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Accounting for acquisitions of interests in joint operations — Amendments to HKFRS 11;
- Clarification of acceptable methods of depreciation and amortisation — Amendments to HKAS 16 and HKAS 38;
- Annual improvements to HKFRSs 2012–2014 cycle;
- Disclosure initiative — Amendments to HKAS 1;
- Regulatory deferral accounts — HKFRS 14;
- Equity method in separate financial statements — Amendment to HKAS 27; and
- Investment entities: applying the consolidation exception — Amendments to HKFRS 10, HKFRS 12 and HKAS 28

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) *New standards and interpretations not yet adopted*

The following new standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2016, and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Amendments to HKAS 12	Income taxes	1 January 2017
Amendments to HKAS 7	Statement of cash flows	1 January 2017
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2019

NOTES TO THE 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 standards and interpretations not yet adopted (Continued)

The Group has already commenced an assessment of the impact of these new or revised standards which are relevant to the Group's operation. According to the preliminary assessment made by the directors of the Company, no significant impact on the financial performance and positions of the Group is expected when adopting HKFRS 9 and HKFRS 15. The directors also do not expect the adoption of HKFRS 16 would result in significant impact on the Group's financial performance and positions except for the recognition of the right-of use assets and corresponding lease liabilities arising from accounting for operating leases by the Group as a lessee.

HKFRS 9, 'Financial instruments'
The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group does not intend to adopt HKFRS 9 before its mandatory date.

HKFRS 15, 'Revenue from contracts with customers'
The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements.

At this stage, the Group is reviewing the contracts and will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

HKFRS 16, 'Leases'
HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB2,765,000, see note 33. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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 standards and interpretations not yet adopted (Continued)

HKFRS 16, 'Leases' (Continued)

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

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. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 the income statement.

Intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) *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.

(c) *Disposals 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. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.2.2 Separate financial statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Segment reporting

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

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 currency 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, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs ". All other foreign exchange gains and losses are presented in the income statement within "Finance income/costs — net".

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(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. Currency translation differences arising are recognised in other comprehensive income.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

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.

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents 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 identified net assets acquired.

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposals. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Non-current assets (or disposals groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), (or disposals groups), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

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

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

2.10 Financial assets

2.10.1 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

2.10.1 Classification (Continued)

(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", "term deposits" and "cash and cash equivalents" in the consolidated balance sheet (Note 15, 16 and 17).

(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.

2.10.2 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 amortised 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.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

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".

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 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 recognised in profit or loss — is removed from equity and recognised 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 recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

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 recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 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.

2.13 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.

2.14 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.

2.15 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. Trade and other 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 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 realised or the deferred income tax liability is settled.

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

Outside basis differences

Deferred income tax 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 utilised.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 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.

2.19 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 save or holding shares for a specified period of time).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Share based payments (Continued)

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

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

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

(b) **Share-based payment transactions among Group entities**

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

2.20 Provisions and contingent liabilities

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue recognition

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

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

(a) Sales of medical devices and related products

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

(b) Interest income

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

(c) Dividend income

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

2.22 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.

2.23 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 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.

2.25 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 department 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 31 December 2016, if USD had strengthened/weakened by 3% against RMB (2015: 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 31 December	
	2016	2015
	RMB'000	RMB'000
Year ended:		
Increase/(decrease)		
— Strengthened 3% (2015: 3%)	**372**	2,152
— Weakened 3% (2015: 3%)	**(372)**	(2,152)

(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.

(iii) *Price risk*

The Group exposes to commodity price risk, mainly due to the fluctuations in prices of plastic, which are the key raw materials to the Group's products of its Infusion Set Business. During the year, the management considers the price risk exposure is not material, and the Group has the flexibility to pass the increases in raw material costs to the Group's customers.

(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 in the PRC, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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.

	Within 1 year RMB'000	**Between 1 and 2 years** RMB'000	**Total** RMB'000
At 31 December 2016			
Financial liabilities as included in trade and other payables (Note 9)	**51,930**	**—**	**51,930**
	51,930	**—**	**51,930**
At 31 December 2015			
Financial liabilities as included in trade and other payables	112,123	—	112,123
	112,123	—	112,123

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital 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. Since there was no borrowing as at 31 December 2016 and 2015, the gearing ratio was zero.

3.3 Fair value estimation

(a) **The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 31 December 2016.

	Available-for-sale financial assets RMB'000
At beginning of the year	—
Additions	309,700
Change in value of available-for-sale financial assets	1,159
Disposals	(310,859)
At end of the year	—

The following table presents the changes in level 3 instruments for the year ended 31 December 2015.

	Available-for-sale financial assets RMB'000
At beginning of the year	—
Additions	280,000
Change in value of available-for-sale financial assets	422
Disposals	(280,422)
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) 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.

(c) Estimated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(c) **Estimated impairment of goodwill (Continued)**

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 2% lower with other assumptions held constant, or had the terminal growth rate been 2% lower with other assumptions held constant, or had the discount rate been 1% higher with other assumptions held constant, there would be no impairment charge needed to be made against goodwill of the Group for the year.

(d) **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.

5 SEGMENT INFORMATION

The chief operating decision-makers have been identified as the executive directors of the Company. The executive directors review 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 directors consider the business from a product perspective, and determine that the Group has the following operating segments:

Continuing operations:

— Regenerative Medical Biomaterial Business — manufacturing and sale of regenerative medical biomaterial products;

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

— Others — operations of other businesses

Discontinued operations:

— Orthopedic Implant Business — During 2016, Orthopedic Implant Business was disposed and presented as discontinued operations and comparatives for the year ended 31 December 2015 has been restated accordingly (Note 30).

The chief operating decision-makers assess 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 31 December 2016

	Continuing operations				Discontinued operations	
	Regenerative Medical Biomaterial Business RMB'000	Infusion Set Business RMB'000	Others RMB'000	Sub Total RMB'000	Orthopedic Implant Business RMB'000	Total RMB'000
Revenue from external customers	241,745	319,583	5,494	566,822	121,108	687,930
Cost of sales	(35,096)	(109,277)	(4,256)	(148,629)	(28,677)	(177,306)
Gross profit	206,649	210,306	1,238	418,193	92,431	510,624
Selling expenses	(31,037)	(41,696)	(4,543)	(77,276)	(21,095)	(98,371)
Administrative expenses	(19,693)	(36,481)	(478)	(56,652)	(99,821)	(156,473)
Research and development expenses	(5,941)	(11,713)	(2,010)	(19,664)	(10,833)	(30,497)
Other gains — net	2,151	11,988	—	14,139	813	14,952
Segment profit	152,129	132,404	(5,793)	278,740	(38,505)	240,235
Finance income						4,511
Finance costs						(24)
Finance income — net						4,487
Profit before income tax						244,722
Segment assets	768,574	1,248,301	465,879	2,482,754	—	2,482,754
Deferred income tax assets						4,357
Total assets						2,487,111
Segment liabilities	33,439	63,870	2,362	99,671	—	99,671
Deferred income tax liabilities						53,438
Total liabilities						153,109
Other segment information						
Amortisation of land use rights	332	1,032	8	1,372	60	1,432
Depreciation of property, plant and equipment	3,252	15,357	74	18,683	16,047	34,730
Amortisation of intangible assets	21,970	4,270	—	26,240	1,003	27,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

Year ended 31 December 2015 (Restated)

	Continuing operations				Discontinued operations	
	Regenerative Medical Biomaterial Business RMB'000	Infusion Set Business RMB'000	Others RMB'000	Sub Total RMB'000	Orthopedic Implant Business RMB'000	Total RMB'000
Revenue from external customers	210,088	300,793	4,706	515,587	118,287	633,874
Cost of sales	(29,740)	(95,590)	(3,840)	(129,170)	(28,719)	(157,889)
Gross profit	180,348	205,203	866	386,417	89,568	475,985
Selling expenses	(27,198)	(37,990)	(3,375)	(68,563)	(31,937)	(100,500)
Administrative expenses	(19,700)	(41,624)	(202)	(61,526)	(39,809)	(101,335)
Research and development expenses	(8,529)	(13,495)	(1,874)	(23,898)	(12,070)	(35,968)
Other gains — net	468	7,215	—	7,683	2,086	9,769
Segment profit	125,389	119,309	(4,585)	240,113	7,838	247,951
Finance income						6,596
Finance costs						(1,254)
Finance income — net						5,342
Profit before income tax						253,293
Segment assets	803,056	1,168,863	18,585	1,990,504	538,593	2,529,097
Deferred income tax assets						10,179
Total assets						2,539,276
Segment liabilities	31,113	110,012	2,101	143,226	36,530	179,756
Deferred income tax liabilities						60,855
Total liabilities						240,611
Other segment information						
Amortisation of land use rights	333	956	7	1,296	60	1,356
Depreciation of property, plant and equipment	3,337	14,105	75	17,517	14,277	31,794
Amortisation of intangible assets	21,963	4,220	—	26,183	1,003	27,186

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

(a) Concentration of customers

Revenues of approximately RMB35,333,000 (2015: RMB35,826,000) 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 prepayments for operating lease of land located in the PRC, the net book values of which are analysed as follows:

	2016 RMB'000	2015 RMB'000
Opening net book amount	64,110	64,662
Additions	630	804
Amortisation charge	(1,432)	(1,356)
Disposals of subsidiaries	(2,371)	—
Closing net book amount	60,937	64,110
Cost	66,181	68,553
Accumulated amortisation	(5,244)	(4,443)
	60,937	64,110

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

	2016 RMB'000	2015 RMB'000
Cost of sales	419	444
Administrative expenses	1,013	912
	1,432	1,356

	2016 RMB'000	2015 RMB'000
Profit or loss of continuing operations (Note 26)	1,372	1,296
Profit or loss of discontinued operations	60	60
	1,432	1,356

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 1 January 2015							
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
Year ended 31 December 2015							
Opening net book amount	120,094	13,656	6,103	110,725	5,211	133,791	389,580
Additions	5,554	423	1,406	13,784	1,504	283,780	306,451
Transfer	11,228	336	73	16,492	—	(28,129)	—
Disposals	—	—	(102)	(4,766)	(41)	—	(4,909)
Depreciation	(7,874)	(2,598)	(2,298)	(17,448)	(1,576)	—	(31,794)
Closing net book amount	129,002	11,817	5,182	118,787	5,098	389,442	659,328
At 31 December 2015							
Cost	157,793	18,920	18,092	171,606	10,601	389,442	766,454
Accumulated depreciation	(28,791)	(7,103)	(12,910)	(52,819)	(5,503)	—	(107,126)
Net book amount	129,002	11,817	5,182	118,787	5,098	389,442	659,328
Year ended 31 December 2016							
Opening net book amount	**129,002**	**11,817**	**5,182**	**118,787**	**5,098**	**389,442**	**659,328**
Additions	**251**	**—**	**2,861**	**1,027**	**227**	**229,965**	**234,331**
Transfer	**42,650**	**—**	**536**	**6,817**	**—**	**(50,003)**	**—**
Disposals	**—**	**—**	**(288)**	**(332)**	**(10)**	**—**	**(630)**
Depreciation	**(8,610)**	**(4,035)**	**(2,292)**	**(18,152)**	**(1,641)**	**—**	**(34,730)**
Disposals of subsidiaries	**(105,960)**	**(3,008)**	**(1,759)**	**(59,548)**	**(788)**	**—**	**(171,063)**
Closing net book amount	**57,333**	**4,774**	**4,240**	**48,599**	**2,886**	**569,404**	**687,236**
At 31 December 2016							
Cost	**83,972**	**6,831**	**14,583**	**86,778**	**6,939**	**569,404**	**768,507**
Accumulated depreciation	**(26,639)**	**(2,057)**	**(10,343)**	**(38,179)**	**(4,053)**	**—**	**(81,271)**
Net book amount	**57,333**	**4,774**	**4,240**	**48,599**	**2,886**	**569,404**	**687,236**

As at 31 December 2016, the Group is still in the process of applying the ownership certificates of certain buildings with the aggregated carrying amounts of RMB8,102,000 (2015: RMB8,579,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2016 RMB'000	2015 RMB'000
Cost of sales	21,997	21,147
Administrative expenses	9,930	7,889
Selling expenses	1,180	850
Research and development expenses	1,623	1,908
	34,730	31,794

	2016 RMB'000	2015 RMB'000
Profit or loss of continuing operations (Note 26)	18,683	17,517
Profit or loss of discontinued operations	16,047	14,277
	34,730	31,794

Construction work in progress as at 31 December 2016 mainly comprises new manufacturing factory under construction.

In 2015, the Group has capitalised borrowing costs amounting to RMB944,000 on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.25%. No capitalised borrowing costs in 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 INTANGIBLE ASSETS

	Goodwill	Computer software	Trademarks	Technology know-how	Customer relationship	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015						
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
Year ended 31 December 2015						
Opening net book amount	622,956	1,168	31,199	337,622	1,949	994,894
Additions	—	90	—	—	—	90
Amortisation charge	—	(248)	(2,314)	(23,789)	(835)	(27,186)
Closing net book amount	622,956	1,010	28,885	313,833	1,114	967,798
At 31 December 2015						
Cost	622,956	1,449	34,711	356,820	5,012	1,020,948
Accumulated amortisation	—	(439)	(5,826)	(42,987)	(3,898)	(53,150)
Net book amount	622,956	1,010	28,885	313,833	1,114	967,798
Year ended 31 December 2016						
Opening net book amount	**622,956**	**1,010**	**28,885**	**313,833**	**1,114**	**967,798**
Additions	**—**	**898**	**—**	**320**	**—**	**1,218**
Amortisation charge	**—**	**(298)**	**(2,314)**	**(23,796)**	**(835)**	**(27,243)**
Impairment of goodwill (Note 30)	**(79,397)**	**—**	**—**	**—**	**—**	**(79,397)**
Disposals of subsidiaries	**(9,576)**	**(1,147)**	**—**	**(10,272)**	**—**	**(20,995)**
Closing net book amount	**533,983**	**463**	**26,571**	**280,085**	**279**	**841,381**
At 31 December 2016						
Cost	**533,983**	**858**	**34,711**	**343,237**	**5,012**	**917,801**
Accumulated amortisation	**—**	**(395)**	**(8,140)**	**(63,152)**	**(4,733)**	**(76,420)**
Net book amount	**533,983**	**463**	**26,571**	**280,085**	**279**	**841,381**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 INTANGIBLE ASSETS (Continued)

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

	2016 RMB'000	2015 RMB'000
Cost of sales	22,869	22,862
Administrative expenses	1,225	1,175
Selling expenses	3,149	3,149
	27,243	27,186

	2016 RMB'000	2015 RMB'000
Profit or loss of continuing operations (Note 26)	26,240	26,183
Profit or loss of discontinued operations	1,003	1,003
	27,243	27,186

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 31 December 2015	160,754	88,973	373,229	622,956
As at 31 December 2016	160,754	—	373,229	533,983

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.

[*] Orthopedic Implant Business was disposed during the year (Note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 INTANGIBLE ASSETS (Continued)

The key assumptions used for value-in-use calculations in 2016 and 2015 are as follows:

	Infusion Set Business		Regenerative Medical Biomaterial Business	
	2016	2015	**2016**	2015
Gross margin	**65.0%**	65.0%	**86.0%**	84.0%
Growth rate	**2.5%**	2.5%	**4.0%**	4.0%
Discount rate	**17.6%**	17.6%	**16.0%**	16.0%

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	
At 31 December 2016	
Trade and other receivables (excluding prepayments)	**679,312**
Cash and cash equivalents	**149,563**
Total	**828,875**
At 31 December 2015	
Trade and other receivables (excluding prepayments)	347,469
Term deposits	40,000
Cash and cash equivalents	288,224
Total	675,693

9 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Liabilities at amortised cost RMB'000
Liabilities as per balance sheet	
At 31 December 2016	
Trade and other payables (excluding advance from customers, salary and staff welfare payables and value added tax and other taxes)	**51,930**
Total	**51,930**
At 31 December 2015	
Trade and other payables (excluding advance from customers, salary and staff welfare payables and value added tax and other taxes)	112,123
Total	112,123

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000
At beginning of the year	**—**	—
Additions	**309,700**	280,000
Change in value of available-for-sale financial assets	**1,159**	422
Disposals	**(310,859)**	(280,422)
At end of the year	**—**	—

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 SUBSIDIARIES

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

Company name	Place of incorporation and operation/ kind of legal entity	Date of incorporation/ establishment	Registered/Issued and paid-up capital	Effective equity interests held 31 December 2016	2015	Principal activities
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
Health Access Limited ("Health Access")	Hong Kong/ Limited liability company	June 29, 2011	480,026,001 ordinary shares of HKD1 each	100%	100%	Investment holding
Indirectly owned:						
Health Forward Holdings Limited	Hong Kong/ Limited liability company	January 21, 2010	10,000 ordinary shares of HKD1 each	100%	100%	Investment holding
PW Medtech (Beijing) Limited (普華和順(北京) 醫療科技有限公司 "PW Medtech (Beijing)")	PRC/Limited liability company	August 10, 2000	RMB154,300,000	100%	100%	Investment holding
Jiangsu PW Medtech Medical Device Co., Ltd. (江蘇普華和順醫療器械有限公司)	PRC/Limited liability company	April 10, 2014	RMB10,000,000	100%	100%	Infusion Set Business
Beijing Fert Technology Co., Ltd. (北京伏爾特技術有限公司"Fert Technology")	PRC/Limited liability company	September 23, 1997	RMB126,000,000	100%	100%	Infusion Set Business
Xuzhou Yijia Medical Device Co.,Ltd. (徐州一佳醫療器械有限公司 "Xuzhou Yijia")	PRC/Limited liability company	June 30, 2003	RMB7,000,000	100%	100%	Infusion Set Business
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
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
Shandong Fert Medical Device Co., Ltd. (山東伏爾特醫療器械有限公司)	PRC/Limited liability company	July 28, 2015	RMB20,000,000	70%	70%	Infusion Set Business
Beijing Fert Medtech Co., Ltd. (北京伏爾特醫療科技有限公司)	PRC/Limited liability company	October 18, 2016	RMB 30,000,000	100%	—	Infusion Set Business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 SUBSIDIARIES (Continued)

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

Company name	Place of incorporation and operation/ kind of legal entity	Date of incorporation/ establishment	Registered/Issued and paid-up capital	Effective equity interests held 31 December 2016	2015	Principal activities
Tianxinfu (Beijing) Medical Appliance Co., Ltd. (天新福(北京)醫療器材股份有限公司 "Beijing Tianxinfu")	PRC/Limited liability company	January 18, 2002	RMB45,000,000	100%	100%	Regenerative Medical Biomaterial Business
Beijing Lima-TXF Medical Equipment Co., Ltd. (北京麗瑪天新福醫療器械有限責任公司)	PRC/Limited liability company	November 10, 2005	EURO3,200,000/ EURO1,518,500	75%*	75%*	Regenerative Medical Biomaterial Business
Disposals of subsidiaries (i):						
Lhasa Tianqiong Investment Management Co., Ltd. (拉薩天穹投資管理有限公司)	PRC/Limited liability company	January 30, 2013	RMB7,000,000	–	100%	Investment holding
Tianjin Yingshang Technological Development Co., Ltd. (天津市英尚科技發展有限公司)	PRC/Limited liability company	October 16, 2009	RMB6,000,000	–	100%	Investment holding
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	RMB100,000,000	–	100%	Orthopedic Implant Business
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%	Orthopedic Implant Business
Anyang Weili Metal Technology Co., Ltd. (安陽市偉力金屬科技有限責任公司)	PRC/Limited liability company	August 12, 1996	RMB3,000,000	–	100%	Orthopedic Implant Business
Shenzhen Bone Medical Device Co., Ltd. (深圳市博恩醫療器材有限公司)	PRC/Limited liability company	November 12, 2002	RMB45,000,000	–	100%	Orthopedic Implant Business
Disposals of a subsidiary (ii):						
Beijing Weikangtongda Medical Device Co., Ltd. (北京維康通達醫療器械技術有限公司 "Weikangtongda")	PRC/Limited liability company	July 31, 2014	RMB50,000,000	–	100%	Infusion Set Business

* 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 SUBSIDIARIES (Continued)

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

(i) On 24 December 2016, the Group entered into an agreement to dispose of the subsidiaries, which engaged in the Orthopedic implant Business, to an independent third party at a consideration of RMB450,000,000. The transaction has been completed before 31 December 2016 and the results of the Orthopedic implant Business have been presented as discontinued operations (Note 30).

(ii) On 8 December 2016, Fert Technology entered into an agreement to dispose of one of its subsidiaries, namely Weikangtongda, to an independent third party at a consideration of RMB15,000,000. The gain on disposal was approximately RMB6,099,000 (Note 25).

12 INVESTMENT IN AN ASSOCIATE

	2016 RMB'000	2015 RMB'000
Investment in an associate (i)	4,366	4,366
Impairment provision (ii)	(4,366)	(4,366)
	—	—

(i) Beijing XinFu Mindcam 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 USD1,500,000, out of which 40% equity interests was contributed by Beijing Tianxinfu, at a consideration of USD600,000 (equivalent to approximately RMB4,366,000).

(ii) Xinfu Mindacam was inactive during the past two years. 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 LONG-TERM PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Prepayments for property, plant and equipment	3,264	3,774
Others	191	206
	3,455	3,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**20,556**	35,061
Work in progress	**9,224**	18,598
Finished goods	**23,965**	70,324
	53,745	123,983

The cost of inventories recognised as expense and included in "cost of sales" of continuing operations amounted to RMB138,987,000 and RMB118,910,000 for the years ended 31 December 2015 and 2016 respectively, which included inventory write-down of RMB39,000 (2015: RMB456,000).

15 TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**214,125**	365,643
Less: provision for impairment (a)	**(866)**	(8,076)
Less: non-current portion (b)	**—**	(24,071)
Trade receivables — net (c)	**213,259**	333,496
Bills receivable (d)	**689**	2,898
Prepayments	**7,125**	10,134
Receivables from disposals of Orthopedic Implant Business (e) (Note 31(c))	**443,833**	—
Receivables from disposal of a subsidiary (e) (Note 31(c))	**15,000**	—
Other receivables (f)	**6,531**	11,075
	686,437	357,603

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2016 and 2015, except for the prepayments which are not financial assets, the fair value of the trade and other receivables approximated its carrying amounts. As at 31 December 2016 and 2015, the carrying amounts of the trade and other receivables are denominated in RMB.

(a) As of 31 December 2016, trade receivables of RMB4,615,000 (2015: RMB8,084,000) were impaired. The amount of the provision was RMB866,000 as of 31 December 2016 (2015: RMB8,076,000). The ageing of these receivables is as follows:

	2016 RMB'000	2015 RMB'000
Up to 3 months	—	87
3 months to 6 months	—	26
6 months to 12 months	1,151	864
1 year to 2 years	3,464	356
2 years to 3 years	—	316
Over 3 years	—	6,435
	4,615	8,084

The individually impaired receivables mainly relate to certain customers, which are in unexpected difficult economic situations.

(b) Non-current portion of the trade receivables

As of July 2015, Fert Technology entered into an agreement (the "Agreement") with a major customer who owed an amount of approximately RMB59,227,000 to Fert Technology. Pursuant to the Agreement, the customer should settle the amount in cash by monthly instalment of RMB2 million from August 2015 till the outstanding balance is fully settled, thus the carrying amount of the receivables has been adjusted down to current value of estimated future cash flow discounted by effective interest rate of 4.75%. As at 31 December 2016, the discounted carrying amount is RMB21,471,000 which will be due in 2017.

(c) As at 31 December 2016 and 2015, the ageing analysis of the trade receivables based on invoice date is as follows:

	2016 RMB'000	2015 RMB'000
Up to 3 months	83,950	109,088
3 months to 6 months	28,062	54,014
6 months to 12 months	48,744	86,863
1 year to 2 years	36,194	98,756
2 years to 3 years	16,309	8,846
	213,259	357,567

15 TRADE AND OTHER RECEIVABLES (Continued)

(c) As at 31 December 2016 and 2015, the ageing analysis of the trade receivables based on invoice date is as follows (Continued):

Trade receivables arose mainly from Infusion Set Business as sales from Regenerative Medical Biomaterial Business were normally settled by advance payments from customers. The Group agreed with the customers of Infusion Set 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.

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

	2016 RMB'000	2015 RMB'000
At 1 January	8,076	6,871
Provision for impairment of receivables	866	1,205
Disposals of subsidiaries	(8,076)	—
At 31 December	866	8,076

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

(e) Movements on the receivables from disposals of subsidiaries are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	—	12,520
Receivables from disposals of Orthopedic Implant Business (Note 31(c)) (i)	449,833	—
Receivables from disposal of a subsidiary (Note 31(c))(ii)	15,000	—
Cash receipt from disposals of Orthopedic Implant Business	(6,000)	(1,000)
Provision for impairment of receivables from disposals of subsidiaries	—	(11,520)
At 31 December	458,833	—

(i) According to the sale and purchase agreement of the disposal of Orthopedic Implant Business, a total sum of RMB354,000,000 was subsequently received after 31 December 2016.

(ii) According to the sale and purchase agreement of the aforesaid disposal, all the outstanding receivable amount was subsequently received after 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 TRADE AND OTHER RECEIVABLES (Continued)

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

	2016 RMB'000	2015 RMB'000
Interest receivable	—	1,517
Advances to employees	2,308	2,112
Deposits	1,265	1,397
Others	2,958	6,049
	6,531	11,075

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.

16 TERM DEPOSITS

	2016 RMB'000	2015 RMB'000
Term deposits	—	40,000

17 CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash on hand	118	705
Cash at banks	149,445	207,385
Short-term bank deposits	—	80,134
	149,563	288,224

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 CASH AND CASH EQUIVALENTS (Continued)

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

	2016 RMB'000	2015 RMB'000
RMB	134,988	203,814
HKD	12,544	15,878
USD	1,927	68,428
EUR	104	104
	149,563	288,224

18 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Total RMB'000
Balance at 1 January 2015	1,676,926,761	1,036	1,674,404	—	1,675,440
Proceeds from employee share option exercised	13,407,407	8	8,656	—	8,664
Buy-back of shares	(17,312,000)	(10)	(29,671)	—	(29,681)
Transfer from other reserves upon exercise of share option	—	—	13,432	—	13,432
Balance at 31 December 2015	1,673,022,168	1,034	1,666,821	—	1,667,855
Balance at 1 January 2016	1,673,022,168	1,034	1,666,821	—	1,667,855
Proceeds from employee share option exercised (a)	159,236	—	102	—	102
Buy-back of shares (b)	(82,864,000)	(55)	(138,776)	(8,890)	(147,721)
Transfer from other reserves upon exercise of share option (c)	—	—	164	—	164
Balance at 31 December 2016	1,590,317,404	979	1,528,311	(8,890)	1,520,400

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES (Continued)

(a) Options exercised during the year ended 31 December 2016 resulted in 159,236 shares being issued, with exercise proceeds of HKD118,000 (equivalent to RMB102,000). The related weighted average price of the Company's share at the time of exercise was HKD1.56 per share.

(b) The Company acquired 87,743,000 of its own shares through purchases on the Stock Exchange in 2016. The total amount paid to acquire the shares was RMB147,721,000. 82,864,000 of its own shares cancelled has been deducted from share capital and share premium, and 4,879,000 of its own shares has been classified as treasury shares.

(c) Upon exercise of share options, share option reserve amounting to RMB164,000 (2015: RMB13,432,000) was transferred to share premium.

19 OTHER RESERVES

	Merger Reserve (i) RMB'000	Translation Reserve RMB'000	Capital reserve (ii) RMB'000	Share option reserve RMB'000	Total RMB'000
Balance at 1 January 2015	63,964	5,393	(1,703)	28,012	95,666
Currency translation differences	—	1,232	—	—	1,232
Transfer to share premium upon exercise of share options (Note18(c))	—	—	—	(13,432)	(13,432)
Share option reserve	—	—	—	(1,458)	(1,458)
Balance at 31 December 2015	63,964	6,625	(1,703)	13,122	82,008
Currency translation differences	**—**	**105**	**—**	**—**	**105**
Transfer to share premium upon exercise of share options (Note18(c))	**—**	**—**	**—**	**(164)**	**(164)**
Share option reserve	**—**	**—**	**—**	**(10,595)**	**(10,595)**
Balance at 31 December 2016	**63,964**	**6,730**	**(1,703)**	**2,363**	**71,354**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 RETAINED EARNINGS

	Group RMB'000
At 1 January 2015	339,053
Profit for the year	208,582
At 31 December 2015	547,635
At 1 January 2016	**547,635**
Profit for the year	**194,949**
At 31 December 2016	**742,584**

Statutory reserves made by the PRC subsidiaries of the Company amounting to RMB15,162,000 (2015: RMB12,545,000) was included in retained earnings.

21 SHARE BASED PAYMENTS

(i) Share options

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 SHARE BASED PAYMENTS (Continued)

(ii) Outstanding share options

Movements in the number of share options outstanding:

	Number of share options 2016	2015
At 1 January	**35,621,248**	49,347,126
Exercised	**(159,236)**	(13,407,407)
Forfeited	**(17,245,226)**	(318,471)
At 31 December	**18,216,786**	35,621,248

Details of the exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2016 and 2015 are as follows:

Vesting date	Exercise price	Number of share options 2016	2015
7 May 2015	RMB0.63	**2,882,401**	3,041,637
7 May 2016	RMB0.63	**—**	16,289,813
7 May 2017	RMB0.63	**15,334,385**	16,289,798
		18,216,786	35,621,248

Pursuant to the principal terms of the Scheme, certain performance conditions in respective fiscal years should be met before exercise of share options. Share-based compensation expenses recognised in prior years in relation to the fourth Tranche (4 tranches in total) was reversed given certain performance conditions in relation to 2016 were not met.

The exercisable period is 10 years from the grant date of the share options.

(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	1.00%
Expected volatility	38.00%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**26,679**	39,132
Salary and staff welfare payables	**32,096**	29,831
Advances from customers	**4,258**	20,733
Payables for construction in progress	**—**	40,597
Provisions for sales rebate	**8,309**	7,254
Deposits	**5,658**	5,487
Payables for purchase of land use rights	**4,277**	3,901
Value added tax and other taxes	**6,479**	7,579
Professional service fee	**2,295**	6,109
Research and development expenses payables	**—**	1,007
Other payables	**4,712**	8,636
	94,763	170,266

As at 31 December 2016 and 2015, 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.

As at 31 December 2016 and 2015, the ageing analysis of the trade payables based on invoice date are as follows:

	2016 RMB'000	2015 RMB'000
Up to 3 months	**21,197**	25,697
3 months to 6 months	**420**	10,754
6 months to 12 months	**3,811**	1,590
1 year to 2 years	**431**	344
2 years to 3 years	**100**	714
Over 3 years	**720**	33
	26,679	39,132

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 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:

	2016 RMB'000	2015 RMB'000
Deferred tax assets:		
— to be recovered within 12 months	**4,357**	10,179
	4,357	10,179
Deferred tax liabilities:		
— to be recovered after more than 12 months	**(49,072)**	(56,370)
— to be recovered within 12 months	**(4,366)**	(4,485)
	(53,438)	(60,855)
Deferred tax liabilities — net	**(49,081)**	(50,676)

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 DEFERRED INCOME TAX (Continued)

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 1 January 2015	1,064	2,668	3,986	1,357	5,702	14,777
Recognised in consolidated income statement	2,259	71	(4,032)	(269)	(2,627)	(4,598)
At 31 December 2015	3,323	2,739	(46)	1,088	3,075	10,179
At 1 January 2016	**3,323**	**2,739**	**(46)**	**1,088**	**3,075**	**10,179**
Recognised in consolidated income statement	**130**	**(122)**	**46**	**158**	**653**	**865**
Disposals of subsidiaries	**(3,290)**	**(1,208)**	**—**	**—**	**(2,189)**	**(6,687)**
At 31 December 2016	**163**	**1,409**	**—**	**1,246**	**1,539**	**4,357**

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 RMB9,571,000 (2015: RMB41,498,000). These tax losses will expire in 2017 to 2021.

Deferred tax liabilities:

	Fair value surplus arising from acquisition of subsidiaries RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	(65,316)	—	(65,316)
Recognised in consolidated income statement	4,485	(24)	4,461
At 31 December 2015	(60,831)	(24)	(60,855)
At 1 January 2016	**(60,831)**	**(24)**	**(60,855)**
Recognised in consolidated income statement	**4,506**	**(41)**	**4,465**
Disposals of subsidiaries	**2,952**	**—**	**2,952**
At 31 December 2016	**(53,373)**	**(65)**	**(53,438)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 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:

	2016 RMB'000	2015 RMB'000
At beginning of year	6,169	7,282
Additions	600	—
Credited to consolidated income statement	(714)	(1,113)
Disposals of subsidiaries	(4,772)	—
At end of year	1,283	6,169

25 OTHER GAINS — NET

	2016 RMB'000	2015 RMB'000 (Restated)
Government grants		
— relating to costs	6,372	6,845
— relating to assets	200	—
Gain on disposals of a subsidiary (Note 11(ii))	6,099	—
Realised gain on available-for-sale financial assets	1,159	422
Sales of scraps	—	1
Loss on disposals of property, plant and equipment	(57)	(1)
Others	366	416
	14,139	7,683

26 EXPENSES BY NATURE

	2016 RMB'000	2015 RMB'000 (Restated)
Raw materials and consumable used	61,870	47,242
Changes in inventories of finished goods and work in progress	(12,327)	(1,767)
Employee benefits expenses (Note 27)	108,728	91,893
Depreciation of property, plant and equipment (Note 7)	18,683	17,517
Advertising, promotions and business development costs	26,282	27,940
Office and communication expenses	7,601	6,269
Direct research costs	9,678	10,851
Travelling and entertainment expenses	12,292	8,120
Taxes and levies	8,285	8,302
Write-down of inventories (Note 14)	39	456
Provision for impairment of receivables (Note 15)	866	—
Low-value consumables	2,090	1,511
Operating lease payments	3,459	3,055
Transportation costs	8,701	7,455
Amortisation of land use rights (Note 6)	1,372	1,296
Amortisation of intangible assets (Note 8)	26,240	26,183
Professional fee	5,262	12,094
Auditor's remuneration		
— Audit services	2,700	3,200
— Non-audit services	—	70
Utilities	8,974	8,514
Others	1,426	2,956
Total cost of sales, selling expenses, administrative expenses and research and development expenses	**302,221**	283,157

27 EMPLOYEE BENEFITS EXPENSES

	2016 RMB'000	2015 RMB'000 (Restated)
Wages, salaries and bonuses	95,490	78,414
Staff welfare	6,062	4,581
Social security costs	10,944	7,719
Housing fund	3,928	2,270
Reversal of share-based compensation expenses (Note 21)	(7,696)	(1,091)
Total employee benefits expenses	**108,728**	91,893

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 EMPLOYEE BENEFITS EXPENSES (Continued)

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2015: one) directors whose emoluments are reflected in the analysis shown in Note 39. The emoluments payable to the remaining three (2015: four) individuals during the year are as follows:

	2016 RMB'000	2015 RMB'000
Share-based compensation	—	1,640
Wages, salaries and bonuses	2,322	2,008
Social security costs	64	77
Housing fund	86	101
	2,472	3,826

The emoluments of these individuals fell within the following bands:

	Number of individuals Year ended 31 December	
	2016	2015
Emolument bands		
Nil to HKD 1,000,000	2	2
HKD 1,000,001— HKD1,500,000	1	1
HKD 1,500,001— HKD2,000,000	—	1
	3	4

28 FINANCE INCOME — NET

	2016 RMB'000	2015 RMB'000 (Restated)
Finance income:		
— Net foreign exchange gain	(2,023)	(269)
— Interest income on short-term bank deposits	(2,462)	(6,249)
Total finance income	(4,485)	(6,518)
Finance costs:		
— Interest expense on bank borrowings	—	1,254
Finance income — net	(4,485)	(5,264)

29 INCOME TAX EXPENSES

	2016 RMB'000	2015 RMB'000 (Restated)
Current income tax	**48,401**	40,094
Deferred income tax	**(5,333)**	1,056
Income tax expenses	**43,068**	41,150

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 and Fert Technology, 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.

Beijing Tianxinfu and Fert Technology 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 1 January 2008 are generally subject to WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 INCOME TAX EXPENSES (Continued)

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:

	2016 RMB'000	2015 RMB'000 (Restated)
Profit before income tax	**283,225**	245,377
Tax calculated at statutory tax rates applicable to profits in the respective countries	**70,806**	61,344
Tax effects of:		
Preferential income tax rates applicable to subsidiaries	**(28,283)**	(21,297)
Tax losses for which no deferred income tax asset was recognised	**810**	3,201
Additional deductible allowance for research and development expenses (i)	**(1,341)**	(1,516)
Deemed income for tax purpose	**114**	106
Expenses not deductible for tax purpose	**986**	788
Adjustment in respect of prior years	**(24)**	(1,476)
Tax charge	**43,068**	41,150

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 DISCONTINUED OPERATIONS

During the year, the Orthopedic Implant Business was disposed and presented as discontinued operations and comparatives for the year ended 31 December 2015 has been restated accordingly. Below shows the financial impact of the disposal of Orthopedic Implant Business:

	2016 RMB'000
Consideration	450,000
Less: net asset of Orthopedic Implant Business at date of disposal (a)	(529,397)
Impairment loss resulting from disposal[*]	(79,397)

[*] The impairment loss reduced the carrying amount of goodwill of the Orthopedic Implant Business before the disposal (Note 8), which was recorded in "administrative expenses" in result of the discontinued operations.

The movement of goodwill is as follows:

	2016 RMB'000
Goodwill before impairment	88,973
Impairment	(79,397)
Goodwill after impairment at date of disposal	9,576)

(a) Net assets disposed of (before impairment of goodwill):

	2016 RMB'000
Land use rights	2,371
Property, plant and equipment	171,016
Intangible assets	10,935
Goodwill	88,973
Deferred income tax assets	5,837
Inventories	79,895
Trade and other receivables	203,280
Cash and cash equivalents	27,964
Deferred income tax liabilities	(2,952)
Deferred income	(4,772)
Trade and other payables	(55,314)
Prepaid income tax	2,164
	529,397

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 DISCONTINUED OPERATIONS (Continued)

(b) Analysis of the result of the discontinued operations is as follows:

	2016 RMB'000	2015 RMB'000
Revenue	121,108	118,287
Cost of sales	(28,677)	(28,719)
Gross profit	92,431	89,568
Selling expenses	(21,095)	(31,937)
Administrative expenses	(99,821)	(39,809)
Research and development expenses	(10,833)	(12,070)
Other gains, net	813	2,086
Operating (loss)/profit	(38,505)	7,838
Finance income	26	78
Finance costs	(24)	—
Finance income — net	2	78
(Loss)/profit before income tax	(38,503)	7,916
Income tax expenses	(8,208)	(3,561)
(Loss)/profit for the year from discontinued operations	(46,711)	4,355
(Loss)/profit for the year from discontinued operations attributable to:		
Owners of the Company	(46,711)	4,355
Non-controlling interests	—	—
(Loss)/profit for the year from discontinued operations	(46,711)	4,355

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 DISCONTINUED OPERATIONS (Continued)

(c) Analysis of cash flow of the discontinued operations is as follows:

	2016 RMB'000	2015 RMB'000
Operating cash flows	42,964	55,740
Investing cash flows	(41,939)	(46,513)
Financing cash flows	—	—
Total cash flows	1,025	9,227

31 CASH GENERATED FROM OPERATIONS

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

	2016 RMB'000	2015 RMB'000
Profit before income tax including discontinued operations	244,722	253,293
Adjustments for:		
Depreciation of property, plant and equipment (Note 7)	34,730	31,794
Amortisation of intangible assets (Note 8)	27,243	27,186
Amortisation of land use rights (Note 6)	1,432	1,356
Impairment loss of goodwill resulting from disposals of Orthopedic Implant Business (Note 8)	79,397	—
Gain on disposal of a subsidiary (Note 11(ii))	(6,099)	—
Share-based compensation expenses (Note 27)		
— Continuing operations	(7,696)	(1,091)
— Discontinued operations	(2,899)	(367)
Loss/(gain) on disposals of property, plant and equipment		
— Continuing operations	57	1
— Discontinued operations	(16)	(16)
Realised gain on available-for-sale financial assets	(1,159)	(422)
Interest income	(2,462)	(6,281)
Unrealised exchange gain	(2,737)	(3,091)
Finance costs	—	1,254
Provision for impairment of receivables	866	12,725
	365,379	316,341
Change in working capital		
Inventories	(9,657)	(22,862)
Trade and other receivables	(52,185)	(25,728)
Deferred income	(114)	(1,113)
Trade and other payables	20,957	45,139
Cash generated from operating activities	324,380	311,777

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 CASH GENERATED FROM OPERATIONS (Continued)

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

	2016 RMB'000	2015 RMB'000
Net book amount (Note 7)	630	4,909
Receipt of consideration for disposals in prior year	—	1,480
(Loss)/gain on disposals of property, plant and equipment	(41)	15
Proceeds from disposals of property, plant and equipment	589	6,404

(c) In the consolidated cash flow statement, disposals of subsidiaries comprise:

	2016 RMB'000	2015 RMB'000
Cash considerations	465,000	—
Cash and cash equivalents held by the subsidiaries disposed	(36,075)	—
Receivables from disposals of Orthopedic Implant Business	(443,833)	—
Receivables from disposal of a subsidiary	(15,000)	—
Cash receipt from disposals of subsidiaries	—	1,000
	(29,908)	1,000

32 CONTINGENCIES

(a) During the year ended 31 December 2015, one of the Group's subsidiaries (the "Subsidiary") received a Demand for Response Notice (應訴通知書) and corresponding litigation materials from a court in Beijing, the PRC, in which the plaintiff filed a civil action against the Subsidiary and its former shareholders before it was being acquired by the Group (collectively, the "Defendants") due to a dispute arising from the Technology Development Agreement (技術開發合同). The plaintiff required the Defendants to be liable for the profit dividend and interest of RMB10 million and the litigation costs of the case of RMB81,800. During the six months ended June 30, 2016, according to a written civil ruling issued by the court in charge of the case, the plaintiff's claim was rejected by the court. Subsequently, the plaintiff has appealed. Up to the date of this consolidated financial information, there is no other updates regarding this case. The directors of the Company and the Group's attorney agent considered that since the Subsidiary is not a principal party of the said Technology Development Agreement, it is expected that the court of the second instance will reject the litigation request of the plaintiff eventually. Therefore, the case will not make any substantial impact to the Group, nor will result in any material loss.

32 CONTINGENCIES (Continued)

(b) In March 2012, a PRC company, an independent third party (the "Borrower"), acquired a bank loan amounting to RMB10,000,000 from a PRC commercial bank, an independent third party (the "Plaintiff"). Meanwhile, Xuzhou Yijia, a subsidiary of the Group, and another PRC company, an independent third party (collectively the "Joint Guarantors", and together with the Borrower, the "Defendants"), as the Joint Guarantors, shall be under joint guarantee liability for the abovementioned debts.

Later, the Borrower failed to repay the principal and interests of the borrowing in accordance with the contract. In November 2014, the Plaintiff filed a lawsuit in respect of the default with a PRC intermediate people's court. On August 2, 2016, the intermediate people's court issued a paper of civil judgment, pursuant to which the Borrower shall repay the principal of the bank loan amounting to RMB10,000,000 and the interests thereon of RMB4,784,680 to the Plaintiff and the Joint Guarantors shall undertake joint guarantee liability for the aforementioned debts (the "First Instance Judgement"). On August 24, 2016, Xuzhou Yijia instituted an appeal to a PRC superior people's court on rejecting the aforementioned judgment of undertaking joint guarantee liability.

The directors of the Company and the Group's attorney agent were optimistic about changing the First Instance Judgement or conciliation for the case as well as other compensation measures on the following grounds:

(i) The Borrower is suspected of loan fraud, which has been filed as a criminal case. As the results of criminal case have material impact on the results of civil case, the criminal case should be handled prior to the civil case;

(ii) The Plaintiff had grave fault and even material default in granting the loan, infringing the interests of Xuzhou Yijia. However, the fact was ignored in the aforementioned civil ruling paper, affecting the final judgment results; and

(iii) The Group acquired the equity interest of Xuzhou Yijia in April 2013. Pursuant to the equity transfer agreement entered with the former shareholder, the guarantee obligation is assumed before the transfer of equity, and the Group was entitled to make claims against it if the guarantee obligation causes any losses.

The directors of the Company and the Group's attorney agent considered that the court making the First Instance Judgement would ultimately release Xuzhou Yijia from joint guarantee liability based on the judgement of criminal case. Despite an unfavourable judgment, the Group is entitled to make claims against the former shareholder. Therefore, the case will not make any substantial impact to the Group, nor will result in any material loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 COMMITMENTS

(a) Capital commitments

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

	2016 RMB'000	2015 RMB'000
Property, plant and equipment	17,123	175,503

(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 26.

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

	2016 RMB'000	2015 RMB'000
No later than 1 year	1,933	4,338
Later than 1 year and no later than 5 years	832	6,808
	2,765	11,146

34 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.

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.

34 RELATED PARTY TRANSACTIONS (Continued)

(a) Key management compensation

	2016 RMB'000	2015 RMB'000
Salaries and other allowances	3,472	3,185
Share-based compensation	—	2,374
	3,472	5,559

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).

	2016	2015 (Restated)
Profit attributable to owners of the Company:		
— Continuing operations (RMB'000)	241,660	204,227
— Discontinued operations (RMB'000)	(46,711)	4,355
	194,949	208,582
Weighted average number of ordinary shares in issue (thousands)	1,624,838	1,674,883
Basic earnings/(losses) per share:		
— Continuing operations (RMB cents per share)	14.87	12.19
— Discontinued operations (RMB cents per share)	(2.87)	0.26
	12.00	12.45

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

	2016	2015 (Restated)
Profit attributable to owners of the Company:		
— Continuing operations (RMB'000)	**241,660**	204,227
— Discontinued operations (RMB'000)	**(46,711)**	4,355
	194,949	208,582
Weighted average number of ordinary shares in issue (thousands)	**1,624,838**	1,674,883
Adjustments for:		
— Share options (thousands)	**2,011**	19,574
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,626,849**	1,694,457
Diluted earnings/(losses) per share:		
— Continuing operations (RMB cents per share)	**14.85**	12.05
— Discontinued operations (RMB cents per share)	**(2.87)**	0.26
	11.98	12.31

36 DIVIDENDS

The Board does not propose a final dividend for the year ended 31 December 2016 (2015: Nil).

37 EVENTS AFTER THE BALANCE SHEET DATE

(a) The Company repurchased 5,148,000 shares in February 2017 at a total consideration of HKD10,009,000. The shares have subsequently been cancelled in March 2017.

(b) On February 27 2017, Xinyu Yongshuo Management and Consulting LLP (the "Subscriber") an independent third party, entered into a capital increase agreement with certain subsidiaries of the Group, namely Beijing Tianxinfu, Health Access and PW Medtech (Beijing), in relation to the increase in the registered capital of Beijing Tianxinfu from RMB45 million to RMB56.25 million by issuing an aggregate of 11,250,000 new shares of Beijing Tianxinfu to the Subscriber at a total consideration of RMB500 million.

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Notes	As at December 31, 2016 RMB'000	2015 RMB'000
Assets			
Non-current assets			
Investments in and loans to subsidiaries		565,616	571,633
Current assets			
Amounts due from subsidiaries		920,293	1,060,497
Trade and other receivables		520	244
Cash and cash equivalents		12,285	20,244
		933,098	1,080,985
Total assets		1,498,714	1,652,618
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		979	1,034
Share premium		1,528,311	1,666,821
Treasury shares		(8,890)	—
Other reserves	(a)	13,724	22,463
Accumulated losses	(a)	(48,596)	(48,971)
Total equity		1,485,528	1,641,347
Liabilities			
Current liabilities			
Amounts due to subsidiaries		11,963	10,316
Trade and other payables		1,223	955
		13,186	11,271
Total liabilities		13,186	11,271
Total equity and liabilities		1,498,714	1,652,618

The balance sheet of the Company was approved by the Board of Directors on March 30, 2017 and was signed on its behalf.

Yue'e Zhang **Jiang Liwei**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(a) Reserve movement of the Company

	Accumulated losses RMB'000	Other reserves RMB'000
At 1 January 2015	(44,739)	28,012
Profit for the year	(4,232)	—
Currency translation differences	—	9,341
Transfer to share premium upon exercise of share options (Note 18)	—	(13,432)
Share option reserve	—	(1,458)
At 31 December 2015	(48,971)	22,463
At 1 January 2016	**(48,971)**	**22,463**
Profit for the year	**375**	
Currency translation differences	**—**	**2,020**
Transfer to share premium upon exercise of share options (Note 18)	**—**	**(164)**
Share option reserve	**—**	**(10,595)**
At 31 December 2016	**(48,596)**	**13,724**

39 BENEFITS AND INTERESTS OF DIRECTORS

(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 31 December 2016

Name of directors	Share-based compensation RMB'000	Wages, salaries and bonuses RMB'000	Fees RMB'000	Social security and housing fund RMB'000	Total RMB'000
Chief executive officer and executive director					
— Ms. Yue'e Zhang	—	1,007	—	—	1,007
— Mr. Jiang Liwei	—	1,500	—	146	1,646
Non-executive directors					
— Mr. Lin Junshan	—	300	—	—	300
Independent non-executive directors					
— Mr. Chen Geng	—	—	173	—	173
— Mr. Wang Xiaogang	—	—	173	—	173
— Mr. Zhang Xingdong	—	—	173	—	173

For the year ended 31 December 2015

Name of directors	Share-based compensation RMB'000	Wages, salaries and bonuses RMB'000	Fees RMB'000	Social security and housing fund RMB'000	Total RMB'000
Chief executive officer and executive director					
— Ms. Yue'e Zhang	—	862	—	—	862
— Mr. Jiang Liwei	698	1,504	—	33	2,235
Non-executive directors					
— Mr. Lin Junshan	1,396	300	—	—	1,696
— Mr. Fang Min (i)	—	—	—	—	—
— Mr. Feng Dai (ii)	—	—	—	—	—
Independent non-executive directors					
— Mr. Chen Geng	140	—	162	—	302
— Mr. Wang Xiaogang	140	—	162	—	302
— Mr. Zhang Xingdong	—	—	162	—	162

(i) Mr. Fang Min was appointed on 20 March 2015 and resigned on 25 August 2015.

(ii) Mr. Feng Dai was resigned on 20 March 2015.

DEFINITIONS

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

"2017 AGM"	the AGM to be held on June 2, 2017
"AGM"	annual general meeting of the Company
"Articles"	the articles of association of the Company
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"CEO"	chief executive officer of the Company
"CFDA"	the China Food and Drug Administration (中華人民共和國國家食品藥品監督管理總局)
"CG Code"	the "Corporate Governance Code" as contained in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China, which for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
"Company", "Group", "our Group", "PW Medtech" or "we"	PW Medtech Group Limited (普华和順集团公司), 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 the Company
"Disposed Subsidiaries"	Shenzhen Bone, Walkman Biomaterial and Lhasa Tianqiong Investment Management Co., Ltd. (拉薩天穹投資管理有限公司), in which the equity interests of the Company were disposed of in December 2016
"EPS"	earnings per Share
"Fert Technology"	Beijing Fert Technology Co., Ltd. (北京伏爾特技術有限公司), a limited liability company established under the laws of the PRC on September 23, 1997 and indirectly wholly owned by the Company
"GDP"	Gross Domestic Product
"Guide"	the "Environmental, Social and Governance Reporting Guide" as contained in Appendix 27 to the Listing Rules
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Infusion Set Business"	the R&D, manufacturing and sale of advanced infusion set products
"IPO"	the Company's initial public offering of its Shares

DEFINITIONS

"Listing Date"	November 8, 2013, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Company
"Orthopedic Implant Business"	the R&D, manufacturing and sale of orthopedic implant products
"Plants"	four plants of PW Medtech located at its principal places of business, i.e. Beijing, Tianjin and Shenzhen, before its disposal of the Disposed Subsidiaries
"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 R&D, manufacturing and sale of regenerative medical biomaterial products
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of par value US$0.0001 each in the issued share capital of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on October 14, 2013
"Shareholder(s)"	holder(s) of Shares
"Shenzhen Bone"	Shenzhen Bone Medical Device Co., Ltd. (深圳市博恩醫療器材有限公司), a limited liability company established under the laws of the PRC on November 12, 2002
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

DEFINITIONS

"Tianxinfu"	Tianxinfu (Beijing) Medical Appliance Co., Ltd. (天新福(北京)醫療器材股份有限公司), a limited liability company established in the PRC on January 18, 2002 and acquired by the Group in August 2014
"Walkman Biomaterial"	Tianjin Walkman Biomaterial Co., Ltd. (天津市威曼生物材料有限公司), a limited liability company established under the laws of the PRC on November 8, 2001
"Xuzhou Yijia"	Xuzhou Yijia Medical Device Co., Ltd. (徐州一佳醫療器械有限公司), a limited liability company established under the laws of the PRC on June 30, 2003 and directly wholly owned by Fert Technology
"%"	per cent

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