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## **PW MEDTECH GROUP LIMITED**

### **普华和顺集团公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1358)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2016**

### **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.

### **BUSINESS AND MARKET REVIEW FOR YEAR 2016**

The year 2016 was the first year of “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 economy of the People’s Republic of China (the “**PRC**” or “**China**”) maintained steady Gross Domestic Product (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 require active responses from the industry. The industry is currently at a stage of development with both opportunities and challenges.

PW Medtech Group Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”) is a leading medical device company in the PRC with focuses 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 research and development (“**R&D**”), manufacturing and sale of regenerative medical biomaterials (the “**Regenerative Medical Biomaterial Business**”), and (ii) the R&D, manufacturing and sale of advanced infusion sets (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. In 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 in 2016, representing an increase of 8.2% over 2015. 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.

## **BUSINESS STRATEGIES AND FUTURE OUTLOOK**

For 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 will be fully guaranteed 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 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 the PRC's medical treatment.

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 China, the Group continues to seek fast-growing, high-margin and high-potential opportunities within or outside its current business segments.

### **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 Network**

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 salesmen have an average of 10 years of experiences in their respective fields and half of them have medical training background, which will help their professional and efficient communication with doctors and nurses.

The board of directors (the “**Board**”) of the Company is pleased to announce the audited consolidated final results of the Group for the year ended December 31, 2016, together with the comparative figures for the year ended December 31, 2015, as follows:

## CONSOLIDATED INCOME STATEMENT

Year ended December 31, 2016

		Year ended 31 December	
		2016	2015
	Notes	RMB'000	RMB'000
			(Restated)
<b>Continuing operations</b>			
Revenue	3	566,822	515,587
Cost of sales	4	<u>(148,629)</u>	<u>(129,170)</u>
<b>Gross profit</b>		<b>418,193</b>	386,417
Selling expenses	4	(77,276)	(68,563)
Administrative expenses	4	(56,652)	(61,526)
Research and development expenses	4	(19,664)	(23,898)
Other gains — net	6	<u>14,139</u>	<u>7,683</u>
<b>Operating profit</b>		<b><u>278,740</u></b>	<u>240,113</u>
Finance income	7	4,485	6,518
Finance costs	7	<u>—</u>	<u>(1,254)</u>
Finance income — net	7	<u>4,485</u>	<u>5,264</u>
<b>Profit before income tax</b>		<b>283,225</b>	245,377
Income tax expenses	8	<u>(43,068)</u>	<u>(41,150)</u>
<b>Profit for the year from continuing operations</b>		<b><u>240,157</u></b>	<u>204,227</u>
<b>Discontinued operations</b>			
(Loss)/profit for the year from discontinued operations	9	<u>(46,711)</u>	<u>4,355</u>
<b>Profit for the year</b>		<b><u>193,446</u></b>	<u>208,582</u>
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		194,949	208,582
Non-controlling interests		<u>(1,503)</u>	<u>—</u>
		<b><u>193,446</u></b>	<b><u>208,582</u></b>

		Year ended 31 December	
		2016	2015
	Notes	RMB'000	RMB'000 (Restated)
<b>Profit/(loss) attributable to owners of the Company arises from:</b>			
Continuing operations		241,660	204,227
Discontinued operations		<u>(46,711)</u>	<u>4,355</u>
		<b><u>194,949</u></b>	<b><u>208,582</u></b>
<b>Earnings per share from continuing and discontinued operations attributable to owners of the Company for the year</b> (expressed in RMB cents per share)			
<b>Basic earnings per share</b>			
	10		
From continuing operations		14.87	12.19
From discontinued operations		<u>(2.87)</u>	<u>0.26</u>
<b>From profit for the year</b>		<b><u>12.00</u></b>	<b><u>12.45</u></b>
<b>Diluted earnings per share</b>			
	10		
From continuing operations		14.85	12.05
From discontinued operations		<u>(2.87)</u>	<u>0.26</u>
<b>From profit for the year</b>		<b><u>11.98</u></b>	<b><u>12.31</u></b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2016

		Year ended 31 December	
		2016	2015
	Notes	RMB'000	RMB'000 (Restated)
<b>Profit for the year</b>		<b>193,446</b>	208,582
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified to profit or loss</b>			
Currency translation differences	11	<u>105</u>	<u>1,232</u>
<b>Other comprehensive income for the year, net of tax</b>		<u>105</u>	<u>1,232</u>
<b>Total comprehensive income for the year</b>		<u><b>193,551</b></u>	<u>209,814</u>
<b>Attributable to:</b>			
— Owners of the Company		<b>195,054</b>	209,814
— Non-controlling interests		<u>(1,503)</u>	<u>—</u>
<b>Total comprehensive income for the year</b>		<u><b>193,551</b></u>	<u>209,814</u>
<b>Total comprehensive income attributable to owners of the Company arises from:</b>			
Continuing operations		<b>241,765</b>	205,459
Discontinued operations		<u>(46,711)</u>	<u>4,355</u>
		<u><b>195,054</b></u>	<u>209,814</u>

## CONSOLIDATED BALANCE SHEET

As at December 31, 2016

		As at 31 December	
		2016	2015
	Notes	RMB'000	RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Land use rights	13	60,937	64,110
Property, plant and equipment	14	687,236	659,328
Intangible assets	15	841,381	967,798
Deferred income tax assets		4,357	10,179
Long-term prepayments	16	3,455	3,980
Trade receivables	18	—	24,071
		<u>1,597,366</u>	<u>1,729,466</u>
<b>Current assets</b>			
Inventories	17	53,745	123,983
Trade and other receivables	18	686,437	357,603
Term deposits	19	—	40,000
Cash and cash equivalents	20	149,563	288,224
		<u>889,745</u>	<u>809,810</u>
<b>Total assets</b>		<u><u>2,487,111</u></u>	<u><u>2,539,276</u></u>
<b>Equity</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	21	979	1,034
Share premium	21	1,528,311	1,666,821
Treasury shares	21	(8,890)	—
Other reserves		71,354	82,008
Retained earnings		742,584	547,635
		<u>2,334,338</u>	<u>2,297,498</u>
<b>Non-controlling interests</b>		<u>(336)</u>	<u>1,167</u>
<b>Total equity</b>		<u><u>2,334,002</u></u>	<u><u>2,298,665</u></u>

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



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2016

	Attributable to owners of the Company				Total	Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2015</b>	<u>1,036</u>	<u>1,674,404</u>	<u>95,666</u>	<u>339,053</u>	<u>2,110,159</u>	<u>1,167</u>	<u>2,111,326</u>
<b>Comprehensive income</b>							
Profit for the year	—	—	—	208,582	208,582	—	208,582
<b>Other comprehensive income</b>							
Currency translation differences	<u>—</u>	<u>—</u>	<u>1,232</u>	<u>—</u>	<u>1,232</u>	<u>—</u>	<u>1,232</u>
<b>Total comprehensive income</b>	<u>—</u>	<u>—</u>	<u>1,232</u>	<u>208,582</u>	<u>209,814</u>	<u>—</u>	<u>209,814</u>
Proceeds from employee share option exercised (Note 21)	8	8,656	—	—	8,664	—	8,664
Buy-back of shares (Note 21)	(10)	(29,671)	—	—	(29,681)	—	(29,681)
Transfer to share premium upon exercise of share option (Note 21)	—	13,432	(13,432)	—	—	—	—
Share option reserve (Note 11)	<u>—</u>	<u>—</u>	<u>(1,458)</u>	<u>—</u>	<u>(1,458)</u>	<u>—</u>	<u>(1,458)</u>
<b>Total transactions with owners in their capacity as owners</b>	<u>(2)</u>	<u>(7,583)</u>	<u>(14,890)</u>	<u>—</u>	<u>(22,475)</u>	<u>—</u>	<u>(22,475)</u>
<b>Balance at 31 December 2015</b>	<u><u>1,034</u></u>	<u><u>1,666,821</u></u>	<u><u>82,008</u></u>	<u><u>547,635</u></u>	<u><u>2,297,498</u></u>	<u><u>1,167</u></u>	<u><u>2,298,665</u></u>

Attributable to owners of the Company

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Treasury shares <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
<b>Balance at 1 January 2016</b>	<u>1,034</u>	<u>1,666,821</u>	<u>—</u>	<u>82,008</u>	<u>547,635</u>	<u>2,297,498</u>	<u>1,167</u>	<u>2,298,665</u>
<b>Comprehensive income</b>								
Profit for the year	—	—	—	—	194,949	194,949	(1,503)	193,446
<b>Other comprehensive income</b>								
Currency translation differences	—	—	—	105	—	105	—	105
<b>Total comprehensive income</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>105</u>	<u>194,949</u>	<u>195,054</u>	<u>(1,503)</u>	<u>193,551</u>
Proceeds from employee share option exercised ( <i>Note 21(a)</i> )	—	102	—	—	—	102	—	102
Buy-back of shares ( <i>Note 21(b)</i> )	(55)	(138,776)	(8,890)	—	—	(147,721)	—	(147,721)
Transfer to share premium upon exercise of share option ( <i>Note 21(c)</i> )	—	164	—	(164)	—	—	—	—
Share option reserve ( <i>Note 11</i> )	—	—	—	(10,595)	—	(10,595)	—	(10,595)
<b>Total transactions with owners in their capacity as owners</b>	<u>(55)</u>	<u>(138,510)</u>	<u>(8,890)</u>	<u>(10,759)</u>	<u>—</u>	<u>(158,214)</u>	<u>—</u>	<u>(158,214)</u>
<b>Balance at 31 December 2016</b>	<u><u>979</u></u>	<u><u>1,528,311</u></u>	<u><u>(8,890)</u></u>	<u><u>71,354</u></u>	<u><u>742,584</u></u>	<u><u>2,334,338</u></u>	<u><u>(336)</u></u>	<u><u>2,334,002</u></u>

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2016

		Year ended 31 December	
		2016	2015
	Notes	RMB'000	RMB'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	24(a)	324,380	311,777
Interest paid		—	(1,254)
Income tax paid		(57,617)	(50,548)
<b>Net cash generated from operating activities</b>		<b>266,763</b>	<b>259,975</b>
<b>Cash flows from investing activities</b>			
Disposals of subsidiaries	24(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		(630)	(804)
Purchases of intangible assets		(1,218)	(90)
Purchases of available-for-sale financial assets		(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	24(b)	589	6,404
Interest received		3,979	6,281
Net decrease in restricted cash		—	260,000
Net decrease/(increase) in term deposits		40,000	(40,000)
<b>Net cash used in investing activities</b>		<b>(260,957)</b>	<b>(32,641)</b>
<b>Cash flows from financing activities</b>			
Buy-back of shares		(147,721)	(29,681)
Proceeds from employee share option exercised		102	8,664
Proceeds from borrowings		—	190,000
Repayment of borrowings		—	(265,000)
<b>Net cash used in financing activities</b>		<b>(147,619)</b>	<b>(96,017)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(141,813)</b>	<b>131,317</b>
Cash and cash equivalents at beginning of the year		288,224	153,816
Exchange gains on cash and cash equivalents		3,152	3,091
<b>Cash and cash equivalents at end of the year</b>		<b>149,563</b>	<b>288,224</b>

## NOTES TO FINANCIAL INFORMATION

### 1 GENERAL INFORMATION

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

The Company is an investment holding company. The Group is principally engaged in the development, manufacturing and sale of (i) Regenerative Medical Biomaterial Business, (ii) Infusion Set Business; and (iii) orthopedic implants products (the "**Orthopedic Implant Business**") in China. During the year, the Orthopedic Implant Business was disposed and presented as a discontinued operations (Note 9).

These consolidated financial statements are presented in RMB, unless otherwise stated.

### 2 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.

#### (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.

		<b>Effective for accounting periods beginning on or after</b>
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

**3 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 9).

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.

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)
<b>Gross profit</b>	<b>206,649</b>	<b>210,306</b>	<b>1,238</b>	<b>418,193</b>	<b>92,431</b>	<b>510,624</b>
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
<b>Segment profit</b>	<b>152,129</b>	<b>132,404</b>	<b>(5,793)</b>	<b>278,740</b>	<b>(38,505)</b>	<b>240,235</b>
Finance income						4,511
Finance costs						(24)
<b>Finance income — net</b>						<b>4,487</b>
<b>Profit before income tax</b>						<b>244,722</b>
<b>Segment assets</b>	<b>768,574</b>	<b>1,248,301</b>	<b>465,879</b>	<b>2,482,754</b>	<b>—</b>	<b>2,482,754</b>
Deferred income tax assets						4,357
<b>Total assets</b>						<b>2,487,111</b>
<b>Segment liabilities</b>	<b>33,439</b>	<b>63,870</b>	<b>2,362</b>	<b>99,671</b>	<b>—</b>	<b>99,671</b>
Deferred income tax liabilities						53,438
<b>Total liabilities</b>						<b>153,109</b>
<b>Other segment information</b>						
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

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)
<b>Gross profit</b>	<u>180,348</u>	<u>205,203</u>	<u>866</u>	<u>386,417</u>	<u>89,568</u>	<u>475,985</u>
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	<u>468</u>	<u>7,215</u>	<u>—</u>	<u>7,683</u>	<u>2,086</u>	<u>9,769</u>
<b>Segment profit</b>	<u>125,389</u>	<u>119,309</u>	<u>(4,585)</u>	<u>240,113</u>	<u>7,838</u>	<u>247,951</u>
Finance income						6,596
Finance costs						<u>(1,254)</u>
<b>Finance income — net</b>						<u>5,342</u>
<b>Profit before income tax</b>						<u>253,293</u>
<b>Segment assets</b>	<u>803,056</u>	<u>1,168,863</u>	<u>18,585</u>	<u>1,990,504</u>	<u>538,593</u>	<u>2,529,097</u>
Deferred income tax assets						<u>10,179</u>
<b>Total assets</b>						<u>2,539,276</u>
<b>Segment liabilities</b>	<u>31,113</u>	<u>110,012</u>	<u>2,101</u>	<u>143,226</u>	<u>36,530</u>	<u>179,756</u>
Deferred income tax liabilities						<u>60,855</u>
<b>Total liabilities</b>						<u>240,611</u>
<b>Other segment information</b>						
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

(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.

**4 EXPENSES BY NATURE**

	<b>2016</b> <b>RMB'000</b>	2015 <i>RMB'000</i> (Restated)
Raw materials and consumable used	<b>61,870</b>	47,242
Changes in inventories of finished goods and work in progress	<b>(12,327)</b>	(1,767)
Employee benefits expenses ( <i>Note 5</i> )	<b>108,728</b>	91,893
Depreciation of property, plant and equipment ( <i>Note 14</i> )	<b>18,683</b>	17,517
Advertising, promotions and business development costs	<b>26,282</b>	27,940
Office and communication expenses	<b>7,601</b>	6,269
Direct research costs	<b>9,678</b>	10,851
Travelling and entertainment expenses	<b>12,292</b>	8,120
Taxes and levies	<b>8,285</b>	8,302
Write-down of inventories ( <i>Note 17</i> )	<b>39</b>	456
Provision for impairment of receivables ( <i>Note 18</i> )	<b>866</b>	—
Low-value consumables	<b>2,090</b>	1,511
Operating lease payments	<b>3,459</b>	3,055
Transportation costs	<b>8,701</b>	7,455
Amortisation of land use rights ( <i>Note 13</i> )	<b>1,372</b>	1,296
Amortisation of intangible assets ( <i>Note 15</i> )	<b>26,240</b>	26,183
Professional fee	<b>5,262</b>	12,094
Auditor's remuneration		
— Audit services	<b>2,700</b>	3,200
— Non-audit services	<b>—</b>	70
Utilities	<b>8,974</b>	8,514
Others	<b>1,426</b>	2,956
	<hr/>	<hr/>
<b>Total cost of sales, selling expenses, administrative expenses and research and development expenses</b>	<b><u>302,221</u></b>	<b><u>283,157</u></b>



## 5 EMPLOYEE BENEFITS EXPENSES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i> (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 (i)	<u>(7,696)</u>	<u>(1,091)</u>
<b>Total employee benefits expenses</b>	<b><u>108,728</u></b>	<b><u>91,893</u></b>

- (i) Pursuant to the principal terms of the pre-initial public offering share option scheme (the “**Pre-IPO Share Option Scheme**”) which was passed on July 3, 2013 and amended on October 14, 2013, 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.

### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2015: one) director. The emoluments payable to the remaining four (2015: four) individuals during the year are as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Share-based compensation	—	1,640
Wages, salaries and bonuses	2,792	2,008
Social security costs	64	77
Housing fund	<u>86</u>	<u>101</u>
	<b><u>2,942</u></b>	<b><u>3,826</u></b>

The emoluments of these individuals fell within the following bands:

Emolument bands	Number of individuals Year ended 31 December	
	2016	2015
Nil to HKD1,000,000	3	2
HKD1,000,001–HKD1,500,000	1	1
HKD1,500,001–HKD2,000,000	<u>—</u>	<u>1</u>
	<b><u>4</u></b>	<b><u>4</u></b>

## 6 OTHER GAINS — NET

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i> (Restated)
Government grants		
— relating to costs	6,372	6,845
— relating to assets	200	—
Gain on disposals of a subsidiary	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
	<u>14,139</u>	<u>7,683</u>

## 7 FINANCE INCOME — NET

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

## 8 INCOME TAX EXPENSES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i> (Restated)
Current income tax	48,401	40,094
Deferred income tax	(5,333)	1,056
	<u>43,068</u>	<u>41,150</u>

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 Tianxinfu (Beijing) Medical Appliance Co., Ltd. (“**Beijing Tianxinfu**”) and Beijing Fert Technology Co., Ltd. (“**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) Withholding Tax (“WHT”)**

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

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:

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

## 9 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)	<u>(529,397)</u>
Impairment loss resulting from disposal (*)	<u><u>(79,397)</u></u>

- (\*) The impairment loss reduced the carrying amount of goodwill of the Orthopedic Implant Business before the disposal (Note 15), 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	<u>(79,397)</u>
Goodwill after impairment at date of disposal	<u><u>9,576</u></u>

### (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	<u>2,164</u>
	<u><u>529,397</u></u>

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Revenue	121,108	118,287
Cost of sales	<u>(28,677)</u>	<u>(28,719)</u>
<b>Gross profit</b>	<b>92,431</b>	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	<u>813</u>	<u>2,086</u>
<b>Operating (loss)/profit</b>	<b>(38,505)</b>	7,838
Finance income	26	78
Finance costs	<u>(24)</u>	<u>—</u>
<b>Finance income — net</b>	<b>2</b>	78
<b>(Loss)/profit before income tax</b>	<b>(38,503)</b>	7,916
Income tax expenses	<u>(8,208)</u>	<u>(3,561)</u>
<b>(Loss)/profit for the year from discontinued operations</b>	<b><u>(46,711)</u></b>	<b><u>4,355</u></b>
<b>(Loss)/profit for the year from discontinued operations attributable to:</b>		
Owners of the Company	(46,711)	4,355
Non-controlling interests	<u>—</u>	<u>—</u>
<b>(Loss)/profit for the year from discontinued operations</b>	<b><u>(46,711)</u></b>	<b><u>4,355</u></b>

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

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

## 10 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year (Note 21).

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

### (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)	<u>(46,711)</u>	<u>4,355</u>
	<u>194,949</u>	<u>208,582</u>
Weighted average number of ordinary shares in issue (thousands)	1,624,838	1,674,883
Adjustments for:		
— Share options (thousands)	<u>2,011</u>	<u>19,574</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>1,626,849</u>	<u>1,694,457</u>
Diluted earnings/(losses) per share:		
— Continuing operations (RMB cents per share)	14.85	12.05
— Discontinued operations (RMB cents per share)	<u>(2.87)</u>	<u>0.26</u>
	<u>11.98</u>	<u>12.31</u>

## 11 OTHER RESERVES

	<b>Merger Reserve (i)</b> <i>RMB'000</i>	<b>Translation Reserve</b> <i>RMB'000</i>	<b>Capital reserve (ii)</b> <i>RMB'000</i>	<b>Share option reserve</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Balance at 1 January 2015</b>	<u>63,964</u>	<u>5,393</u>	<u>(1,703)</u>	<u>28,012</u>	<u>95,666</u>
Currency translation differences	—	1,232	—	—	1,232
Transfer to share premium upon exercise of share options ( <i>Note 21(c)</i> )	—	—	—	(13,432)	(13,432)
Share option reserve	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,458)</u>	<u>(1,458)</u>
<b>Balance at 31 December 2015</b>	<u>63,964</u>	<u>6,625</u>	<u>(1,703)</u>	<u>13,122</u>	<u>82,008</u>
Currency translation differences	—	105	—	—	105
Transfer to share premium upon exercise of share options ( <i>Note 21(c)</i> )	—	—	—	(164)	(164)
Share option reserve	<u>—</u>	<u>—</u>	<u>—</u>	<u>(10,595)</u>	<u>(10,595)</u>
<b>Balance at 31 December 2016</b>	<u>63,964</u>	<u>6,730</u>	<u>(1,703)</u>	<u>2,363</u>	<u>71,354</u>

- (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.

## 12 DIVIDENDS

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

### 13 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:

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

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

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Cost of sales	<b>419</b>	444
Administrative expenses	<b>1,013</b>	912
	<b>1,432</b>	1,356

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Profit or loss of continuing operations ( <i>Note 4</i> )	<b>1,372</b>	1,296
Profit or loss of discontinued operations	<b>60</b>	60
	<b>1,432</b>	1,356



## 14 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Furniture, fittings and office equipment <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>At 1 January 2015</b>							
Cost	141,011	18,161	16,845	148,121	9,898	133,791	467,827
Accumulated depreciation	<u>(20,917)</u>	<u>(4,505)</u>	<u>(10,742)</u>	<u>(37,396)</u>	<u>(4,687)</u>	<u>—</u>	<u>(78,247)</u>
<b>Net book amount</b>	<b><u>120,094</u></b>	<b><u>13,656</u></b>	<b><u>6,103</u></b>	<b><u>110,725</u></b>	<b><u>5,211</u></b>	<b><u>133,791</u></b>	<b><u>389,580</u></b>
<b>Year ended 31 December 2015</b>							
<b>Opening net book amount</b>	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	<u>(7,874)</u>	<u>(2,598)</u>	<u>(2,298)</u>	<u>(17,448)</u>	<u>(1,576)</u>	<u>—</u>	<u>(31,794)</u>
<b>Closing net book amount</b>	<b><u>129,002</u></b>	<b><u>11,817</u></b>	<b><u>5,182</u></b>	<b><u>118,787</u></b>	<b><u>5,098</u></b>	<b><u>389,442</u></b>	<b><u>659,328</u></b>
<b>At 31 December 2015</b>							
Cost	157,793	18,920	18,092	171,606	10,601	389,442	766,454
Accumulated depreciation	<u>(28,791)</u>	<u>(7,103)</u>	<u>(12,910)</u>	<u>(52,819)</u>	<u>(5,503)</u>	<u>—</u>	<u>(107,126)</u>
<b>Net book amount</b>	<b><u>129,002</u></b>	<b><u>11,817</u></b>	<b><u>5,182</u></b>	<b><u>118,787</u></b>	<b><u>5,098</u></b>	<b><u>389,442</u></b>	<b><u>659,328</u></b>
<b>Year ended 31 December 2016</b>							
<b>Opening net book amount</b>	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	<u>(8,610)</u>	<u>(4,035)</u>	<u>(2,292)</u>	<u>(18,152)</u>	<u>(1,641)</u>	<u>—</u>	<u>(34,730)</u>
Disposals of subsidiaries	<u>(105,960)</u>	<u>(3,008)</u>	<u>(1,759)</u>	<u>(59,548)</u>	<u>(788)</u>	<u>—</u>	<u>(171,063)</u>
<b>Closing net book amount</b>	<b><u>57,333</u></b>	<b><u>4,774</u></b>	<b><u>4,240</u></b>	<b><u>48,599</u></b>	<b><u>2,886</u></b>	<b><u>569,404</u></b>	<b><u>687,236</u></b>
<b>At 31 December 2016</b>							
Cost	83,972	6,831	14,583	86,778	6,939	569,404	768,507
Accumulated depreciation	<u>(26,639)</u>	<u>(2,057)</u>	<u>(10,343)</u>	<u>(38,179)</u>	<u>(4,053)</u>	<u>—</u>	<u>(81,271)</u>
<b>Net book amount</b>	<b><u>57,333</u></b>	<b><u>4,774</u></b>	<b><u>4,240</u></b>	<b><u>48,599</u></b>	<b><u>2,886</u></b>	<b><u>569,404</u></b>	<b><u>687,236</u></b>

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).

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

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Cost of sales	<b>21,997</b>	21,147
Administrative expenses	<b>9,930</b>	7,889
Selling expenses	<b>1,180</b>	850
Research and development expenses	<b>1,623</b>	1,908
	<b>34,730</b>	31,794
	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Profit or loss of continuing operations ( <i>Note 4</i> )	<b>18,683</b>	17,517
Profit or loss of discontinued operations	<b>16,047</b>	14,277
	<b>34,730</b>	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.

## 15 INTANGIBLE ASSETS

	<b>Goodwill</b> <i>RMB'000</i>	<b>Computer software</b> <i>RMB'000</i>	<b>Trademarks</b> <i>RMB'000</i>	<b>Technology know-how</b> <i>RMB'000</i>	<b>Customer relationship</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>At 1 January 2015</b>						
Cost	622,956	1,359	34,711	356,820	5,012	1,020,858
Accumulated amortisation	<u>—</u>	<u>(191)</u>	<u>(3,512)</u>	<u>(19,198)</u>	<u>(3,063)</u>	<u>(25,964)</u>
<b>Net book amount</b>	<b><u>622,956</u></b>	<b><u>1,168</u></b>	<b><u>31,199</u></b>	<b><u>337,622</u></b>	<b><u>1,949</u></b>	<b><u>994,894</u></b>
<b>Year ended 31 December 2015</b>						
<b>Opening net book amount</b>	622,956	1,168	31,199	337,622	1,949	994,894
Additions	—	90	—	—	—	90
Amortisation charge	<u>—</u>	<u>(248)</u>	<u>(2,314)</u>	<u>(23,789)</u>	<u>(835)</u>	<u>(27,186)</u>
Closing net book amount	<u>622,956</u>	<u>1,010</u>	<u>28,885</u>	<u>313,833</u>	<u>1,114</u>	<u>967,798</u>
<b>At 31 December 2015</b>						
Cost	622,956	1,449	34,711	356,820	5,012	1,020,948
Accumulated amortisation	<u>—</u>	<u>(439)</u>	<u>(5,826)</u>	<u>(42,987)</u>	<u>(3,898)</u>	<u>(53,150)</u>
<b>Net book amount</b>	<b><u>622,956</u></b>	<b><u>1,010</u></b>	<b><u>28,885</u></b>	<b><u>313,833</u></b>	<b><u>1,114</u></b>	<b><u>967,798</u></b>
<b>Year ended 31 December 2016</b>						
<b>Opening net book amount</b>	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 9)	(79,397)	—	—	—	—	(79,397)
Disposals of subsidiaries	<u>(9,576)</u>	<u>(1,147)</u>	<u>—</u>	<u>(10,272)</u>	<u>—</u>	<u>(20,995)</u>
<b>Closing net book amount</b>	<b><u>533,983</u></b>	<b><u>463</u></b>	<b><u>26,571</u></b>	<b><u>280,085</u></b>	<b><u>279</u></b>	<b><u>841,381</u></b>
<b>At 31 December 2016</b>						
Cost	533,983	858	34,711	343,237	5,012	917,801
Accumulated amortisation	<u>—</u>	<u>(395)</u>	<u>(8,140)</u>	<u>(63,152)</u>	<u>(4,733)</u>	<u>(76,420)</u>
<b>Net book amount</b>	<b><u>533,983</u></b>	<b><u>463</u></b>	<b><u>26,571</u></b>	<b><u>280,085</u></b>	<b><u>279</u></b>	<b><u>841,381</u></b>

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

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Cost of sales	<b>22,869</b>	22,862
Administrative expenses	<b>1,225</b>	1,175
Selling expenses	<b>3,149</b>	3,149
	<b><u>27,243</u></b>	<u>27,186</u>
	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Profit or loss of continuing operations ( <i>Note 4</i> )	<b>26,240</b>	26,183
Profit or loss of discontinued operations	<b>1,003</b>	1,003
	<b><u>27,243</u></b>	<u>27,186</u>

#### 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:

	<b>Infusion Set Business</b> <i>RMB'000</i>	<b>Orthopedic Implant Business*</b> <i>RMB'000</i>	<b>Regenerative Medical Biomaterial Business</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
As at 31 December 2015	160,754	88,973	373,229	622,956
As at 31 December 2016	<u>160,754</u>	<u>—</u>	<u>373,229</u>	<u>533,983</u>

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

The recoverable amount of a cash-generating unit (“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 9).

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	<b>65.0%</b>	65.0%	<b>86.0%</b>	84.0%
Growth rate	<b>2.5%</b>	2.5%	<b>4.0%</b>	4.0%
Discount rate	<b>17.6%</b>	17.6%	<b>16.0%</b>	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.

## 16 LONG-TERM PREPAYMENTS

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments for property, plant and equipment	<b>3,264</b>	3,774
Others	<b>191</b>	206
	<b><u>3,455</u></b>	<u>3,980</u>

## 17 INVENTORIES

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

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).

## 18 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)	<u>—</u>	<u>(24,071)</u>
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 24(c))	443,833	—
Receivables from disposal of a subsidiary (e) (Note 24(c))	15,000	—
Other receivables (f)	<u>6,531</u>	<u>11,075</u>
	<u><b>686,437</b></u>	<u><b>357,603</b></u>

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	<u>—</u>	<u>6,435</u>
	<u><b>4,615</b></u>	<u><b>8,084</b></u>

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:

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

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:

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

- (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:

	<b>2016</b>	2015
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	—	12,520
Receivables from disposals of Orthopedic Implant Business ( <i>Note 24(c)</i> )(i)	<b>449,833</b>	—
Receivables from disposal of a subsidiary ( <i>Note 24(c)</i> )(ii)	<b>15,000</b>	—
Cash receipt from disposals of Orthopedic Implant Business	<b>(6,000)</b>	(1,000)
Provision for impairment of receivables from disposals of subsidiaries	<b>—</b>	(11,520)
At 31 December	<b><u>458,833</u></b>	<b><u>—</u></b>

- (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.

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

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest receivable	—	1,517
Advances to employees	<b>2,308</b>	2,112
Deposits	<b>1,265</b>	1,397
Others	<b>2,958</b>	6,049
	<b>6,531</b>	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.

## 19 TERM DEPOSITS

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Term deposits	—	40,000

## 20 CASH AND CASH EQUIVALENTS

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



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

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

## 21 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of ordinary shares	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Treasury shares <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Balance at 1 January 2015</b>	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
<b>Balance at 31 December 2015</b>	<u>1,673,022,168</u>	<u>1,034</u>	<u>1,666,821</u>	<u>—</u>	<u>1,667,855</u>
<b>Balance at 1 January 2016</b>	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
<b>Balance at 31 December 2016</b>	<u>1,590,317,404</u>	<u>979</u>	<u>1,528,311</u>	<u>(8,890)</u>	<u>1,520,400</u>

- (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.

## 22 TRADE AND OTHER PAYABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
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	<u>4,712</u>	<u>8,636</u>
	<u><b>94,763</b></u>	<u><b>170,266</b></u>

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 <i>RMB'000</i>	2015 <i>RMB'000</i>
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	<u>720</u>	<u>33</u>
	<u><b>26,679</b></u>	<u><b>39,132</b></u>

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

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

## 24 CASH GENERATED FROM OPERATIONS

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>Profit before income tax including discontinued operations</b>	<b>244,722</b>	<b>253,293</b>
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment ( <i>Note 14</i> )	34,730	31,794
Amortisation of intangible assets ( <i>Note 15</i> )	27,243	27,186
Amortisation of land use rights ( <i>Note 13</i> )	1,432	1,356
Impairment loss of goodwill resulting from disposals of Orthopedic Implant Business ( <i>Note 15</i> )	79,397	—
Gain on disposal of a subsidiary	(6,099)	—
Share-based compensation expenses		
— 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	<u>866</u>	<u>12,725</u>
	<u><b>365,379</b></u>	<u><b>316,341</b></u>
<b>Change in working capital</b>		
Inventories	(9,657)	(22,862)
Trade and other receivables	(52,185)	(25,728)
Deferred income	(114)	(1,113)
Trade and other payables	<u>20,957</u>	<u>45,139</u>
<b>Cash generated from operating activities</b>	<u><u><b>324,380</b></u></u>	<u><u><b>311,777</b></u></u>

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Net book amount ( <i>Note 14</i> )	630	4,909
Receipt of consideration for disposals in prior year	—	1,480
(Loss)/gain on disposals of property, plant and equipment	<u>(41)</u>	<u>15</u>
Proceeds from disposals of property, plant and equipment	<u><u>589</u></u>	<u><u>6,404</u></u>

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Cash consideration	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	<u>—</u>	<u>1,000</u>
	<u><u>(29,908)</u></u>	<u><u>1,000</u></u>

## 25 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.

(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 Medical Device Co., Ltd. (“**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.

## **26 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 Limited and PW Medtech (Beijing) Limited, 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.

## FINANCIAL REVIEW

### Overview

	For the year ended		Change
	December 31,		
	2016	2015	
	RMB'000	RMB'000	
	(except for	(except for	
	EPS)	EPS)	
		(Restated)	
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	<u>566,822</u>	<u>515,587</u>	<u>9.9%</u>
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	<u>(46,711)</u>	<u>4,355</u>	<u>(1,172.6%)</u>
Profit for the year	193,446	208,582	(7.3%)
Profit attributable to owners of the Company	<u>194,949</u>	<u>208,582</u>	<u>(6.5%)</u>

By December 31, 2016, the Group completed a disposal to a third party of the Group's interests in certain subsidiaries (the "Disposed Subsidiaries"), which were mainly engaged in the business of manufacturing and sale of orthopedic implant products, including trauma, spine and joints. 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 RMB515.6 million in 2015 to 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 comprise 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 business in the brand name of "Tianyifu (天義福)" both contributed to the increase in sales of the other businesses of the Group.

### **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**”); first anniversary of the First Vesting Date; 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 of the Company dated October 28, 2013. Pursuant to the principal terms of 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.

### **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 the discontinued operations can be found in note 9 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 current year (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, decreased by 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 were 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 December 31, 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 up to the date of this announcement.

### **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 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 approximately RMB967.8 million as of December 31, 2015. The decrease was primarily due to the goodwill related to the disposal of subsidiary 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.

## **Pledge of Assets**

Save as those as disclosed in note 25 to the consolidated financial statements, the Group has not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third party. It does not have any interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to it or engages in leasing or hedging or R&D or other services with it.

## **Commitments**

As of December 31, 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 disclosed in note 25 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 gearing 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. The management of the Company 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 20 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 of the Company 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.

## **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 counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up 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.

## 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, 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.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended December 31, 2016, the Company repurchased on the Stock Exchange a total of 87,743,000 shares of the Company at a total consideration of approximately HKD171.9 million. Such shares of the Company 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 summarized as follows:

Month of repurchase	Total number of shares repurchased	Repurchase price per share		Aggregate consideration HKD
		Highest HKD	Lowest HKD	
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 Company's shares was made for the benefit of the Company's shareholders with a view to enhancing the net asset value per share and earnings per share of the Company.

## **FINAL DIVIDEND**

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

## **CLOSURE OF REGISTER OF MEMBERS FOR 2017 AGM**

For determining the entitlement to attend and vote at the 2017 annual general meeting of the Company to be held on June 2, 2017 (the “**2017 AGM**”), 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 of the Company will be registered. In order to be eligible to attend and vote at the 2017 AGM, unregistered holders of shares of the Company 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.

## **CORPORATE GOVERNANCE PRACTICES**

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its shareholders as a whole. The Company has adopted the code provisions as set out in the “Corporate Governance Code” (the “**Code**”) as contained in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange as its own code to govern its corporate governance practices.

In the opinion of the directors of the Company (the “**Directors**”), the Company has complied with the relevant code provisions contained in the Code during the year under review.

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

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

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

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

## REVIEW OF FINANCIAL STATEMENTS

### Audit Committee

The audit committee of the Company (comprising Mr. Wang Xiaogang, Mr. Chen Geng and Mr. Lin Junshan) has discussed with the management and reviewed the consolidated financial information of the Group for the year ended December 31, 2016, including accounting principles and practices adopted by the Group, and discussed risk management and internal controls and financial reporting matters.

### Review of Preliminary Announcement of Results by the Independent Auditor

The figures in respect of the Group's results for the year ended December 31, 2016 as set out in this announcement have been agreed by the Company's independent auditor, PricewaterhouseCoopers, Certified Public Accountants of Hong Kong ("**PricewaterhouseCoopers**") in relation to the amounts set out in the Group's consolidated financial statements for the year ended December 31, 2016. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by PricewaterhouseCoopers on this announcement.

## APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business partners for their trust and support.

By Order of the Board  
**PW Medtech Group Limited**  
**Yue'e Zhang**  
*Chairman*

Hong Kong, March 30, 2017

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