

PW MEDTECH GROUP LIMITED

普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01358.HK)



INTERIM REPORT
2016

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



A TRUE PIONEER IN THE CHINESE MEDICAL DEVICES INDUSTRY

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DEFINITIONS

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

“Audit Committee”	the audit committee of the Company
“Board of Directors” or “Board”	our board of Directors
“CEO”	chief executive officer of our Company
“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 interim report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
“Company”, “our Company”, “Group”, “our Group”, “we” or “us”	PW Medtech Group Limited (普华和顺集团公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on May 13, 2011 and except where the context indicates otherwise its subsidiaries
“Director(s)”	the director(s) of our Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Infusion Set Business”	the development, manufacturing and sale of advanced infusion set products
“IPO”	the Company’s initial public offering of its Shares
“Listing Date”	November 8, 2013, on which dealings in Shares first commenced 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
“Orthopedic Implant Business”	the development, manufacturing and sale of orthopedic implants products
“Period”	the six months ended June 30, 2016
“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



DEFINITIONS (continued)

“Regenerative Medical Biomaterial Business”	the development, manufacturing and sale of regenerative medical biomaterial products
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of par value US\$0.0001 each in the issued share capital of our Company
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on October 14, 2013
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

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



MANAGEMENT DISCUSSION AND ANALYSIS

Business and Market Review

In the first half of 2016, the national economy was stable with a mild deceleration, and the Gross Domestic Product increased by 6.7% on a year-on-year basis. Year 2016 is 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). To achieve the goal of “Healthy China”, the Chinese government has been making progress in medical reforms, which has further optimized the nation-wide medical security mechanism, integrated medical and health mechanism and soundly promoted the innovation of medical technology. Meanwhile, in order to support the development of domestic medical device corporations, the Chinese government is encouraging hospitals to use domestically-manufactured medical devices by adopting certain preferential policies on taxation, investment and sales of medical devices. In recent years, with the growing aging population in China, increasing social awareness of public health services and the Chinese government’s acceleration of the optimization and upgrade of the medical device industry, there are great potential demand for quality medical devices and medical services, which brings valuable opportunities for industry growth. On the other hand, the deepening of medical and health system reforms, the government’s increasing control over the efficiency of medical insurance and the uncertainties of medical device tendering policies among provinces and cities all have a complicated impact on the industry. Therefore, China’s medical device industry is currently at a stage of development with both opportunities and challenges.

The Company is a leading medical device company with focus on fast-growing and high-margin segments of China’s medical device industry. We currently have three business segments: (i) the Regenerative Medical Biomaterial Business, (ii) the Infusion Set Business and (iii) the Orthopedic Implant Business. As one of the leading domestic companies in the industry, the Company is well aware of the market opportunities and challenges that it faces in light of its own competitive strengths and distinctive characteristics. In 2016, the Group continues to further expand its product portfolio and production capacity, enhance its innovation and R&D capabilities, and extend distribution networks so as to reinforce its market leading position and cope with the market challenges. Furthermore, the Group is also actively exploring the opportunities to broaden the application of its technologies into new areas and aims to expand into new businesses with potentials for growth and profit.

During the Period, the Group’s revenue were RMB319.8 million, representing a decrease of 1.7% over the corresponding period last year. During the Period, the Group’s profit for the period and the profit attributable to the owners of the Company were RMB117.9 million and RMB118.8 million, respectively, representing an increase of 2.3% and 3.1% over the corresponding period last year. The overall gross profit margin during the Period was 74.4% (for the six months ended June 30, 2015: 75.8%).

During the Period, the Regenerative Medical Biomaterial Business, the Infusion Set Business and the Orthopedic Implant Business contributed to approximately 34.6%, 47.5% and 17.9% of the Group’s revenue, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Strategies and Future Outlook

In order to seize the opportunities in medical device markets, the Group will continue to broaden its product portfolio by strengthening its R&D efforts and seeking opportunities of expansion into new businesses through merger and acquisition. The Group will continuously devote to the delivery of brand new products and the optimization of existing products.

For Regenerative Medical Biomaterial Business, as a top player in the field of artificial dura mater in China, which is a key regenerative medical biomaterial product line, the Group is committed to increasing R&D investment, improving innovation capability, promoting industrialization and upgrading technology. The clinical trials of the oral cavity repair membrane and the second generation of artificial dura mater made notable progress during the Period and are both expected to be completed in the year of 2016. The oral cavity repair membrane will expand the application of the Group's regenerative medical biomaterial products into new areas of oral and maxillofacial surgery. The second generation of artificial dura mater will bring more benefits to patients in terms of leakage proofing and heal supporting. These two new products will further reinforce our leadership in the fields of craniotomy operation and neurosurgery. Furthermore, the development of a number of new regenerative biomaterial products for different new areas, such as ophthalmology, oral surgery and orthopedic surgery, has also made progress during the Period. We expect to start clinical trials for some of these new products in the second half of 2016. In addition, we will continue to distribute state-of-the-art interventional neurosurgery products in 2016 in order to provide integrated solutions and services to physicians and patients. Meanwhile, we also start to extend our production lines to the area of beauty products, applying our quality control experience in the medical device industry to its production and management.

With regard to the Infusion Set Business, the Group has been developing a series of new products so as to provide even safer and more reliable devices for infusion therapy and further strengthen our leading position in the market of advanced infusion medical devices. On the one hand, we are working to add a series of new features and functions to our existing comprehensive non-PVC-based (non polyvinyl chloride based) infusion sets and precision filter infusion sets to enhance safety as well as usage experiences of nurses and patients. On the other hand, we have also accelerated the registration and launch of brand new products other than infusion sets. In July 2016, we have obtained the product registration for disposable intravenous cannula (留置針), which would allow us to provide a more comprehensive product portfolio for infusion therapy.

With regard to the Orthopedic Implant Business, the Group continued to put research efforts to optimize the three main product categories in this business segment: trauma products, spine products and joint products, with a view to making substantial progress. For trauma implants, we will continue our research to further improve and upgrade the bridge-link combined fixation system, of which the initial generation products were commercially launched in 2012. To satisfy various patient demands for spine, hip and knee implants, the Group will also continue to develop advanced materials and devise new products. By the end of the Period, we have obtained product registration for trabecular metal, a product used for the treatment of osteonecrosis of femoral head.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 hospitals), first class university research centers and other research institutions. As of June 30, 2016, the Group owned 114 patents, including 13 for regenerative medical biomaterial products, 51 for advanced infusion set products and 50 for orthopedic implant products. Further, the Group has 25 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 three experienced and dedicated sales and marketing teams to support and consolidate nationwide distribution networks and strengthen product promotion for its three business segments. Approximately 50% of our sales and marketing staff have medical training background, which enables them to communicate with doctors and nurses in a professional and effective manner. Our key salespersons have an average of 10 years' experience in their respective areas.

We have been implementing certain measures to restructure the sales teams among different business lines since 2014 with a view to improving overall sales force efficiency. Following the implementation of these measures, the Group's revenue generated from each of the business segments during the Period has shown stabilizing or rising trends when using link ratio analysis on a six-month period basis.

Strategic Acquisitions

In light 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 of our current business segments.

FINANCIAL REVIEW

Overview

	For the six months ended June 30,		Change %
	2016 RMB'000 (except for earnings per Share)	2015 RMB'000 (except for earnings per Share)	
Revenue			
— Regenerative Medical Biomaterial Business	110,643	102,504	7.9%
— Infusion Set Business	151,919	150,595	0.9%
— Orthopedic Implant Business	57,261	72,308	-20.8%
Total revenue	319,823	325,407	-1.7%
Gross Profit	237,803	246,502	-3.5%
Unaudited adjusted net profit (excluding share-based compensation)	119,505	123,006	-2.8%
Profit for the Period	117,890	115,215	2.3%
Profit attributable to owners of the Company	118,835	115,215	3.1%
Basic earnings per Share (RMB cents)	7.23	6.88	5.1%
Diluted earnings per Share (RMB cents)	7.17	6.73	6.5%

Revenue

The revenue of the Group decreased by 1.7% from approximately RMB325.4 million for the comparative six-month period ended June 30, 2015 to RMB319.8 million for the Period, as a result of the offset of the increase in the sales of the Regenerative Medical Biomaterial Business and Infusion Set Business by the decrease in the sales of the Orthopedic Implant Business.

Revenue from the Regenerative Medical Biomaterial Business for the Period amounted to approximately RMB110.6 million, representing an increase of 7.9% from approximately RMB102.5 million for the comparative six-month period ended June 30, 2015. Revenue from the Infusion Set Business amounted to approximately RMB151.9 million for the Period, representing a minor increase of 0.9% over approximately RMB150.6 million for the comparative six-month period ended June 30, 2015. The sales increases in these two segments were both mainly contributed by the increase in sales volume due to increased market demand and the Group's expansion of sales networks.

Revenue from the Orthopedic Implant Business amounted to RMB57.3 million for the Period, representing a decrease of 20.8% from approximately RMB72.3 million for the comparative six-month period in the prior year. The decrease in the Orthopedic Implant Business segment was mainly due to the decrease in sales volume. The restructuring being implemented to the sales forces also prolonged the time for this segment to recover. However, when compared to the sales for the previous six-month period ended December 31, 2015 for the purpose of the link ratio analysis, the revenue of the Orthopedic Implant Business for the Period increased by 13.0% and the revenue of the Group increased by 3.7%, which showed a positive trend in recovery. The management of the Group considers the weak performance of the Group's Orthopedic Implant Business to be transitional and has confidence in its promising prospect.

Gross Profit

The Group's gross profit decreased by 3.5% from approximately RMB246.5 million for the six months ended June 30, 2015 to approximately RMB237.8 million for the Period. The gross profit margin rate decreased slightly from 75.8% for the six months ended June 30, 2015 to 74.4% for the Period, which was mainly due to the decrease in gross profit margin in the Infusion Set Business.

The gross profit margin rate of the Regenerative Medical Biomaterial Business during the Period was 84.8%, a minor decrease from the 85.5% for the six months ended June 30, 2015, mainly due to the changes in product mix. The gross profit margin rate of the Infusion Set Business during the Period was 67.1%, decreasing from 69.7% for the six months ended June 30, 2015, mainly due to decreased proportion of higher margin product sales together with the decreased proportion of direct sales in this segment. The gross profit margin rate of the Orthopedic Implant Business decreased slightly to 73.4% from 74.5% for the six months ended June 30, 2015, mainly due to changes in product mix.

Selling Expenses

Selling expenses increased by 2.9% from approximately RMB42.8 million for the six months ended June 30, 2015 to approximately RMB44.0 million for the Period. The increase was mainly attributable to the Group's continued efforts in expanding the sales network.

Administrative Expenses

Administrative expenses decreased by 11.9% from approximately RMB51.2 million for the same period in the prior year to approximately RMB45.1 million for the Period. The decrease was mainly due to the decrease in share-based compensation.

R&D Expenses

R&D expenses decreased by 15.0% from approximately RMB16.4 million for the same period in the prior year to approximately RMB13.9 million for the Period, mainly because certain R&D activities previously scheduled to occur during the Period actually occurred either earlier or later than expected.

FINANCIAL REVIEW (continued)

Income Tax Expenses

Income tax expenses for the Period amounted to approximately RMB23.9 million, decreased by approximately RMB1.3 million as compared with the corresponding period last year, with the effective tax rate decreased from 18.0% for the corresponding period last year to 16.9% for the Period. The main reason for the decrease of effective tax rate was the increase of profit from certain subsidiaries with preferential income tax rate of 15%.

Other Gains — net

Other gains — net for the Period amounted to approximately RMB5.3 million, increased by approximately RMB2.8 million as compared with the corresponding period last year, mainly due to the increased government grants received during the Period.

Net Profit and Unaudited Adjusted Net Profit

For the foregoing reasons, the net profit of the Group for the Period increased by 2.3%, from approximately RMB115.2 million for the six months ended June 30, 2015 to RMB117.9 million for the Period. Profit attributable to owners of the Company increased by 3.1%, from approximately RMB115.2 million for the six months ended June 30, 2015 to RMB118.8 million for the Period.

To supplement our interim condensed consolidated financial statements which are presented in accordance with Hong Kong Financial Reporting Standards, we also used unaudited adjusted net profit as an additional financial measure to evaluate our financial performance. Our unaudited adjusted net profit for the Period, derived by excluding the share-based compensation expenses of approximately RMB1.6 million (for the six months ended June 30, 2015: excluding the share-based compensation expenses of approximately RMB7.8 million) together with the corresponding income tax expense, was approximately RMB119.5 million, representing a decrease by 2.8% from approximately RMB123.0 million for the six months ended June 30, 2015.

Trade and Other Receivables

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

As of June 30, 2016, the trade and other receivables of the Group, including both current and non-current portions, were approximately RMB390.6 million, representing an increase of approximately 2.3%, as compared to approximately RMB381.7 million as of December 31, 2015. The increase was mainly due to the increase in trade receivables resulting from the prolonged credit period for sales made to hospitals and distributors.

Inventories

Inventories increased by 7.7%, from approximately RMB124.0 million as of December 31, 2015 to approximately RMB133.5 million as of June 30, 2016. The increase of inventories was mainly due to the increase in finished goods for meeting potential market demand.



Property, Plant and Equipment

Property, plant and equipment included buildings, machinery and equipment and construction under progress. As of June 30, 2016, the property, plant and equipment of the Group amounted to approximately RMB762.0 million, representing an increase of approximately RMB102.7 million, as compared to approximately RMB659.3 million as of December 31, 2015. The increase was primarily due to the construction and procurement of new facilities and production lines for expansion of production capacities.

Intangible Assets

The Group's intangible assets mainly included goodwill, technology know-how, trademarks, computer software and customer relationship. The Group's goodwill, technology know-how and trademarks were mainly identified and recorded during the purchase accounting process for the acquisitions of subsidiaries. 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 June 30, 2016, the net value of the Group's intangible assets was RMB954.2 million, representing a decrease of RMB13.6 million as compared to RMB967.8 million as of December 31, 2015. The decrease was primarily due to the amortisation of the intangible assets during the Period.

Financial Resources and Liquidity

As at June 30, 2016, the Group's cash and bank balances amounted to approximately RMB204.7 million (December 31, 2015: RMB288.2 million). As of June 30, 2016 and as of December 31, 2015, the Group's bank borrowing balances were both 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.

Cash Flows from Operating Activities

During the Period, the net cash generated from operating activities amounted to RMB119.3 million, which increased by RMB28.5 million as compared to RMB90.8 million for the corresponding period last year.

Pledge of Assets

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 June 30, 2016, the Group had a total capital commitment of approximately RMB60.7 million, comprising mainly contracted capital expenditure for construction and acquisition of property, plant and equipment.

FINANCIAL REVIEW (continued)

Contingent Liabilities

The Group had no material contingent liability or guarantee to third parties as of June 30, 2016.

Capital Expenditure

During the Period, the Group incurred capital expenditure of RMB152.3 million (for the six months ended June 30, 2015: RMB124.7 million) on the expansion of the plants and procurement of equipments.

Gearing Ratio

The Group monitors capital on the basis of gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings are current borrowings as shown in the interim condensed consolidated balance sheet plus amounts due to related parties of non-trading nature. Total capital is calculated as "total equity" as shown in the interim condensed consolidated balance sheet plus total borrowings. As of June 30, 2016, the total capital of the Group amounted to approximately RMB2,342.5 million, increased by approximately RMB120.2 million comparing to the total capital as of June 30, 2015.

	As at June 30,	
	2016 RMB'000	2015 RMB'000
Total borrowings	—	—
Total equity	2,342,524	2,222,277
Total capital	2,342,524	2,222,277
Gearing ratio	—	—

Foreign Exchange Risk

The Group mainly operated its business in the PRC and was exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar and the United States dollar during the Period. Foreign exchange risk arose from foreign currencies held in certain overseas subsidiaries. The Group did not hedge against any fluctuation in foreign currency during the Period. The management of the Group 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 15 to the Group's interim condensed consolidated financial statements.

Cash Flow and Fair Value Interest Rate Risk

Other than bank balances with variable interest rates, the Group had no other significant interest-bearing assets. The management of the Group does not anticipate any significant impact to interest-bearing assets resulting from the changes in interest rates because the interest rates of bank balances are not expected to change significantly. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates exposed the Group to cash flow interest rate risk, which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates exposed the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risks.

Credit Risk

The carrying amounts of cash and cash equivalents, available-for-sale financial assets, term deposits 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 and available-for-sale financial assets is limited because the counterparties are commercial banks with good reputation, acceptable credit rating and being publicly listed. 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 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 reviewed the recoverable amount of each individual trade and other receivable balance at the end of the Period to ensure adequate impairment losses are made for irrecoverable amounts.

SUPPLEMENTARY INFORMATION

Use of Proceeds

The net proceeds from the IPO on November 8, 2013 amounted to approximately HK\$1,348.7 million (equivalent to approximately RMB1,059.8 million) after deducting share issuance costs and listing expenses. As of June 30, 2016, the net proceeds raised by the Company from the IPO had not been fully utilized. During the Period, 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 the second half of 2016, the Company will use the proceeds raised from the IPO in accordance with its development strategies, market conditions, and intended use of such proceeds.

Human Resources

As of June 30, 2016, the Group had a total of over 1,700 employees (December 31, 2015: 1,599 employees). The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits, liabilities for breaches and grounds for termination. Remuneration of the Group’s employees includes basic salaries, allowances and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The Group has designed an evaluation system to assess the performance of its employees. This system forms the basis of our Group’s determination on employees’ salaries and promotions. We believe the salaries that our Group’s employees receive are competitive with market rates. Under applicable PRC laws and regulations, our Group is subject to social insurance contribution plans, work-related injury insurance and maternity insurance schemes. We place a strong emphasis on providing training to our employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards and work place safety standards. We also provide regular on-site and off-site training to help our employees to improve their skills and knowledge. These training courses range from further educational studies to basic product process and skill training to professional development courses for its management personnel.

Interim Dividend

The Board has resolved not to declare any interim dividend for the Period (for the six months ended June 30, 2015: Nil).

Corporate Governance Practices

The Company recognizes 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 CG Code as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code during the Period.

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

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 his/her office or employment, is likely to possess inside information in relation to the Company or its securities.

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

Purchase, Sale or Redemption of the Company's Listed Shares

During the Period, the Company repurchased on the Stock Exchange a total of 51,210,000 Shares at a total consideration of approximately HK\$89,684,534.10. Such Shares had been cancelled on February 15, 2016, May 12, 2016 and July 7, 2016, respectively. Details of the Share repurchases are summarized as follows:

Month of repurchase	Total number of Shares repurchased	Repurchase price per Share		Aggregate consideration HK\$
		Highest	Lowest	
		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

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 Period. 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 earnings per Share.

Review of Financial Information

Audit Committee

The Audit Committee, comprising Mr. WANG Xiaogang, Mr. CHEN Geng and Mr. LIN Junshan, has discussed with the management and reviewed the unaudited condensed consolidated interim financial information of the Group for the Period.

In addition, the Company's external auditor, PricewaterhouseCoopers, has performed an independent review of the Group's condensed consolidated interim financial information for the Period in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity". Based on their review, PricewaterhouseCoopers confirmed that nothing has come to their attention that causes them to believe that the condensed consolidated interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

SUPPLEMENTARY INFORMATION (continued)

Update on Directors' Information Pursuant to Rule 13.51B(1) of the Listing Rules

Positions held with a member of the Group

The positions held by three Directors in Tianxinfu (Beijing) Medical Appliance Co., Ltd. ("Beijing Tianxinfu"), a wholly owned subsidiary of the Company, have changed with effect from May 31, 2016: (1) Mr. LIN Junshan has ceased to be the chairman of the board of directors of Beijing Tianxinfu, but remains as its director; (2) Mr. JIANG Liwei has been appointed as the chairman of the board of directors of Beijing Tianxinfu; and (3) Ms. Yue'e ZHANG has been appointed as a director of Beijing Tianxinfu.

Major appointment

With effect from June 23, 2016, Mr. ZHANG Xingdong has been appointed as the Medical Biomaterial Chief Scientific Adviser of Sichuan Languang Development Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600466).

Interests of Directors and Chief Executive in Securities

As of June 30, 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 or any associated corporation (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(A) Long position in ordinary Shares

Name of Director	Capacity	Number of ordinary Shares interested	Approximate percentage* of the Company's issued share capital
Ms. Yue'e ZHANG	Beneficial owner	50,000	0.003%
Mr. JIANG Liwei	Beneficial owner	1,046,357	0.06%
Mr. LIN Junshan	Beneficial owner	3,330,427	0.20%
Mr. CHEN Geng	Beneficial owner	318,472	0.02%

SUPPLEMENTARY INFORMATION (continued)

(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 as required to be disclosed pursuant to the Listing Rules are set out in the section headed "Pre-IPO Share Option Scheme" below.

+ The percentage represents the number of ordinary Shares/underlying Shares interested divided by the number of the issued Shares as of June 30, 2016.

Save as disclosed above and in the below section headed "Pre-IPO Share Option Scheme" and to the best knowledge of the Directors, as of June 30, 2016, none of the Directors or the chief executive of the Company had any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests in Securities

As of June 30, 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	33.55%
Ms. Yufeng LIU	1	Interest of a controlled corporation	547,061,863	33.55%
Mr. ZHANG Zaixian	2	Interest of spouse	547,061,863	33.55%
Right Faith Holdings Limited		Beneficial owner	393,385,962	24.12%
Mr. Marc CHAN	3	Interest of controlled corporations	408,385,962	25.04%

SUPPLEMENTARY INFORMATION (continued)

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.

+ The percentage represents the number of ordinary Shares interested divided by the number of the issued Shares as of June 30, 2016.

Save as disclosed above and to the best knowledge of the Directors, as of June 30, 2016, no person had registered an interest or a short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

Pre-IPO Share Option Scheme and Share Option Scheme

Pre-IPO Share Option Scheme

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

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

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

SUPPLEMENTARY INFORMATION (continued)

Details of the movement of the options granted under the Pre-IPO Share Option Scheme for the Period are as follows:

Name or category of option holders	Number of options					
	Outstanding as at January 1, 2016	Granted during the Period	Exercised during the Period (Notes 1&2)	Cancelled during the Period	Lapsed during the Period	Outstanding as at June 30, 2016
Directors						
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	—	11,512,742	10,891,947
Total	35,621,248	—	159,236	—	16,926,755	18,535,257

Notes:

- (1) The weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK\$1.56.
- (2) The exercise price per Share of the above options granted is RMB0.626.

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

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

The Pre-IPO Share Option Scheme does not fall within the ambit of, and are not subject to, the regulations under Chapter 17 of the Listing Rules. Details of the impact of options granted under the Pre-IPO Share Option Scheme on the financial statements since the date of grant and the subsequent financial periods are set out under Note 18 to the interim condensed consolidated financial statements.

SUPPLEMENTARY INFORMATION (continued)

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 the 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 9.89% of the total issued share capital of the Company as at the date of this interim 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 option has been granted under the Share Option Scheme since its adoption and up to the date of this interim 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.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



羅兵咸永道

Introduction

We have reviewed the condensed consolidated interim financial information set out on pages 22 to 52, which comprises the interim condensed consolidated balance sheet of PW Medtech Group Limited (the “Company”) and its subsidiaries (together, the “Group”) as at June 30, 2016 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on condensed consolidated interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 30, 2016

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Assets			
Non-current assets			
Land use rights	7	63,888	64,110
Property, plant and equipment	8	762,046	659,328
Intangible assets	9	954,183	967,798
Deferred income tax assets	20	9,966	10,179
Long-term prepayments	11	2,987	3,980
Trade receivables	13	11,986	24,071
		1,805,056	1,729,466
Current assets			
Inventories	12	133,487	123,983
Trade and other receivables	13	378,619	357,603
Available-for-sale financial assets	10	20,095	—
Term deposits	14	—	40,000
Cash and cash equivalents	15	204,658	288,224
		736,859	809,810
Total assets		2,541,915	2,539,276
Equity			
Equity attributable to owners of the Company			
Share capital	16	1,006	1,034
Share premium	16	1,605,232	1,666,821
Treasury shares	16	(14,901)	—
Other reserves	17	84,495	82,008
Retained earnings		666,470	547,635
		2,342,302	2,297,498
Non-controlling interests		222	1,167
Total equity		2,342,524	2,298,665



INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	Note	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	20	58,653	60,855
Deferred income	21	5,812	6,169
		64,465	67,024
Current liabilities			
Trade and other payables	19	132,538	170,266
Current income tax liabilities		2,388	3,321
		134,926	173,587
Total liabilities		199,391	240,611
Total equity and liabilities		2,541,915	2,539,276

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended June 30,	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue	6	319,823	325,407
Cost of sales	6	(82,020)	(78,905)
Gross profit		237,803	246,502
Selling expenses		(44,046)	(42,784)
Administrative expenses		(45,104)	(51,205)
Research and development expenses		(13,944)	(16,407)
Other gains — net	22	5,316	2,554
Operating profit		140,025	138,660
Finance income		1,784	4,657
Finance costs		—	(2,841)
Finance income — net		1,784	1,816
Profit before income tax		141,809	140,476
Income tax expenses	23	(23,919)	(25,261)
Profit for the period		117,890	115,215
Profit attributable to:			
Owners of the Company		118,835	115,215
Non-controlling interests		(945)	—
Earnings per share from profit attributable to owners of the Company (expressed in RMB cents per share)			
— Basic	27	7.23	6.88
— Diluted	27	7.17	6.73

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Profit for the period	117,890	115,215
Other comprehensive income:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Change in value of available-for-sale financial assets	95	25
Disposal of available-for-sale financial assets	—	(25)
Currency translation differences	934	(208)
Other comprehensive income for the period, net of tax	1,029	(208)
Total comprehensive income for the period	118,919	115,007
Total comprehensive income for the period attributable to:		
— Owners of the Company	119,864	115,007
— Non-controlling interests	(945)	—

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited								
	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at January 1, 2016	1,034	1,666,821	—	82,008	547,635	2,297,498	1,167	2,298,665	
Comprehensive income									
Profit for the period	—	—	—	—	118,835	118,835	(945)	117,890	
Currency translation differences	—	—	—	934	—	934	—	934	
Change in value of available-for-sale financial assets	—	—	—	95	—	95	—	95	
Total comprehensive income	—	—	—	1,029	118,835	119,864	(945)	118,919	
Transactions with owners									
Proceeds from employee share options exercised (Note 16)	—	100	—	—	—	100	—	100	
Buy-back of shares (Note 16)	(28)	(61,846)	(14,901)	—	—	(76,775)	—	(76,775)	
Transfer to share premium upon exercise of share options (Note 17)	—	157	—	(157)	—	—	—	—	
Share option reserve (Note 17)	—	—	—	1,615	—	1,615	—	1,615	
Total transactions with owners	(28)	(61,589)	(14,901)	1,458	—	(75,060)	—	(75,060)	
Balance at June 30, 2016	1,006	1,605,232	(14,901)	84,495	666,470	2,342,302	222	2,342,524	

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Unaudited							
	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at January 1, 2015	1,036	1,674,404	95,666	339,053	2,110,159	1,167	2,111,326	
Comprehensive income								
Profit for the period	—	—	—	115,215	115,215	—	115,215	
Currency translation differences	—	—	(208)	—	(208)	—	(208)	
Change in value of available-for-sale financial assets	—	—	25	—	25	—	25	
Disposal of available-for-sale financial assets	—	—	(25)	—	(25)	—	(25)	
Total comprehensive income	—	—	(208)	115,215	115,007	—	115,007	
Transactions with owners								
Proceeds from employee share options exercised (Note 16)	2	2,282	—	—	2,284	—	2,284	
Buy-back of shares (Note 16)	(3)	(14,128)	—	—	(14,131)	—	(14,131)	
Transfer to share premium upon exercise of share options (Note 17)	—	3,490	(3,490)	—	—	—	—	
Share option reserve (Note 17)	—	—	7,791	—	7,791	—	7,791	
Total transactions with owners	(1)	(8,356)	4,301	—	(4,056)	—	(4,056)	
Balance at June 30, 2015	1,035	1,666,048	99,759	454,268	2,221,110	1,167	2,222,277	

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended June 30,	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash generated from operations		146,138	118,362
Interest paid		—	(2,555)
Income tax paid		(26,841)	(25,040)
Cash flows from operating activities — net		119,297	90,767
Cash flows from investing activities			
Purchases of property, plant and equipment		(630)	(15,285)
Purchases of construction in progress		(151,706)	(109,449)
Purchases of land use rights		(115)	—
Purchases of available-for-sale financial assets	10	(175,000)	(21,000)
Proceeds from disposal of available-for-sale financial assets	10	155,720	21,025
Proceeds from disposal of a subsidiary		—	1,000
Net decrease in restricted cash		—	260,000
Net decrease in term deposits	14	40,000	—
Proceeds from disposal of property, plant and equipment		707	4,062
Interest received		3,301	—
Placement of deposits with initial terms over three months		—	(80,000)
Cash flows from investing activities — net		(127,723)	60,353
Cash flows from financing activities			
Buy-back of shares	16	(76,775)	(14,131)
Proceeds from borrowings		—	140,000
Repayment of borrowings		—	(215,000)
Proceeds from employee share options exercised		100	2,284
Cash flows from financing activities — net		(76,675)	(86,847)
Net (decrease)/increase in cash and cash equivalents		(85,101)	64,273
Cash and cash equivalents at beginning of the period		288,224	153,816
Exchange gains/(losses)		1,535	(146)
Cash and cash equivalents at end of the period	15	204,658	217,943

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General Information of the Group

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

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in the development, manufacturing and sale of (i) regenerative medical biomaterial products (the “**Regenerative Medical Biomaterial Business**”); (ii) advanced infusion set products (the “**Infusion Set Business**”); and (iii) orthopedic implant products (the “**Orthopedic Implant Business**”) in the People’s Republic of China (the “**PRC**” or “**China**”).

This condensed consolidated interim financial information is presented in Renminbi (“**RMB**”), unless otherwise stated.

This condensed consolidated interim financial information has not been audited.

2 Basis of Preparation

This condensed consolidated interim financial information for the six months ended June 30, 2016 has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34, “Interim financial reporting”. This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

3 Accounting Policies

Except as described below, the accounting policies applied are consistent with those of the Group’s annual financial statements for the year ended December 31, 2015, as described in the financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no new standards, amendments and interpretations to existing standards that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

3 Accounting Policies (Continued)

The following new standards and amendments to standards have been issued and are relevant to the Group, but are not effective for the financial year beginning on January 1, 2016 and have not been early adopted:

	Effective for annual periods beginning on or after
HKFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
HKFRS 9 "Financial Instruments"	January 1, 2018
HKFRS 16 "Leases"	January 1, 2019
Amendments to HKFRS 10 and HKAS 28 "Sale or Contribution of assets between an investor and its associate or joint venture"	To be determined

4 Estimates

The preparation of the condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended December 31, 2015.

5 Financial Risk Management**5.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2015.

There have been no changes in the risk management policies since the year end.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

5 Financial Risk Management (Continued)

5.3 Fair value estimation

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

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

(b) *Financial instruments in level 3*

The following table presents the changes in level 3 instruments for the six months ended June 30, 2016.

	Available-for-sale financial assets RMB'000
At beginning of the period	—
Additions	175,000
Gains recognised in profit or loss	720
Change in value recognised in other reserves	95
Disposals	(155,720)
At end of the period	20,095
Total gains for the period recognised in profit or loss under "other gains — net"	720

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

6 Segment Information

The chief operating decision-maker has 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:

- Regenerative Medical Biomaterial Business — manufacturing and sale of regenerative medical biomaterial products;
- Infusion Set Business — manufacturing and sale of high-end infusion sets; and
- Orthopedic Implant Business — manufacturing and sale of orthopedic implant products, including the product category of trauma, spine and joints.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

6 Segment Information (Continued)

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

Six months ended June 30, 2016	Regenerative Medical Biomaterial Business RMB'000 (Unaudited)	Infusion Set Business RMB'000 (Unaudited)	Orthopedic Implant Business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Revenue from external customers	110,643	151,919	57,261	319,823
Cost of sales	(16,852)	(49,953)	(15,215)	(82,020)
Gross profit	93,791	101,966	42,046	237,803
Selling expenses	(12,592)	(19,309)	(12,145)	(44,046)
Administrative expenses	(10,393)	(22,143)	(12,568)	(45,104)
Research and development expenses	(3,862)	(4,576)	(5,506)	(13,944)
Other gains — net	769	4,145	402	5,316
Segment profits	67,713	60,083	12,229	140,025
Finance income				1,784
Finance costs				—
Finance income — net				1,784
Profit before income tax				141,809
As at June 30, 2016				
Segment assets	772,414	1,187,770	571,765	2,531,949
Deferred income tax assets				9,966
Total assets				2,541,915
Segment liabilities	34,902	68,335	37,501	140,738
Deferred income tax liabilities				58,653
Total liabilities				199,391

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

6 Segment Information (Continued)

Six months ended June 30, 2015	Regenerative Medical Biomaterial Business RMB'000 (Unaudited)	Infusion Set Business RMB'000 (Unaudited)	Orthopedic Implant Business RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Revenue from external customers	102,504	150,595	72,308	325,407
Cost of sales	(14,880)	(45,616)	(18,409)	(78,905)
Gross profit	87,624	104,979	53,899	246,502
Selling expenses	(12,650)	(17,461)	(12,673)	(42,784)
Administrative expenses	(8,760)	(27,666)	(14,779)	(51,205)
Research and development expenses	(3,484)	(5,080)	(7,843)	(16,407)
Other gains — net	32	1,750	772	2,554
Segment profits	62,762	56,522	19,376	138,660
Finance income				4,657
Finance costs				(2,841)
Finance income — net				1,816
Profit before income tax				140,476
As at June 30, 2015				
Segment assets	746,782	1,082,578	556,389	2,385,749
Deferred income tax assets				11,592
Total assets				2,397,341
Segment liabilities	24,447	60,114	27,449	112,010
Deferred income tax liabilities				63,054
Total liabilities				175,064

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

7 Land Use Rights

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

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
In the PRC, held on: Leases of between 47 to 50 years	63,888	64,110

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
At beginning of the period	64,110	64,662
Additions	491	—
Amortisation charge	(713)	(670)
At end of the period	63,888	63,992

8 Property, Plant and Equipment

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
At beginning of the period	659,328	389,580
Additions	121,725	124,734
Disposals	(992)	(4,064)
Depreciation	(18,015)	(16,168)
At end of the period	762,046	494,082

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

9 Intangible Assets

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
At beginning of the period	967,798	994,894
Amortisation charge	(13,615)	(13,593)
At end of the period	954,183	981,301

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

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Cost of sales	11,431	11,431
Administrative expenses	609	587
Selling expenses	1,575	1,575
	13,615	13,593

10 Available-for-sale Financial Assets

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
At beginning of the period	—	—
Additions	175,000	21,000
Change in value of available-for-sale financial assets	815	25
Disposals	(155,720)	(21,025)
At end of the period	20,095	—

The investments represent short-term investments placed in certain PRC state-owned banking institutions with maturity within 1 year and non-determinable return rate. These investments are all denominated in RMB.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

11 Long-term Prepayments

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Prepayments for property, plant and equipment	2,788	3,774
Others	199	206
	2,987	3,980

12 Inventories

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Raw materials	32,165	35,061
Work in progress	27,857	18,598
Finished goods	73,465	70,324
	133,487	123,983

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

13 Trade and Other Receivables

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Trade receivables	374,104	365,643
Less: provision for impairment	(7,393)	(8,076)
Less: non-current portion (a)	(11,986)	(24,071)
Trade receivables — net (b)	354,725	333,496
Bills receivable (c)	2,334	2,898
Prepayments	10,402	10,134
Other receivables (d)	11,158	11,075
	378,619	357,603

As at June 30, 2016 and December 31, 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 June 30, 2016 and December 31, 2015, the carrying amount of the trade and other receivables is denominated in RMB.

(a) Non-current portion of the trade receivables

As of July 2015, Beijing Fert Technology Co., Ltd. ("**Fert Technology**"), a wholly owned subsidiary of the Company, 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 June 30, 2016, the discounted carrying amount is RMB34,825,000 among which RMB11,986,000 will be due after June 30, 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

13 Trade and Other Receivables (Continued)

- (b) As at June 30, 2016 and December 31, 2015, the ageing analysis of the trade receivables based on invoice date is as follows:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Up to 3 months	105,604	109,088
3 months to 6 months	52,778	54,014
6 months to 12 months	84,967	86,863
1 year to 2 years	102,889	98,756
2 years to 3 years	20,473	8,846
	366,711	357,567

Trade receivables arose mainly from Infusion Set Business and Orthopedic Implant 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 and Orthopedic Implant Business in settling trade receivables with reference to credit periods within 180 days to 365 days or outstanding balances within certain limits. No interests are charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of the goods. This provision has been determined by reference to past collection experience.

As at June 30, 2016 and December 31, 2015, trade receivables of RMB8,076,000 and RMB8,084,000 were impaired, respectively. The amounts of the provision were RMB7,393,000 and RMB8,076,000 as at June 30, 2016 and December 31, 2015, respectively. The individually impaired receivables mainly relate to certain customers, which are in unexpected difficult economic situations.

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

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
At beginning of the period	8,076	6,871
Reversal of impairment of receivables	(683)	(35)
At end of the period	7,393	6,836

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

13 Trade and Other Receivables (Continued)

- (c) The ageing of bills receivable is within 180 days, which is within the credit term.
- (d) The breakdown of other receivables is as follows:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Advances to employees	2,814	2,112
Receivables on government grants	2,481	—
Deposits	1,010	1,397
Receivables from disposal of property, plant and equipment	299	—
Interest receivable	—	1,517
Others	4,554	6,049
	11,158	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.

14 Term Deposits

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Term deposits	—	40,000

Term deposits are denominated in RMB and with original maturity within 1 year. The effective interest rate of these term deposits for the year ended December 31, 2015 was 3.46%.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

15 Cash and Cash Equivalents

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Cash on hand	640	705
Cash at banks	204,018	207,385
Short-term bank deposits	—	80,134
	204,658	288,224

Short-term bank deposits are denominated in RMB and USD and with original maturity within 3 months. The effective interest rate of these deposits for the year ended December 31, 2015 was 1.07%.

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

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
RMB	137,273	203,814
HKD	66,043	15,878
USD	1,238	68,428
EUR	104	104
	204,658	288,224

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

16 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
Unaudited					
Balance at January 1, 2016	1,673,022,168	1,034	1,666,821	—	1,667,855
Proceeds from employee share options exercised (a)	159,236	—	100	—	100
Buy-back of shares (b)	(42,422,000)	(28)	(61,846)	(14,901)	(76,775)
Transfer from other reserves upon exercise of share options (c)	—	—	157	—	157
Balance at June 30, 2016	1,630,759,404	1,006	1,605,232	(14,901)	1,591,337
Unaudited					
Balance at January 1, 2015	1,676,926,761	1,036	1,674,404	—	1,675,440
Proceeds from employee share options exercised	3,598,725	2	2,282	—	2,284
Buy-back of shares	(5,903,000)	(3)	(14,128)	—	(14,131)
Transfer from other reserves upon exercise of share options	—	—	3,490	—	3,490
Balance at June 30, 2015	1,674,622,486	1,035	1,666,048	—	1,667,083

- (a) Options exercised during the six months ended June 30, 2016 resulted in 159,236 shares being issued, with exercise proceeds of HKD118,000 (equivalent to RMB100,000). The related weighted average price of the Company's share at the time of exercise was HKD1.57 per share.
- (b) The Company acquired 51,210,000 of its own shares through purchases on The Stock Exchange of Hong Kong Limited during the period. The total amount paid to acquire the shares was RMB76,775,000. 42,422,000 of its own shares has been deducted from share capital and share premium, and 8,788,000 of its own shares has been deducted from the shareholders' equity as treasury shares.
- (c) Upon exercise of share options, share option reserve amounting to RMB157,000 was transferred to share premium.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

17 Other Reserves

	Merger reserve RMB'000	Translation reserve RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Available- for-sale financial assets RMB'000	Total RMB'000
Unaudited Balance at January 1, 2016	63,964	6,625	(1,703)	13,122	—	82,008
Currency translation differences	—	934	—	—	—	934
Change in value of available- for-sale financial assets	—	—	—	—	95	95
Transfer to share premium upon exercise of share options (Note 16)	—	—	—	(157)	—	(157)
Share option reserve	—	—	—	1,615	—	1,615
Balance at June 30, 2016	63,964	7,559	(1,703)	14,580	95	84,495
Unaudited Balance at January 1, 2015	63,964	5,393	(1,703)	28,012	—	95,666
Currency translation differences	—	(208)	—	—	—	(208)
Transfer to share premium upon exercise of share options (Note16)	—	—	—	(3,490)	—	(3,490)
Share option reserve	—	—	—	7,791	—	7,791
Balance at June 30, 2015	63,964	5,185	(1,703)	32,313	—	99,759

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

18 Share Based Payments**(i) Share options**

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

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

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

(ii) Outstanding share options

Movements in the number of share options outstanding:

	Number of share options	
	2016	2015
At January 1,		
Exercised	35,621,248	49,347,126
Forfeited	(159,236)	(3,598,725)
	(16,926,755)	(318,471)
At June 30,	18,535,257	45,429,930

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

18 Share Based Payments (Continued)

(ii) Outstanding share options (Continued)

Details of the exercise prices and the respective numbers of share options which remained outstanding as at June 30, 2016 and December 31, 2015 are as follows:

Vesting date	Exercise price	Number of share options outstanding	
		June 30, 2016	December 31, 2015
May 7, 2015	RMB0.63	2,882,401	3,041,637
May 7, 2016	RMB0.63	—	16,289,813
May 7, 2017	RMB0.63	15,652,856	16,289,798
		18,535,257	35,621,248

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%
Expected volatility	38%

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

19 Trade and Other Payables

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Trade payables	41,681	39,132
Salary and staff welfare payables	22,048	29,831
Advances from customers	26,634	20,733
Payables for construction in progress	8,597	40,597
Provisions for sales rebate	6,646	7,254
Deposits from distributors	5,443	5,487
Payables for purchase of land use rights	4,277	3,901
Value added tax and other taxes	2,869	7,579
Professional fee	3,768	6,109
Research and development expenses payables	1,021	1,007
Other payables	9,554	8,636
	132,538	170,266

As at June 30, 2016 and December 31, 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.

At June 30, 2016 and December 31, 2015, the ageing analysis of the trade payables based on invoice date are as follows:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Up to 3 months	19,246	25,697
3 months to 6 months	8,447	10,754
6 months to 12 months	12,287	1,590
1 year to 2 years	649	344
2 years to 3 years	674	714
Over 3 years	378	33
	41,681	39,132

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

20 Deferred Income Tax

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Deferred income tax assets		
At beginning of the period	10,179	14,777
Charged to profit or loss	(213)	(3,185)
At end of the period	9,966	11,592

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Deferred income tax liabilities		
At beginning of the period	(60,855)	(65,316)
Credited to profit or loss	2,202	2,262
At end of the period	(58,653)	(63,054)

21 Deferred Income

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

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
At beginning of the period	6,169	7,282
Credited to profit or loss	(357)	(779)
At end of the period	5,812	6,503

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

22 Other Gains — Net

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Government grants	4,269	2,313
— relating to costs	3,912	1,534
— relating to assets	357	779
Realised gain on available-for-sale financial assets	720	25
Gain/(Loss) on disposal of property, plant and equipment	12	(2)
Others	315	218
	5,316	2,554

23 Income Tax Expenses

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Current income tax	25,908	24,338
Deferred income tax (Note 20)	(1,989)	923
Income tax expenses	23,919	25,261

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

(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%.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

23 Income Tax Expenses (Continued)

(c) The PRC Corporate Income Tax (the “CIT”)

Except for Tianxinfu (Beijing) Medical Appliance Co., Ltd. (“**Beijing Tianxinfu**”), Fert Technology, Tianjin Walkman Biomaterial Co., Ltd. (“**Walkman Biomaterial**”), and Shenzhen Bone Medical Device Co., Ltd. (“**Shenzhen Bone**”), all being the wholly owned subsidiaries of the Company, 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 during the period, based on the existing legislation interpretation and practices in respect thereof.

Beijing Tianxinfu, Fert Technology, Walkman Biomaterial, and Shenzhen Bone 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 six months ended June 30, 2016 (for the six months ended June 30, 2015: 15%). They will continue to enjoy the preferential tax rate in the subsequent periods, provided that they continue to be qualified as “High and New Technology Enterprises” during such periods.

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

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

24 Contingencies

During the year ended December 31, 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 condensed consolidated interim 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 directors estimate that the case will not make any substantial impact to the Group, nor will result in any material loss.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

25 Commitments**(a) Capital commitments**

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

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Property, plant and equipment	60,749	175,503

(b) Operating lease commitments

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The majority of these non-cancellable leases are renewable at the end of the lease period at the market rate. The Group is required to give at least one-month notice for termination of these agreements. The lease expenditure and related management fee, water and electricity expenses (if necessary) were charged to the interim condensed consolidated income statements.

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

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
No later than 1 year	2,806	4,338
Later than 1 year and no later than 5 years	2,680	6,808
	5,486	11,146

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

26 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.

Save as disclosed elsewhere in this report, during the period, 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.

(a) Key management compensation

	Six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Salaries and other allowances	1,575	1,748
Share-based compensation	702	2,894
	2,277	4,642

27 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 six months ended June 30, 2016.

	Six months ended June 30,	
	2016 (Unaudited)	2015 (Unaudited)
Profit attributable to owners of the Company (RMB'000)	118,835	115,215
Weighted average number of ordinary shares in issue (thousands)	1,644,310	1,673,575
Basic earnings per share (RMB cents per share)	7.23	6.88

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

27 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 shares: 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.

	Six months ended June 30,	
	2016 (Unaudited)	2015 (Unaudited)
Profit attributable to owners of the Company (RMB'000)	118,835	115,215
Weighted average number of ordinary shares in issue (thousands)	1,644,310	1,673,575
Adjustments for share options (thousands)	12,281	39,076
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,656,591	1,712,651
Diluted earnings per share (RMB cents per share)	7.17	6.73

28 Dividends

The Board does not propose an interim dividend for the six months ended June 30, 2016 (for the six months ended June 30, 2015: Nil).