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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2014

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended June 30, 2014 amounted to approximately RMB268.2 million, representing an increase of 22.6% from approximately RMB218.8 million for the corresponding period in 2013.
- Gross profit for the six months ended June 30, 2014 amounted to approximately RMB190.7 million, representing an increase of 29.4% from approximately RMB147.4 million for the corresponding period in 2013.
- Profit attributable to owners of the Company for the six months ended June 30, 2014 amounted to approximately RMB84.1 million, representing an increase of 68.2% from approximately RMB50.0 million for the corresponding period in 2013.
- Adjusted net profit for the six months ended June 30, 2014, derived by excluding non-operational and one-off items comprising the merger and acquisition cost of approximately RMB3.1 million, and the share-based compensation expenses of approximately RMB15.1 million, was approximately RMB102.3 million, representing an increase of 53.6% over approximately RMB66.6 million for the corresponding period in 2013.

In this announcement, “we”, “us” and “our” refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board of directors (the “**Board**”) of PW Medtech Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (the “**Group**”) for the six months ended June 30, 2014, together with the comparative figures for the corresponding period in 2013 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2014

		Six months ended June 30,	
		2014	2013
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Revenue		268,179	218,750
Cost of sales		<u>(77,507)</u>	<u>(71,360)</u>
Gross profit		190,672	147,390
Selling expenses		(28,653)	(28,542)
Administrative expenses		(56,483)	(33,272)
Research and development expenses		(13,999)	(6,614)
Other gains — net	22	<u>3,434</u>	<u>251</u>
Operating profit		94,971	79,213
Finance income		14,878	247
Finance costs		<u>(7,763)</u>	<u>(5,116)</u>
Finance income/(costs) — net		7,115	(4,869)
Profit before income tax		102,086	74,344
Income tax expense	23	<u>(18,003)</u>	<u>(14,104)</u>
Profit for the period		<u>84,083</u>	<u>60,240</u>
Profit attributable to:			
Owners of the Company		84,083	50,014
Non-controlling interests		<u>—</u>	<u>10,226</u>
		<u>84,083</u>	<u>60,240</u>
Earnings per share (expressed in RMB cents per share)			
— Basic	26	<u>5.05</u>	<u>4.29</u>
— Diluted	26	<u>4.91</u>	<u>4.29</u>
Dividends	28	<u>—</u>	<u>—</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2014

	Six months ended June 30,	
	2014	2013
Note	RMB'000	RMB'000
	(Unaudited)	(Audited)
Profit for the period	84,083	60,240
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	(258)	1,418
Other comprehensive income for the period, net of tax	<u>(258)</u>	<u>1,418</u>
Total comprehensive income for the period	<u><u>83,825</u></u>	<u><u>61,658</u></u>
Attributable to:		
— Owners of the Company	83,825	51,432
— Non-controlling interests	<u>—</u>	<u>10,226</u>
	<u><u>83,825</u></u>	<u><u>61,658</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at June 30, 2014

		June 30, 2014	December 31, 2013
	Note	RMB'000 (Unaudited)	RMB'000 (Audited)
Assets			
Non-current assets			
Land use rights	7	51,725	51,759
Property, plant and equipment	8	225,855	201,121
Intangible assets	9	302,768	305,263
Deferred income tax assets	20	8,498	8,385
Long-term prepayments	10	298,618	43,672
		<u>887,464</u>	<u>610,200</u>
Current assets			
Inventories	11	95,204	95,052
Trade and other receivables	12	329,122	241,268
Restricted cash	13	297,102	37,000
Cash and cash equivalents	14	787,348	1,145,641
		<u>1,508,776</u>	<u>1,518,961</u>
Total assets		<u><u>2,396,240</u></u>	<u><u>2,129,161</u></u>
Equity			
Equity attributable to owners of the Company			
Share capital	15	1,036	1,026
Share premium	15	1,673,904	1,647,840
Other reserves	16	86,598	87,407
Retained earnings		<u>246,506</u>	<u>162,423</u>
Total equity		<u><u>2,008,044</u></u>	<u><u>1,898,696</u></u>

		June 30, 2014	December 31, 2013
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	20	15,251	16,079
Deferred income	21	2,120	2,241
		17,371	18,320
Current liabilities			
Amounts due to related parties	25	—	66
Trade and other payables	18	82,813	114,513
Current income tax liabilities		9,012	4,566
Borrowings	19	279,000	93,000
		370,825	212,145
Total liabilities		388,196	230,465
Total equity and liabilities		2,396,240	2,129,161
Net current assets		1,137,951	1,306,816
Total assets less current liabilities		2,025,415	1,917,016

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2014

	Audited					
	Attributable to owners of the Company					Non-controlling interests
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	
						Total equity RMB'000
Balance at January 1, 2013	<u>1</u>	<u>—</u>	<u>265,018</u>	<u>84,518</u>	<u>349,537</u>	<u>175,164</u>
Comprehensive income						
Profit for the period	—	—	—	50,014	50,014	10,226
Other comprehensive income	<u>—</u>	<u>—</u>	<u>1,418</u>	<u>—</u>	<u>1,418</u>	<u>—</u>
Total comprehensive income	<u>—</u>	<u>—</u>	<u>1,418</u>	<u>50,014</u>	<u>51,432</u>	<u>10,226</u>
Transactions with owners						
Non-controlling interests arising on business combination	—	—	—	—	—	37,790
Changes in ownership interests in subsidiaries without change of control	—	—	(48,656)	—	(48,656)	(129,784)
Issuance of ordinary shares	<u>45</u>	<u>555,987</u>	<u>(233,930)</u>	<u>—</u>	<u>322,102</u>	<u>—</u>
Total transaction with owners	<u>45</u>	<u>555,987</u>	<u>(282,586)</u>	<u>—</u>	<u>273,446</u>	<u>(91,994)</u>
Balance at June 30, 2013	<u>46</u>	<u>555,987</u>	<u>(16,150)</u>	<u>134,532</u>	<u>674,415</u>	<u>93,396</u>

	Unaudited						
	Attributable to owners of the Company						
	Share capital <i>RMB'000</i>	Share premium <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>
Balance at January 1, 2014	<u>1,026</u>	<u>1,647,840</u>	<u>87,407</u>	<u>162,423</u>	<u>1,898,696</u>	<u>—</u>	<u>1,898,696</u>
Comprehensive income							
Profit for the period	—	—	—	84,083	84,083	—	84,083
Other comprehensive income	<u>—</u>	<u>—</u>	<u>(258)</u>	<u>—</u>	<u>(258)</u>	<u>—</u>	<u>(258)</u>
Total comprehensive income	<u>—</u>	<u>—</u>	<u>(258)</u>	<u>84,083</u>	<u>83,825</u>	<u>—</u>	<u>83,825</u>
Transactions with owners							
Proceeds from employee share option exercised (<i>Note 15</i>)	10	10,382	—	—	10,392	—	10,392
Transfer to share premium upon exercise of share option (<i>Note 15</i>)	—	15,682	(15,682)	—	—	—	—
Share option reserve	<u>—</u>	<u>—</u>	<u>15,131</u>	<u>—</u>	<u>15,131</u>	<u>—</u>	<u>15,131</u>
Total transaction with owners	<u>10</u>	<u>26,064</u>	<u>(551)</u>	<u>—</u>	<u>25,523</u>	<u>—</u>	<u>25,523</u>
Balance at June 30, 2014	<u>1,036</u>	<u>1,673,904</u>	<u>86,598</u>	<u>246,506</u>	<u>2,008,044</u>	<u>—</u>	<u>2,008,044</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2014

	Six months ended June 30,	
	2014	2013
Note	RMB'000	RMB'000
	(Unaudited)	(Audited)
Cash flows from operating activities		
Cash generated from operations	40,849	43,487
Interest paid	(7,841)	(1,634)
Income tax paid	<u>(18,445)</u>	<u>(10,359)</u>
Net cash generated from operating activities	<u>14,563</u>	<u>31,494</u>
Cash flows from investing activities		
Acquisition of subsidiaries — net of cash acquired	—	7,237
Prepayment for acquisition of subsidiaries	(195,000)	—
Purchases of property, plant and equipment	(96,843)	(38,788)
Purchases of construction in progress	(2,339)	—
Purchases of land use rights	(2,470)	(3,084)
Purchases of intangible assets	—	(71)
Interest income on investment in structured products	—	31
Proceeds from disposal of investment in structured products	—	3,000
Loans provided to related parties	—	(1,000)
Loan repayments received from related parties	—	1,000
Net increase in restricted cash	(260,102)	(1,501)
Proceeds from disposal of property, plant and equipment	—	2,631
Government grants relating to assets received	<u>—</u>	<u>2,000</u>
Net cash used in investing activities	<u>(556,754)</u>	<u>(28,545)</u>

		Six months ended June 30,	
		2014	2013
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Cash flows from financing activities			
Cash paid for acquiring additional interests in subsidiaries without change of control		(4,195)	(348,440)
Proceeds from borrowings		240,000	99,000
Payment of arrangement fee for bank borrowings		(4,000)	—
Repayment of borrowings		(54,000)	(45,582)
Repayment of loan provided by a related party		—	(100,000)
Proceeds from issuance of ordinary shares		<u>5,457</u>	<u>322,012</u>
Net cash generated from/(used in) financing activities		<u>183,262</u>	<u>(73,010)</u>
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of the period		1,145,641	212,466
Exchange gains/(losses) on cash and cash equivalents		<u>636</u>	<u>(213)</u>
Cash and cash equivalents at end of the period	<i>14</i>	<u><u>787,348</u></u>	<u><u>142,192</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended June 30, 2014

1 GENERAL INFORMATION OF THE GROUP

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

The consolidated balance sheet as at June 30, 2014, the consolidated income statement and consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the **"Interim Financial Information"**) of the Group have been approved by the Board of Directors (the **"Board"**) on August 22, 2014.

This Interim Financial Information is presented in Renminbi (**"RMB"**), unless otherwise stated.

This Interim Financial Information has been reviewed, not audited.

2 BASIS OF PREPARATION

This Interim Financial Information for the six months ended June 30, 2014 has been prepared in accordance with Hong Kong Accounting Standard 34 (**"HKAS 34"**), "Interim financial reporting". The Interim Financial Information should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (**"HKFRSs"**).

3 ACCOUNTING POLICY

Except as described below, the accounting policies applied are consistent with those of the Group's consolidated financial statements for the year ended December 31, 2013 as described in the consolidated financial statements.

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

- (a) New and amended standards, and interpretations mandatory for the first time for the financial year beginning January 1, 2014 and are relevant to the Group

	Effective for annual periods beginning on or after
Amendment to HKAS 32 “Financial instruments: Presentation” on asset and liability offsetting	January 1, 2014
Amendments to HKFRS 10, 12 and HKAS 27 “Consolidation for investment entities”	January 1, 2014
Amendment to HKAS 36, “Impairment of assets” on recoverable amount disclosures	January 1, 2014
Amendment to HKAS 39 “Financial Instruments: Recognition and Measurement” — “Novation of derivatives”	January 1, 2014
HK(IFRIC) 21 “Levies”	January 1, 2014

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

- (b) 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, 2014 and have not been early adopted:
- Annual improvements 2012, which include changes from the 2010–2012 cycle of the annual improvements project, that affect the following standards: HKFRS 2, “Share-based payment”, HKFRS 3, “Business combinations” and consequential amendments to HKFRS 9, “Financial instruments”, HKAS 37, “Provisions, contingent liabilities and contingent assets”, and HKAS 39, “Financial instruments — Recognition and measurement”, HKFRS 8, “Operating segments”, HKAS 16, “Property, plant and equipment”, HKAS 38, “Intangible assets” and HKAS 24, “Related Party Disclosures”. The above amendments will be effective for annual periods beginning on or after July 1, 2014 and the Group is yet to assess the impact of these amendments on the Group’s consolidated financial statements.
 - Annual improvements 2013, which include changes from the 2011–2013 cycle of the annual improvements project that affect the following standards: HKFRS 3, “Business combinations”, HKFRS 13, “Fair value measurement”, HKAS 40, “Investment property”. The above amendments will be effective for annual periods beginning on or after July 1, 2014 and the Group is yet to assess the impact of these amendments on the Group’s consolidated financial statements.
 - Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation, which clarify when a method of depreciation or amortisation based on revenue may be appropriate. The amendment to HKAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendment to HKAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances: (1) where the intangible asset is expressed as a measure of revenue; or (2) where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The above amendments will be effective for annual periods beginning on or after January 1, 2016 and the Group is yet to assess the impact of these amendments on the Group’s consolidated financial statements.

- HKFRS 9, “Financial instruments”, which the first standard issued as part of a wider project to replace HKAS 39. HKFRS “Classification and Measurement” retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. For financial liabilities designated at fair value through profit or loss, the changes in the fair value due to changes in the liability’s own credit risk are recognised in other comprehensive income (“OCI”), unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. HKFRS 9 “Hedge Accounting” applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more “rule-based” approach of HKAS 39. The guidance in HKAS 39 on impairment of financial assets continues to apply. The effective date of the above new standard is left open pending the finalisation of the impairment and classification and measurement requirements. The Group is yet to assess the impact of this new standard on the Group’s consolidated financial statements.

4 ESTIMATES

The preparation of the 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 these condensed consolidated financial statements, 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 financial statements for the year ended December 31, 2013.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The 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 financial statements for the year ended December 31, 2013.

There have been no changes in the risk management department since year end or in any 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.

5.3 Fair value estimation

As at June 30, 2014, the Group had no financial instrument which had been stated at fair value.

The carrying amounts less impairment provision of receivables and payables are a reasonable approximation of their fair values due to their short-term maturities.

6 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive director of the Company. The executive director reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

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

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

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

Six months ended June 30, 2013	Orthopedic		Elimination <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
	Infusion	Implant		
	Set Business	Business		
	<i>RMB'000</i> (Audited)	<i>RMB'000</i> (Audited)		
Revenue from external customers	147,057	71,693	—	218,750
Cost of sales	<u>(49,882)</u>	<u>(21,478)</u>	<u>—</u>	<u>(71,360)</u>
Gross profit	<u>97,175</u>	<u>50,215</u>	<u>—</u>	<u>147,390</u>
Selling expenses	(20,372)	(8,170)	—	(28,542)
Administrative expenses	(16,984)	(16,288)	—	(33,272)
Research and development expenses	(3,044)	(3,570)	—	(6,614)
Other gains — net	<u>(163)</u>	<u>414</u>	<u>—</u>	<u>251</u>
Segment profits	<u>56,612</u>	<u>22,601</u>	<u>—</u>	<u>79,213</u>
Finance income				247
Finance costs				<u>(5,116)</u>
Finance costs — net				<u>(4,869)</u>
Profit before tax				<u><u>74,344</u></u>
As at December 31, 2013				
Segment assets	<u>1,691,037</u>	<u>429,739</u>	<u>—</u>	<u>2,120,776</u>
Deferred income tax assets				<u>8,385</u>
Total assets				<u><u>2,129,161</u></u>
Segment liabilities	<u>161,809</u>	<u>52,577</u>	<u>—</u>	<u>214,386</u>
Deferred income tax liabilities				<u>16,079</u>
Total liabilities				<u><u>230,465</u></u>

Six months ended June 30, 2014	Infusion	Orthopedic	Elimination	Total
	Set Business	Implant		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	183,904	84,275	—	268,179
Cost of sales	<u>(58,848)</u>	<u>(18,659)</u>	<u>—</u>	<u>(77,507)</u>
Gross profit	<u>125,056</u>	<u>65,616</u>	<u>—</u>	<u>190,672</u>
Selling expenses	(13,785)	(14,868)	—	(28,653)
Administrative expenses	(40,025)	(16,458)	—	(56,483)
Research and development expenses	(7,810)	(6,189)	—	(13,999)
Other gains — net	<u>3,024</u>	<u>410</u>	<u>—</u>	<u>3,434</u>
Segment profits	<u>66,460</u>	<u>28,511</u>	<u>—</u>	<u>94,971</u>
Finance income				14,878
Finance costs				<u>(7,763)</u>
Finance income — net				<u>7,115</u>
Profit before tax				<u><u>102,086</u></u>
As at June 30, 2014				
Segment assets	<u>1,353,390</u>	<u>1,034,352</u>	<u>—</u>	<u>2,387,742</u>
Deferred income tax assets				<u>8,498</u>
Total assets				<u><u>2,396,240</u></u>
Segment liabilities	<u>344,182</u>	<u>28,763</u>	<u>—</u>	<u>372,945</u>
Deferred income tax liabilities				<u>15,251</u>
Total liabilities				<u><u>388,196</u></u>

7 LAND USE RIGHTS

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

	As at	
	June 30,	December 31,
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
In the PRC, held on:		
Leases of between 47 to 50 years	<u>51,725</u>	<u>51,759</u>
	As at June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Opening net book amount	51,759	31,161
Acquisition of subsidiaries	—	9,410
Additions	470	12,065
Amortisation charge	<u>(504)</u>	<u>(399)</u>
Closing net book amount	<u>51,725</u>	<u>52,237</u>

8 PROPERTY, PLANT AND EQUIPMENT

	As at June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Opening net book amount	201,121	115,177
Additions	35,271	50,324
Acquisition of subsidiaries	—	19,031
Disposal	—	(3,296)
Depreciation	<u>(10,537)</u>	<u>(6,849)</u>
Closing net book amount	<u>225,855</u>	<u>174,387</u>

9 INTANGIBLE ASSETS

	As at June 30,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Opening net book amount	305,263	207,331
Additions	—	71
Acquisition of subsidiaries	—	115,612
Amortisation charge	<u>(2,495)</u>	<u>(2,426)</u>
Closing net book amount	<u>302,768</u>	<u>320,588</u>

10 LONG-TERM PREPAYMENTS

	As at	
	June 30,	December 31,
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Prepayments for acquisition of subsidiaries	195,000	—
Prepayments for property, plant and equipment	103,339	43,428
Others	<u>279</u>	<u>244</u>
	<u>298,618</u>	<u>43,672</u>

11 INVENTORIES

	As at	
	June 30,	December 31,
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Raw materials	35,100	29,397
Work in progress	11,112	20,276
Finished goods	<u>48,992</u>	<u>45,379</u>
	<u>95,204</u>	<u>95,052</u>

12 TRADE AND OTHER RECEIVABLES

	As at	
	June 30, 2014	December 31, 2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables (a)	287,284	212,489
Less: provision for impairment	<u>(7,563)</u>	<u>(7,849)</u>
Trade receivables — net	279,721	204,640
Bills receivable (b)	200	—
Prepayments	7,684	7,285
Receivable from disposal of subsidiaries	15,520	15,520
Other receivables (c)	<u>25,997</u>	<u>13,823</u>
	<u>329,122</u>	<u>241,268</u>

As at December 31, 2013 and June 30, 2014, except for the prepayments which are not financial assets, the fair value of the trade and other receivables approximated its carrying amounts. As at December 31, 2013 and June 30, 2014, the carrying amount of the trade and other receivables is denominated in RMB.

- (a) As at December 31, 2013 and June 30, 2014, the ageing analysis of the trade receivables based on invoice date are as follows:

	As at	
	June 30, 2014	December 31, 2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Up to 3 months	148,952	101,358
3 to 6 months	55,872	48,657
6 months to 12 months	58,833	45,253
1 year to 2 years	15,181	7,129
2 years to 3 years	<u>883</u>	<u>2,243</u>
	<u>279,721</u>	<u>204,640</u>

The credit terms agreed with customers were within 180 days. No interests are charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of the goods. This provision has been determined by reference to past collection experience. As at June 30, 2014 and December 31, 2013, trade receivables of RMB74,897,000 and RMB54,625,000 were past due but not impaired, respectively. These relate to a number of independent customers for whom there is no significant financial difficulty based on the past experience. The ageing of the past due but not impaired trade receivables are as follows:

	As at	
	June 30,	December 31,
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 12 months	58,833	45,253
1 year to 2 years	15,181	7,129
2 years to 3 years	883	2,243
	<u>74,897</u>	<u>54,625</u>

As of December 31, 2013 and June 30, 2014, trade receivables of RMB7,849,000 and RMB7,563,000 were past due and impaired, respectively. The impairment provision was RMB7,849,000 and RMB7,563,000 as at December 31, 2013 and June 30, 2014, respectively. It was assessed that a portion of the receivables is expected to be recovered. The individually impaired receivables mainly relate to certain customers, which are in unexpected difficult economic situations.

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

	As at June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At beginning of the period	7,849	4,569
(Reversal of)/provision for impairment of receivables	<u>(286)</u>	<u>4,729</u>
At end of the period	<u>7,563</u>	<u>9,298</u>

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

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

	As at	
	June 30,	December 31,
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Advances to employees	9,048	4,908
Deposits	515	4,512
Interest receivable	11,567	2,882
Others	4,867	1,521
	<u>25,997</u>	<u>13,823</u>

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.

13 RESTRICTED CASH

	As at	
	June 30,	December 31,
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Restricted bank deposits	<u>297,102</u>	<u>37,000</u>

The restricted cash represents guaranteed deposits held in a separate reserve account to be pledged to the bank for issuance of trade facilities such as credit notes or as security deposits under bank borrowing agreements (Note 19). The carrying amount of the restricted cash is denominated in RMB.

14 CASH AND CASH EQUIVALENTS

	As at	
	June 30,	December 31,
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Cash on hand	141	688
Cash at banks	206,084	203,953
Short term bank deposits	581,123	941,000
	<u>787,348</u>	<u>1,145,641</u>

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

	As at	
	June 30, 2014	December 31, 2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
RMB	719,828	1,031,144
HKD	36,744	39,979
USD	<u>30,776</u>	<u>74,518</u>
	<u>787,348</u>	<u>1,145,641</u>

All cash at banks are deposits with original maturity within 3 months. The Group earns interest on cash at banks at floating bank deposit rates.

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

15 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares US\$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
<i>Authorised:</i>					
Ordinary shares of US\$1 each	50,000	50	315	—	315
Ordinary shares of US\$0.0001 each, subsequent to share split	<u>500,000,000</u>	<u>50</u>	<u>315</u>	<u>—</u>	<u>315</u>
Audited					
Balance at January 1, 2013	100	0.1	1	—	1
Share split	999,900	—	—	—	—
Issuance of ordinary shares	<u>71,615,675</u>	<u>7.2</u>	<u>45</u>	<u>555,987</u>	<u>556,032</u>
Balance at June 30, 2013	<u><u>72,615,675</u></u>	<u><u>7.3</u></u>	<u><u>46</u></u>	<u><u>555,987</u></u>	<u><u>556,033</u></u>
Unaudited					
Balance at January 1, 2014	1,660,000,000	166.4	1,026	1,647,840	1,648,866
Proceeds from employee share options exercised (a)	16,608,289	1.7	10	10,382	10,392
Transfer from other reserves upon exercise of share option (b)	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,682</u>	<u>15,682</u>
Balance at June 30, 2014	<u><u>1,676,608,289</u></u>	<u><u>168.1</u></u>	<u><u>1,036</u></u>	<u><u>1,673,904</u></u>	<u><u>1,674,940</u></u>

- (a) Options exercised during the six months ended June 30, 2014 resulted in 16,608,289 shares being issued, with exercise proceeds of HK\$13,084,000 (equivalent to RMB10,392,000). The related weighted average price at the time of exercise was HK\$3.85 per share.
- (b) Upon exercise of share options, share option reserve amounting to RMB15,682,000 was transferred to share premium.

16 OTHER RESERVES

	Other Reserves				
	Merger reserve RMB'000	Translation reserve RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Total RMB'000
Audited					
Balance at January 1, 2013	297,894	2,425	(35,301)	—	265,018
Currency translation differences	—	1,418	—	—	1,418
Changes in ownership interests in subsidiaries without change of control-acquiring additional interests	—	—	(48,656)	—	(48,656)
Issuance of shares by way of capitalisation of other reserves	(233,930)	—	—	—	(233,930)
Balance at June 30, 2013	<u>63,964</u>	<u>3,843</u>	<u>(83,957)</u>	<u>—</u>	<u>(16,150)</u>
Unaudited					
Balance at January 1, 2014	63,964	5,290	(1,703)	19,856	87,407
Currency translation differences	—	(258)	—	—	(258)
Transfer to share premium upon exercise of share option (<i>Note 15</i>)	—	—	—	(15,682)	(15,682)
Share option reserve	—	—	—	15,131	15,131
Balance at June 30, 2014	<u>63,964</u>	<u>5,032</u>	<u>(1,703)</u>	<u>19,305</u>	<u>86,598</u>

17 SHARE BASED PAYMENTS

(i) Share options

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

The purpose of the Scheme is to attract, retain 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 the 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 four (4) equal tranches (being 25% of each option granted, and each tranche is hereinafter referred to as a “**Tranche**”) on the four (4) dates: day immediately following the expiry of six 6 months after the listing date (the “**Listing Date**”), November 8, 2013 (the “**First Vesting Date**”); first anniversary of the First Vesting Date (the “**Second Vesting Date**”); second anniversary of the First Vesting Date (the “**Third Vesting Date**”) and third anniversary of the First Vesting Date (the “**Last Vesting Date**”), respectively with performance conditions. Details of the Scheme was disclosed in the prospectus of the Company dated October 28, 2013.

(ii) Outstanding share options

Movements in the number of share options outstanding:

	Number of share options
At January 1, 2014	70,891,722
Granted	—
Exercised	(16,608,289)
Forfeited	<u>(3,184,714)</u>
At June 30, 2014	<u><u>51,098,719</u></u>

Details of the exercise prices and the respective numbers of share options which remained outstanding as at December 31, 2013 and June 30, 2014 are as follows:

Exercisable period	Exercise price	Number of share options outstanding	
		June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Tranche I	RMB0.63	318,472	17,722,931
Tranche II	RMB0.63	16,926,751	17,722,931
Tranche III	RMB0.63	16,926,756	17,722,930
Tranche IV	RMB0.63	<u>16,926,740</u>	<u>17,722,930</u>
		<u>51,098,719</u>	<u>70,891,722</u>

(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.

18 TRADE AND OTHER PAYABLES

	As at	
	June 30, 2014	December 31, 2013
	RMB'000 (Unaudited)	RMB'000 (Audited)
Trade payables	30,898	33,874
Salary and staff welfare payables	21,788	24,431
Advances from customers	9,317	9,801
Interest payables	445	—
Consideration payable for transaction with non-controlling interests	5,517	9,712
Operating expense payables	1,400	7,231
Research and development expenses payables	—	2,400
Value added tax and other taxes	483	5,906
Deposits	1,347	—
Payables for purchase of land use rights	6,000	8,000
Professional fee	1,053	—
Auditors' remuneration	1,901	1,600
Listing expenses	—	8,615
Other payables	2,664	2,943
	82,813	114,513

As at December 31, 2013 and June 30, 2014, except for the advance from customers which are not financial liabilities, all trade and other payables of the Group were non-interest bearing, and their fair value approximate their carrying amounts due to their short maturities.

At December 31, 2013 and June 30, 2014, the ageing analysis of the trade payables based on invoice date are as follows:

	As at	
	June 30, 2014	December 31, 2013
	RMB'000 (Unaudited)	RMB'000 (Audited)
Up to 3 months	28,239	26,713
3 to 6 months	460	3,768
6 months to 12 months	611	2,978
1 year to 2 years	1,269	126
2 years to 3 years	51	278
Over 3 years	268	11
	30,898	33,874

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

19 BORROWINGS

	As at	
	June 30, 2014	December 31, 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Current bank borrowings — secured/guaranteed (a)	279,000	93,000

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

	As at	
	June 30, 2014	December 31, 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Secured by the pledge of restricted cash with an aggregate carrying amount of RMB260,000,000 at June 30, 2014 and of RMB37,000,000 at December 31, 2013, respectively	240,000	35,000
Secured by the pledge of land use right with an aggregate carrying amount of RMB27,620,000 at June 30, 2014 and of RMB27,928,000 at December 31, 2013, respectively	25,000	25,000
Secured by the pledge of buildings with an aggregate carrying amount of RMB5,779,000 at June 30, 2014 and of RMB5,884,000 at December 31, 2013, respectively	6,000	15,000
Jointly guaranteed by Wu Dong, a senior management of the Group, and his family member	8,000	8,000
Guaranteed by He Zhibo, a senior management of the Group	—	10,000
	279,000	93,000

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

The maturity of the borrowings is as follows:

	As at	
	June 30, 2014	December 31, 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
On demand or within 1 year	279,000	93,000

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

	As at	
	June 30,	December 31,
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Current bank borrowings	<u>7%</u>	<u>7%</u>

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

20 DEFERRED INCOME TAX

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Deferred income tax assets		
At beginning of the period	8,385	5,925
Recognised in consolidated income statements	113	(265)
Acquisition of a subsidiary	<u>—</u>	<u>1,297</u>
At end of the period	<u>8,498</u>	<u>6,957</u>
Deferred income tax liabilities		
At beginning of the period	(16,079)	(8,389)
Acquisition of subsidiaries	—	(9,289)
Credited to consolidated income statements	<u>828</u>	<u>1,000</u>
At end of the period	<u>(15,251)</u>	<u>(16,678)</u>

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 consolidated income statements 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,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At beginning of the period	2,241	400
Additions	—	2,000
Credited to consolidated income statements	(121)	(38)
At end of the period	<u>2,120</u>	<u>2,362</u>

22 OTHER GAINS — NET

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Government grants	2,942	182
— relating to costs:	2,821	144
— relating to assets:	121	38
Loss on disposal of property, plant and equipment	—	(665)
Others	492	734
	<u>3,434</u>	<u>251</u>

23 INCOME TAX EXPENSE

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Current income tax	18,944	14,839
Deferred income tax (<i>Note 20</i>)	(941)	(735)
Income tax expense	<u>18,003</u>	<u>14,104</u>

Below are the major tax jurisdictions that the Group operates.

(a) Cayman Island profits tax:

The Company is not 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%.

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

Except for Beijing Fert Technology Co., Ltd. (“**Fert Technology**”) and Tianjin Walkman Biomaterial Co., Ltd. (“**Walkman Biomaterial**”), both 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.

Fert Technology and Walkman Biomaterial were qualified as “High and New Technology Enterprises” under the CIT Law. Therefore, they were entitled to a preferential income tax rate of 15% on their estimated assessable profits during the six months ended June 30, 2014. 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%.

During the six months ended June 30, 2014, 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 reporting period.

24 COMMITMENTS

(a) Capital commitments

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

	As at	
	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000 (Audited)
Property, plant and equipment	36,369	28,954
Acquisition of subsidiaries	<u>607,632</u>	<u>—</u>
	<u>644,001</u>	<u>28,954</u>

(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 consolidated income statements.

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

	As at	
	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000 (Audited)
No later than 1 year	2,937	1,220
Later than 1 year and no later than 5 years	7,805	337
Later than 5 years	<u>322</u>	<u>—</u>
	<u>11,064</u>	<u>1,557</u>

25 RELATED PARTY TRANSACTIONS

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

The directors of the Company are of the view that the following companies were related parties that had transactions or balances with the Group during the six months ended June 30, 2014:

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

Note a: Ms. Liu Yu Feng is the ultimate controlling shareholder of the Company.

Note b: Shenzhen Bone is a wholly owned subsidiary of the Company.

(a) Related party transactions

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.

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Discontinued related party transactions		
Sales to related parties:		
Shenzhen HaoHao	—	3,458
Financial guarantee provided by related parties:		
Zhang Wendong	—	32,000
Wu Dong	—	4,000
	—	36,000
Loan provided to related parties:		
Zhong Jian Kang Da	—	1,000
Continued related party transactions		
Financial guarantee provided by related parties:		
Wu Dong	8,000	—

(b) Balances with related parties

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

	As at	
	June 30,	December 31,
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Amounts due to related parties — current		
Wu Dong	<u>—</u>	<u>66</u>

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

(c) Key management compensation

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Salaries and other allowances	2,580	1,994
Share-based compensation	<u>6,255</u>	<u>—</u>
	<u>8,835</u>	<u>1,994</u>

26 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, 2014 (Note 15).

	Six months ended June 30,	
	2014	2013
	(Unaudited)	(Audited)
Profit attributable to equity holders of the Company (RMB'000)	<u>84,083</u>	<u>50,014</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,663,598</u>	<u>1,165,456</u>
Basic earnings per share (RMB cents per share)	<u>5.05</u>	<u>4.29</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 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, 2014 (Unaudited)	2013 (Audited)
Profit attributable to equity holders of the Company (RMB'000)	<u>84,083</u>	<u>50,014</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,663,598</u>	1,165,456
Adjustments for share options (thousands)	<u>50,032</u>	<u>—</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>1,713,630</u>	<u>1,165,456</u>
Diluted earnings per share (RMB cents per share)	<u><u>4.91</u></u>	<u><u>4.29</u></u>

27 EVENT SUBSEQUENT TO BALANCE SHEET

On May 20, 2014, Health Forward Holdings Limited (“**Health Forward**”) and Fert Technology, both being the wholly-owned subsidiaries of the Company, entered into an equity transfer agreement (“**Equity Transfer Agreement**”) with two independent individuals. Pursuant to the Equity Transfer Agreement, it has been conditionally agreed that Health Forward and Fert Technology will acquire the entire equity interest in Beijing Tianxinfu Medical Appliance Co., Ltd. (the “**Acquisition**”). The total consideration was RMB802,632,000 among which RMB195,000,000 was prepaid as at June 30, 2014. The Acquisition was approved by the shareholders of the Company on July 16, 2014 and completed in early August of 2014.

28 DIVIDENDS

The Board does not propose an interim dividend for the six months ended June 30, 2014 (June 30, 2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview and Business Review

During the six months ended June 30, 2014, with the modest recovery of the global economy and the support of domestic consumption, China's economy has maintained steady growth while still facing uncertainties. The continuous process of urbanization, the government's increasing investments into public healthcare sector and ageing population contributed to the increase in demand for quality medical services; this in turn brought significant growth opportunities for China's medical device industry.

As the second and the third largest domestic company in the Infusion Set Business and the Orthopedic Implant Business of China respectively, the Group is well aware of the opportunities presented by its own competitive strengths and distinctive characteristics.

During the six months ended June 30, 2014, the Group has further expanded its bolstered portfolio and manufacturing capacity, strengthened its innovation and research and development ("R&D") capabilities, extended its domestic distribution network, and diversified its product line by strategic acquisitions.

As a result of sustained growth in the Infusion Set Business and the Orthopedic Implant Business during the six months ended June 30, 2014, the Group has achieved significant growth over the corresponding period last year.

During the six months ended June 30, 2014, the Group's revenue, profit before income tax and profit attributable to the owners of the Company were RMB268.2 million, RMB102.1 million and RMB84.1 million respectively, representing an increase of 22.6%, an increase of 37.4% and an increase of 68.2% over the corresponding period last year, respectively. After excluding non-operational and one-off items comprising (i) listing and merger and acquisition related expenses of RMB3.1 million, and (ii) share-based compensation expenses of RMB15.1 million and their respective tax impact from the profit for the six months ended June 30, 2014, the adjusted net profit increased by 53.6% to RMB102.3 million from the corresponding period last year. During the six months ended June 30, 2014, the Group recorded a gross profit of RMB190.7 million, representing an increase of 29.4% over the corresponding period last year, while the overall gross profit margin increased to 71.1% during the six months ended June 30, 2014, comparing to the 67.4% for the corresponding period last year.

During the six months ended June 30, 2014, the two core businesses of the Group recorded continuous growth. Revenue of the Infusion Set Business and the Orthopedic Implant Business were approximately RMB183.9 million and RMB84.3 million respectively, which contributed approximately 68.6% and 31.4% to the Group's revenue, respectively.

Financial Review

Overview

	For the six months ended June 30,		
	2014	2013	Change %
	<i>RMB'000</i>	<i>RMB'000</i>	
	<i>(except for EPS)</i>	<i>(except for EPS)</i>	
Revenue			
— Infusion Set Business	183,904	147,057	25.1%
— Orthopedic Implant Business	84,275	71,693	17.5%
Total revenue	268,179	218,750	22.6%
Gross Profit	190,672	147,390	29.4%
Profit for the six months ended June 30, 2014	84,083	60,240	39.6%
Profit attributable to owners of the Company	84,083	50,014	68.1%
Basic earnings per share (“EPS”, in RMB cents)	5.05	4.29	17.7%
Diluted EPS (RMB cents)	4.91	4.29	14.5%
Earnings before interests and tax (“EBIT”)	95,938	79,181	21.2%
Earnings before interests, tax, depreciation and amortization (“EBITDA”)	109,474	88,855	23.2%
Adjusted net profit ⁽¹⁾	102,283	66,632	53.5%
Adjusted EBIT ⁽²⁾	114,138	86,700	31.6%
Adjusted EBITDA ⁽²⁾	127,674	96,374	32.5%

(1) Unaudited adjusted net profit was derived by excluding non-operational and one-off items, comprising share-based compensation expenses, listing-related expenses (net of tax) and merger and acquisition costs (net of tax), from our profit for the six months ended June 30, 2014.

(2) Unaudited adjusted EBIT and EBITDA were derived by excluding non-operational and one-off items, comprising share-based compensation expenses, listing-related expenses and merger and acquisition costs, from our EBIT and EBITDA.

Revenue

The revenue of the Group increased by 22.6% from approximately RMB218.8 million for the six months ended June 30, 2013 to approximately RMB268.2 million for the six months ended June 30, 2014, reflecting an increase primarily in the sale of Infusion Set Business and Orthopedic Implant Business.

Revenue from the Infusion Set Business amounted to approximately RMB183.9 million for the six months ended June 30, 2014, representing an increase of 25.1% over approximately RMB147.1 million for the six months ended June 30, 2013. The increase is mainly derived from the expansion of the Company's sales network, the increased recognition of its advanced infusion set products, which in turn strengthened and expanded the Company's market share. In addition, the rapid growth in the sales of non-PVC-based (“PVC” — polyvinyl chloride, a type of plastic material) infusion sets also contributed to the revenue growth.

Revenue from the Orthopedic Implant Business amounted to RMB84.3 million for the six months ended June 30, 2014, representing an increase of 17.5% over approximately RMB71.7 million for the six months ended June 30, 2013, which is mainly attributable to the introduction of new products and the expansion of the Company's sales network.

Gross Profit

The Group's gross profit increased by 29.4% from approximately RMB147.4 million for the six months ended June 30, 2013 to approximately RMB190.7 million for the six months ended June 30, 2014. The gross profit margin increased from 67.4% for the six months ended June 30, 2013 to 71.1% for the six months ended June 30, 2014, which are primarily attributable to the cost savings in both segments being the result of enhanced economies of scale and the changes in the product mix with more sales in higher margin products in both the Infusion Set Business and the Orthopedic Implant Business.

Selling Expenses

Selling expenses increased slightly by 0.7% from approximately RMB28.5 million for the six months ended June 30, 2013 to approximately RMB28.7 million for the six months ended June 30, 2014. This minor increase was mainly attributable to the Group's continuing efforts in expanding the sales team and sales network.

Administrative Expenses

Administrative expenses increased by 69.7% from approximately RMB33.3 million for the six months ended June 30, 2013 to approximately RMB56.5 million for the six months ended June 30, 2014. This increase was mainly due to the share-based compensation cost of approximately RMB15.1 million which was not incurred in the corresponding period last year, and approximately RMB3.1 million non-recurring merger and acquisition cost relating to the acquisition of Beijing Tianxinfu Medical Appliance Co., Ltd. (北京天新福醫療器材有限公司, “Tianxinfu”). Further, with the expansion of the business and the Company being listed, the total remuneration for employees and professionals and other managerial expenses also increased.

R&D Expenses

R&D expenses increased by 112.1% from approximately RMB6.6 million in the corresponding period last year to approximately RMB14.0 million for the six months ended June 30, 2014, mainly due to the expansion of the R&D team, and the additional input in the research and developments.

Finance Expenses — Net

Finance income increased by approximately RMB14.7 million from approximately RMB0.2 million for the corresponding period last year, to approximately RMB14.9 million for the six months ended June 30, 2014, primarily due to the interest income derived from the bank deposits of the unused IPO (as defined below) proceeds. The finance costs for the six months ended June 30, 2014 increased by approximately RMB2.7 million from approximately RMB5.1 million for the six months ended June 30, 2013 to approximately RMB7.8 million, mainly due to the interest expenses incurred for the additional bank borrowings.

Income Tax Expense

During the six months ended June 30, 2014, income tax expense amounted to approximately RMB18.0 million, increased by approximately RMB3.9 million as compared with the corresponding period last year. The effective tax rate decreased from 19.0% for the corresponding period last year to 18.0% for the six months ended June 30, 2014. The main reason for the decrease was that certain interest income incurred in overseas subsidiaries were not subject to income tax.

Net Profit and Unaudited Adjusted Net Profit

For the foregoing reasons, the net profit of the Group for the six months ended June 30, 2014 increased by 39.7%, from approximately RMB60.2 million for the corresponding period last year to approximately RMB84.1 million.

To supplement our consolidated condensed financial statements which are presented in accordance with HKFRS, we also used unaudited adjusted net profit as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. Our unaudited adjusted net profit for the six months ended June 30, 2014, derived by excluding non-operational and one-off items comprising the merger and acquisition cost of approximately RMB3.1 million and the share-based compensation expenses of approximately RMB15.1 million, was approximately RMB102.3 million, which represented an increase by 53.6% over approximately RMB66.6 million for the six months ended June 30, 2013.

Trade and Other Receivables

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

As of June 30, 2014, the trade and other receivables of the Group were approximately RMB329.1 million, representing an increase of approximately RMB87.8 million, as compared to approximately RMB241.3 million as of December 31, 2013. The increase of trade and other receivables included increase of trade receivables of approximately RMB75.1 million. The increase of trade receivables is mainly due to the increase in sales and prolonged credit period for sales directly made to hospital started in prior year.

Inventories

Inventories slightly increased by 0.1%, from approximately RMB95.1 million as of December 31, 2013 to approximately RMB95.2 million as of June 30, 2014, which is in line with the business expansion of the Group.

Property, Plant and Equipment

Property, plant and equipment included buildings, machinery equipment and construction under progress. As of June 30, 2014, the property, plant and equipment of the Group amounted to approximately RMB225.9 million, representing an increase of approximately RMB24.8 million, as compared to approximately RMB201.1 million as of December 31, 2013. The increase was primarily due to the acquisition and construction of new facilities and production lines for expansion of production facilities.

Financial Resources and Liquidity

As at June 30, 2014, the Group's cash and bank balances amounted to approximately RMB787.3 million and the Group's restricted cash balances amounted to approximately RMB297.1 million. As at June 30, 2014, the Group's bank borrowing balances amounted to approximately RMB279.0 million. 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.

Gearing Ratio

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

	As at June 30,	
	2014	2013
	RMB'000	RMB'000
Total borrowings	279,000	111,203
Total equity	<u>2,008,044</u>	<u>767,811</u>
Total capital	<u>2,287,044</u>	<u>879,014</u>
Gearing ratio (%)	<u>12.20%</u>	<u>12.65%</u>

Commitments

As of June 30, 2014, the Group has a total capital commitment of approximately RMB644.0 million, comprising mainly capital commitment for the unpaid consideration for the acquisition of Tianxinfu amounting to approximately RMB607.6 million.

Acquisition of Tianxinfu

In early August, 2014, the Group completed the acquisition of all of the equity interests in Tianxinfu with a cash consideration of approximately RMB802.6 million. Accordingly Tianxinfu became an indirect wholly-owned subsidiary of the Group since August 2014. Tianxinfu is a high-tech enterprise integrating R&D, production and sales service. Its main products include regenerative medical biological materials and orthopedic implant products. As a leading company in the medical biological material segment, Tianxinfu's biological material products are well recognized in China. Tianxinfu owns a total of 11 patents and has obtained 7 registration certificates for Class III medical devices. Further, it has an extensive nationwide distribution network with over 150 distributors covering the major provinces in the PRC.

For each of the years ended December 31, 2011, 2012 and 2013, Tianxinfu recorded revenue of approximately RMB102.8 million, RMB127.9 million and RMB150.9 million, net profit of approximately RMB65.6 million, RMB74.8 million and RMB91.6 million, gross profit margin rate of 87.9%, 91.7% and 92.8%, and net cash generated from operating activities of RMB76.3 million, RMB73.6 million and RMB98.4 million respectively.

The medical biological material segment is a segment with extraordinary growth potential and prospects in China's medical device industry. As Tianxinfu is a leading company in this segment, the Acquisition is beneficial to the Group from the following perspectives:

- With the Acquisition, the Group entered into the biological material segment and created new profit growth drivers. Further, the Group is also looking forward to expanding into more medical applications of the biological material products in other areas with R&D investments and technology advancement in the future;

- As both Tianxinfu and the Group are engaged in the production of the Class III medical devices, the Acquisition will provide synergy between Tianxinfu and the Group in the areas of R&D, registration process with China Food and Drug Administration (中華人民共和國國家食品藥品監督管理總局) (“CFDA”) and the hospital tendering processes;
- The regenerative medical biological materials of Tianxinfu are well recognized in the medical biological material segment of China’s medical device industry. After taking over the market share of Tianxinfu’s biological material products (which is one of the biggest in China), the Group will further expand the market share through synergy between the Company and Tianxinfu’s R&D, production and distribution capabilities;
- The Acquisition will broaden the Group’s product portfolio and enable the Group to offer a wider variety of orthopedic implant products.

Other than the Acquisition of Tianxinfu as detailed above, the Group has no other material investment, acquisition or disposal during the six months ended June 30, 2014.

Contingent Liabilities

As of June 30, 2014, the Group did not have any contingent liabilities or guarantees to third parties.

Pledge of Assets

Details of the Group’s bank loans which are secured by the assets of the Group are included in Note 19 to the financial statements. Save as disclosed in this announcement, 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.

Outlook and Future Business Strategies

Expansion of Product Portfolio

In order to fully seize market opportunities in the advanced infusion set and orthopedic implant markets, the Group continued to broaden the product portfolio by strengthening its R&D efforts and entering into strategic acquisitions.

With regard to the Infusion Set Business, the Group has been developing a series of advanced infusion set products with new functions and features. In view of delivering safer and improved infusion treatments, the Group plans to enhance the precision filter infusion sets by including more precise filter pore sizes, and new features such as precise flow control, automatic air venting, etc. Further, in an effort to replace the Group’s PVC-based infusion set portfolio with better features and broader application fields found in non PVC-based infusion set and expand its non-PVC-infusion set portfolio, the Group is currently developing new non-PVC materials.

The Orthopedic Implant Business had seen much progress with the Group's continued research on perfecting the three main product categories: trauma products, spine products and joint products. For the trauma implants, we are seeking to further improve properties of the bridge-link combined fixation system which was commercially launched in July 2012; the spine implants sees the on-going development of the PEEK (polyetheretherketone) fusion cage and vertebro plasty tools; and the Group continues to devise new ideas and develop advanced materials to satisfy varied patient demands for the hip and knee implants.

As for regenerative medical biological materials business, Tianxinfu has been developing a series of regenerative medical biological material products with new applications, functions and features, e.g. the anti-adhesion membrane for tendon and ligament, and oral cavity membrane which can be used in general snuggeries. Tianxinfu has been working with large Class III hospitals to upgrade the current products.

Emphasis on Innovation and R&D

As a leader in development of innovative products, the Group currently possesses an experienced R&D team comprising nearly 100 members, which cooperates closely with surgeons, hospitals, university research centers and other research institutions. As at June 30, 2014, the Group has obtained 50 patents, including 25 for infusion set products and 25 for orthopedic implant products, and has applied for 34 new patents. The Group will continue to invest in product innovation and R&D in future. The Group's R&D team will continue to work closely with surgeons, hospitals, university research centers and other research institutes to integrate results from R&D and develop products which satisfy market demands.

Expansion of Distribution Network

The Group currently has three experienced and dedicated sales and marketing teams to support and consolidate nationwide distribution network and strengthen product promotion. Approximately 50% of our sales and marketing staff have medical experience, which helps them to communicate with doctors and nurses in a succinct and effective manner. The Group's key salespersons in each business segment have an average of 10 years' experience in their respective areas.

In response to the ever-increasing market demand, the Group will make further efforts to develop the sales and marketing teams in order for them to support the Group's extensive distribution network and, promote the Group's products and brand name to surgeons, nurses and hospitals. For the Orthopedic Implant Business, the Group will continue to focus on expanding its business at Class II hospitals in the second and third tier cities, and concentrate on developing sales and marketing capabilities for the newly acquired joint implant business. In relation to the Infusion Set Business, the Group will focus initially on the Class III hospitals in larger-than-average cities in the more developed regions of China, and then penetrate into smaller hospitals and cities.

Integration of Tianxinfu

Upon completion of the Acquisition, apart from retaining Tianxinfu's management team and talents, the Group looks to integrate Tianxinfu by focusing its R&D effort on the medical application of the regenerative medical biological materials in other medical areas. The Acquisition will bring about synergies in R&D, production and distribution capabilities, registration process with CFDA and tendering processes with hospitals.

Strategic Acquisitions

In the coming years, the Group will be seeking to identify fast-growing, high-margin and high-potential opportunities in the medical device industry by utilizing its capabilities on strategic acquisitions; giving support to the rapid business growth and consolidating market leadership in the medical device industry.

Increase of Production Capacity

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

Development of Enterprise Resource Planning ("ERP") System

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

Events after the Reporting Period

Save as the Acquisition of Tianxinfu completed in early August 2014, as detailed in the above section headed "Acquisition of Tianxinfu", the Group has no significant events after the reporting period up to the date of this announcement.

Human Resources

As at June 30, 2014, the Group had a total of approximately 1,705 employees. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits, and liabilities for breaches and grounds for termination. Remuneration of the Group's employees includes basic salaries, allowances, bonus and other employee benefits, that are 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, bonuses and promotions. We believe the salaries and bonuses that our Group's employees receive are competitive with market rates. Under applicable PRC laws and regulations, our Group is subject to social insurance contribution plans, work-related injury insurance and maternity insurance schemes. We place a strong emphasis on providing training to our employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards and work place safety standards. We also provide regular on-site and off-site trainings to help our employees to improve their skills and knowledge. These training courses range from further educational studies to basic production process and skill training to professional development courses for its management personnel.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended June 30, 2014.

Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2014.

Use of Proceeds

The net proceeds from the Company's initial public offering on November 8, 2013 ("IPO") amounted to HK\$1,348.7 million (equivalent to approximately RMB1,059.8 million) after deducting share issuance costs and listing expenses. Such net proceeds are intended to be or have been applied in accordance with the proposed applications as set out in the section headed "Future Plans and Use of Proceeds" in the Company's prospectus dated October 28, 2013. Save as disclosed below, the net proceeds that have not been utilised were temporarily placed in short term deposits with licensed institutions in Hong Kong and China as at June 30, 2014.

Use of proceeds	Available as of June 30, 2014 (in HK\$ millions)	Net IPO Proceeds utilized as of June 30, 2014 (in HK\$ millions)	Total of net IPO proceeds (in HK\$ millions)
To purchase manufacturing equipment and complete the construction of the Company's new manufacturing facilities for infusion sets in Beijing and Shandong	282.2	55.0	337.2
To expand the production capacity of the Company's orthopedic implant facilities in Shenzhen and Tianjin	203.9	25.4	229.3
To invest in research and development of new products	94.8	13.2	108.0
To implement the Company's expansion plans, which include making acquisitions and forming strategic alliances	156.4	248.2	404.6
To expand the Company's distribution network and sales and marketing team, including hiring dedicated specialist sales staff	114.2	20.6	134.8
Additional working capital and other general corporate purposes	<u>86.1</u>	<u>48.7</u>	<u>134.8</u>
	<u>937.6</u>	<u>411.1</u>	<u>1,348.7</u>

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 Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 to the Listing Rules as its own code to govern its corporate governance practices.

In the opinion of the directors of the Company (the “**Directors**”), the Company has complied with the relevant code provisions contained in the CG Code during the six months ended June 30, 2014.

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 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 six months ended June 30, 2014. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the six months ended June 30, 2014.

REVIEW OF FINANCIAL INFORMATION

Audit Committee

The audit committee of the Company (the “**Audit Committee**”), comprising Mr. Wang Xiaogang, Mr. Chen Geng and Ms. Yue’e Zhang, has discussed with management and reviewed the unaudited interim financial information of the Group for the six months ended June 30, 2014.

In addition, the Company’s external auditor, PricewaterhouseCoopers, has performed an independent review of the Group’s interim financial information for the six months ended June 30, 2014 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 interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and on the website of the Company at www.pwmedtech.com. The interim report of the Company for the six months ended June 30, 2014 containing all the information required by the Listing Rules will be dispatched to shareholders and published on the above websites in due course.

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 associates for their trust and support.

By Order of the Board
PW Medtech Group Limited
Lin Junshan
Chairman of the Board

Hong Kong, August 22, 2014

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