THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in PW Medtech Group Limited (the "**Company**"), you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

PW MEDTECH GROUP LIMITED
普 华 和 顺 集 团 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1358)

MAJOR TRANSACTION

ACQUISITION OF MEDICAL DEVICE COMPANY IN THE PRC

A letter from the Board is set out on pages 4 to 23 of this circular.

A notice dated June 30, 2014 convening the EGM to be held at 1002–1003, Block C, Focus Square, No. 6 Futong East Avenue, Wangjing, Chaoyang District, Beijing, PRC on July 16, 2014 at 8:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event by not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

June 30, 2014

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In this circular, unless the context otherwise requires, the defined terms shall have the following meanings:

"Acquisition"	the acquisition by the Purchasers of the entire equity interest in the Target Company from the Vendors pursuant to the Equity Transfer Agreement, which is expected to be financed by the Group's internal resources and bank borrowings
"associate"	has the meaning ascribed to it in the Listing Rules
"Beijing Lima"	北京麗瑪天新福醫療器械有限公司 (Beijing Lima Tianxinfu Medical Devices Co., Ltd.*), a limited liability company established in PRC, in which the Target Company holds 75% equity interest
"Beijing Mindcam"	北京幸福曼德工程技術有限責任公司 (Beijing XinFu Mindcam Intelligent Engineering Co., Ltd.*), a limited liability company established in PRC, in which the Target Company holds 40% equity interest
"Board"	the board of Directors
"Company"	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
"Completion Date"	the date on which Health Forward makes the payment for the consideration for the acquisition of 70% equity interest in the Target Company to the bank account of the First Vendor as mentioned under the paragraph headed "Consideration and Completion" under the sectioned headed "Equity Transfer Agreement" in this circular
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"controlling shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"China" or "PRC"	the People's Republic of China, which for the purpose of this circular and for geographical reference only, excludes Hong Kong, Macau and Taiwan
"CPI"	consumer price index
"Directors"	the directors of the Company

"EGM"	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Equity Transfer Agreement and the Acquisition
"Enlarged Group"	the Group immediately after the completion of the Acquisition
"Equity Transfer Agreement"	the equity transfer agreement dated May 20, 2014 entered into among the Purchasers, the Vendors, the Target Company and the Company, the major terms of which are set out in the section headed "Equity Transfer Agreement" in this circular
"Fert Technology"	Beijing Fert Technology Co., Ltd. (北京伏爾特技術有限公司), a sino-foreign equity joint-venture enterprise established under the laws of the PRC on September 23, 1997 and indirectly wholly owned by the Company
"Group"	the Company and its subsidiaries
"Health Forward"	Health Forward Holdings Limited, an indirectly wholly owned subsidiary of the Company
"HKFRS"	Hong Kong Financial Reporting Standards
"Latest Practicable Date"	June 25, 2014, being the latest practicable date prior to the printing of this circular for ascertaining information herein
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Prospectus"	prospectus of the Company dated October 28, 2013
"Purchasers"	Health Forward and Fert Technology
"RMB"	Renminbi, the lawful currency of the PRC
"SAIC"	State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政總局) or any of its branch office
"Share(s)"	ordinary share(s) of par value US$0.0001 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"subsidiary(ies)"	has the meaning ascribed to it in the Listing Rules
"Target Company"	北京天新福醫療器材有限公司 (Beijing Tianxinfu Medical Appliance Co., Ltd.*), a limited liability company established in PRC on January 18, 2002, owned as to 99% by Ms. YU Lidan and as to 1% by Ms. WANG Lifang
"Target Group"	the Target Company and its subsidiary
"US$"	the lawful currency of the United States of America
"Vendors"	Ms. YU Lidan and Ms. WANG Lifang

Certain English translations of Chinese names or words marked with "" in this circular are included for information purpose only and should not be regarded as the official English translation of such Chinese names or words. If there is any inconsistency between the Chinese names and their English translation in this circular, the Chinese names shall prevail.*

Unless otherwise specified in this circular, amounts denominated in RMB have been converted into Hong Kong dollars at HK$1.0 to RMB0.8 for illustration purpose only. No representation has been made by the Company that any amount has been, could have been or could be converted at the above rate or at any other rates or at all.

PW MEDTECH GROUP LIMITED
普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1358)

Executive Director:
Mr. JIANG Liwei *(Chief Executive Officer)*

Non-executive Directors:
Mr. LIN Junshan *(Chairman)*
Ms. Yue'e ZHANG
Mr. FENG Dai

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

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

Principal place of business in Hong Kong:
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

June 30, 2014

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION
ACQUISITION OF MEDICAL DEVICE COMPANY IN THE PRC

INTRODUCTION

Reference is made to the announcement of the Company dated May 20, 2014. The Board announced that on May 20, 2014 (after trading hours), Health Forward and Fert Technology, both being the wholly-owned subsidiaries of the Company, entered into the Equity Transfer Agreement with the Vendors. Pursuant to the Equity Transfer Agreement, it has been conditionally agreed that (a) Health Forward will acquire 70% equity interest in the Target Company from the First Vendor at a consideration of RMB561,842,163.58; and (b) Fert Technology will acquire 29% and 1% equity interest in the Target Company from the First Vendor and the Second Vendor at a consideration of RMB232,763,182.05 and RMB8,026,316.62 respectively. The total consideration payable by Health Forward and Fert Technology to the Vendors amount to RMB802,631,662.25.

This circular also provides you with information regarding, *inter alia*, (i) the Acquisition; (ii) financial information of the Group; (iii) the accountant's report of the Target Group; (iv) the unaudited pro forma financial information of the Enlarged Group; (v) other information required under the Listing Rules; (vi) the ordinary resolution to be proposed at the EGM; and (vii) the notice of the EGM.

1. EQUITY TRANSFER AGREEMENT

Date

May 20, 2014

Parties

(A) Health Forward (as purchaser of 70% equity interest in the Target Company) and Fert Technology (as purchaser of 30% equity interest in the Target Company);

(B) Ms. YU Lidan (as vendor of 99% equity interest in the Target Company, the "**First Vendor**") and Ms. WANG Lifang (as vendor of 1% equity interest in the Target Company, the "**Second Vendor**", together with the First Vendor, the "**Vendors**");

(C) Target Company; and

(D) the Company (as guarantor for Health Forward and Fert Technology).

Consideration and Completion

Pursuant to the Equity Transfer Agreement, it has been conditionally agreed that (a) Health Forward will acquire 70% equity interest in the Target Company from the First Vendor at a consideration of RMB561,842,163.58; and (b) Fert Technology will acquire 29% and 1% equity interest in the Target Company from the First Vendor and the Second Vendor at a consideration of RMB232,763,182.05 and RMB8,026,316.62, respectively. The total consideration payable by Health Forward and Fert Technology to the Vendors amounts to RMB802,631,662.25.

The consideration to be paid to the Vendors for the Acquisition will be settled in the following manner:

(a) Fert Technology shall pay advance payments of RMB188.5 million and RMB6.5 million to the First Vendor and the Second Vendor, respectively, within 15 business days after the execution of the Equity Transfer Agreement. Such advance payments shall be unconditionally returned to Fert Technology in the event that the SAIC filings for the Acquisition cannot be completed on or before August 31, 2014. Fert Technology shall withhold the individual income tax (in the amount of RMB45,789,498.67) payable by the Vendors for the disposal of 30% equity interests in the Target Company and pay such tax to the relevant tax authority on behalf of the Vendors. Such amount also forms part of the consideration payable by Fert Technology in relation to the acquisition of 30% equity interest in the Target Company;

(b) Subject to the conditions precedent being fulfilled, Health Forward shall arrange to provide a bank guarantee letter securing the payment of RMB561,842,163.58 to the First Vendor before the SAIC filings for the Acquisition is completed;

(c) Upon receipt of the payments and the bank guarantee letter referred to in paragraphs (a) and (b) above by the Vendors, both the Purchasers and the Vendors shall proceed to complete the SAIC filing for the change of shareholders of the Target Company within 10 business days. In the event that any of the Purchasers or the Vendors fails to cooperate to complete the SAIC filings, the breaching party shall pay a daily penalty of 0.1% on the 30% of the total consideration. Delivery of payments and the bank guarantee letter referred to in paragraphs (a) and (b) above are the only obligations under the Equity Transfer Agreement on the Purchasers before the Vendors proceed to complete the SAIC filings for the Acquisition; and

(d) Upon receipt of the new business licence for the Target Company reflecting the change of the shareholders from the Vendors to the Purchasers, Health Forward shall make payment of RMB561,842,163.58 to the First Vendor's bank account (which is to be opened for the specific purpose of the Acquisition) within 3 business days after such bank account is opened. The First Vendor shall return the bank guarantee letter to Health Forward immediately upon receipt of such payment from Health Forward.

All the advancements, payments and the bank guarantee letter shall be unconditionally returned by the Vendors to the Purchasers in the event that the SAIC filings for the Acquisition cannot be completed on or before August 31, 2014.

The Company intends to finance the total consideration of RMB802,631,662.25 in the following manner:

(1) approximately RMB392.9 million will be paid out of the net proceeds (the "**Net IPO Proceeds**") from the Company's global offering (inclusive of the full exercise of over-allotment options) completed in November 2013. Such amount comprises the funds available as of the Latest Practicable Date for (i) implementing the expansion plans of the Group, including making acquisitions and forming strategic alliances (in the amount of approximately RMB317.9 million (approximately HKD397.4 million)); and (ii) for additional working capital and other general corporate purposes (in the amount of approximately RMB75.0 million (approximately HKD93.8 million));

(2) approximately RMB169.7 million will be paid out of the Group's internal resources (other than the Net IPO Proceeds); and

(3) as to approximately RMB240 million will be financed by bank borrowings.

Reference is made to the section headed "Directors' Report — Use of Net Proceeds from the IPO" in the 2013 annual report of the Company, according to which the net proceeds from the Company's global offering (inclusive of the full exercise of over-allotment options) at HK$3.18 per share, amounted to approximately HK$1,348.7 million after deducting share issuance costs and listing expenses.

The Company does not intend to change the use of the Net IPO Proceeds for the Acquisition. As at the Latest Practicable Date, the utilization of the Net IPO Proceeds is as follows:

	Net IPO Proceeds (in HK$ millions)		
Use of Proceeds	**Available**	**Utilized as of the Latest Practicable Date**	**Total**
• To purchase manufacturing equipment and complete the construction of the Company's new manufacturing facilities for infusion sets in Beijing and Shandong	294.9	42.3	337.2
• To expand the production capacity of the Company's orthopedic implant facilities in Shenzhen and Tianjin	210.9	18.4	229.3
• To invest in research and development of new products	100.1	7.9	108.0
• To implement the Company's expansion plans, which include making acquisitions and forming strategic alliances	404.6 *(Note 1)*	—	404.6
• To expand the Company's distribution network and sales and marketing team, including hiring dedicated specialist sales staff	119.5	15.3	134.8
• Additional working capital and other general corporate purposes	95.6 *(Note 2)*	39.2	134.8
	1,225.6	**123.1**	**1,348.7**

Note 1: Approximately HKD397.4 million is intended to be utilized for the Acquisition.

Note 2: Approximately HKD93.8 million is intended to be utilized for the Acquisition.

The consideration has been arrived at after arm's length negotiation between the parties with reference to (a) the historical financial position and performance of the Target Company; and (b) the projected business synergy between the Company and the Target Company in research, development, production and distribution. Although the consideration for the Acquisition is significantly higher than the net assets of the Target Group as of December 31, 2013 (being approximately RMB84.2 million), the Directors consider that the consideration is justifiable for the reasons and benefits as set out in "Reasons for and Benefits of the Acquisition" of this letter. Furthermore, the consideration for the Acquisition is determined by reference to the overall historical financial position and performance of the Target Group instead of the single factor of its net assets value. During negotiation on the consideration, the Directors have taken into account the overall financial position and performance of the Target Group and have in particular considered that the profitability of the Target Group was relatively attractive as based on the Directors' general knowledge of the medical device business in the PRC, and according to the Accountant's Report in the Appendix II hereto, the Target Group recorded a profit of RMB65.6 million, RMB74.8 million and RMB91.6 million, and gross profit margin of 87.9%, 91.7% and 92.8% for the three years ended December 31, 2011, 2012 and 2013. The consideration for the Acquisition represents approximately 8.7 times of the profit of the Target Group for 2013 (approximately RMB91.6 million) while the market capitalization of our Company as at the Latest Practicable Date (being approximately RMB5,244.4 million or HKD6,555.5 million) represents approximately 37.3 times of the profits of the Company for 2013 (approximately RMB140.7 million, being the unaudited adjusted net profit of the Company for the year ended December 31, 2013 which was derived by excluding non-operational and one-off items comprising share-based compensation expenses and listing-related expenses (net of tax) from the profit for the year).

Mr. JIANG Liwei, the executive Director and chief executive officer of the Company, took lead in studying the feasibility of and negotiating on the terms of the Acquisition, with the full technical support from the Company. Acknowledging that Mr. Jiang has 20 years of management experience in the medical device industry and in view of his management responsibilities within the Company, the Board considered that Mr. Jiang was a suitable figure to take lead in the Acquisition. Apart from Mr. Jiang, the Board consists of other members with considerable experience in medical device industry, such as Ms. Yue'e ZHANG who has worked in the medical device industry for approximately 20 years. Mr. LIN Junshan (chairman of the Board), together with Ms. Yue'e ZHANG, have been involved in the Group's acquisition of subsidiaries prior to the listing. Mr. FENG Dai, the non-executive director of the Company, is also currently a managing director of Warburg Pincus Asia LLC and possesses experience in mergers and acquisitions. For details of the Board members' biographies, please refer to the 2013 annual report of the Company. The Board has thoroughly considered the overall circumstances pertaining to the Acquisition, including but not limited to the possible future business synergy and financial position of the Target Company, and has unanimously approved the Acquisition prior to signing the Equity Transfer Agreement. the Directors are of the view that the consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Further market information

The Board has not been able to identify a suitable listed company nor an appropriately comparable private company as there is no public access to the financials of comparable private companies which are engaged in similar business, despite the Board having conducted extensive market research prior to signing the Equity Transfer Agreement.

For the Shareholders' information, set out below are certain financial parameters of four listed companies engaged in the broader medical device industry which the Board has taken note of, although they are not directly comparable:

	Name	**2013 annual P/E**	**2013 annual P/B**
1	Shandong Weigao Group Medical Polymer Co. Ltd. (1066.HK)	66.6	2.9
2	Microport Scientific Corporation (853.HK)	37.0	2.3
3	Shinva Medical Instrument Co Ltd (SH:600587)	55.5	6.1
4	Lepu Medical Technology (Beijing) Co., Ltd. (SZ:300003)	46.5	6.0

Note 1: P/E $= \dfrac{\text{the market capitalization of the listed issuer as of the Latest Practicable Date}}{\text{the profit after tax for 2013 of the listed issuer}}$

Note 2: P/B $= \dfrac{\text{the market capitalization of the listed issuer as of the Latest Practicable Date}}{\text{the net asset value of the listed issuer as of December 31, 2013}}$

Note 3: The figures are subject to round-up and are for illustration purpose only.

The financials above are for the Shareholders' information only. The Board is of the view that the companies listed above are not directly comparable given that: (1) Shinva Medical Instrument Co Ltd and Lepu Medical Technology (Beijing) Co., Ltd are listed on the stock exchange in PRC and would not be directly comparable to us due to the different characteristics between the PRC and Hong Kong capital markets; (2) the above companies are all engaged in the broader medical device industry while the Target Company is focused on research, manufacture and sale of regenerative medical biomaterials and orthopedic implant products; and (3) the Board has in particular, considered the profitability of the Target Company when assessing the reasonableness of the consideration, and is of the view that it is not market practice to give much weight to the P/B ratios when assessing the value of a medical device company, since the profitability of medical device companies is typically driven by, among others, technologies and intellectual property rights which might not necessarily be reflected in the asset value.

Conditions Precedent

Payment of consideration for the Acquisition is subject to certain conditions precedent including:

(a) the Vendors and Target Company have made true and accurate disclosure and there is no omission to provide any material information during the due diligence;

(b) there is (i) no material change to the principal business of the Target Company; (ii) no material adverse change to the asset of the Target Company; (iii) no event which may have material adverse effect on the financial status, prospects, assets or obligations of the Target Company; (iv) no circumstance which may result in the termination of business of the Target Company; and (v) no pledge, mortgage or any other encumbrance or any third party's right or claim on the equity interest in the Target Company;

(c) the Target Company continues to be in the course of completing the strategic cooperation negotiations with its major business partners (including without limitation its core raw material suppliers) in accordance with its current plan and industry practice, and execute the strategic cooperation agreement(s) and the relevant documents on fair and reasonable terms; and

(d) all parties under the Equity Transfer Agreement have fully complied with the representation and warranties provided hereunder.

Representations and Warranties

Parties to the Equity Transfer Agreement have provided certain representations and warranties to each other at the signing and in the implementation of the Equity Transfer Agreement, including:

(a) each party has been duly incorporated and is in good standing;

(b) each party has acquired the relevant authority, authorization and approval for executing the Equity Transfer Agreement and fulfilling all the obligations thereunder, in accordance with all the relevant laws and regulations;

(c) the signatory of each party has been sufficiently authorized to execute the Equity Transfer Agreement; and

(d) each party shall cooperate and obtain all the governmental and regulatory approvals and filings for the Acquisition.

The Vendors and the Target Company have jointly provided certain representations and warranties to the Purchasers, including:

(a) the Vendors shall not, without the Purchasers' prior consent, be engaged in any negotiation with any third party in respect of the disposal of assets of or equity interests in the Target Company during the period from the date of the Equity Transfer Agreement to the date on which the SAIC filings for the Acquisition is completed;

(b) the Vendors have provided, during the due diligence process, all the material information which may have a material impact on the Purchasers' willingness to proceed with the Acquisition, and all such information is true, accurate, complete and not misleading;

(c) the Vendors shall be responsible for all losses or damages arising from (i) all claims made within 3 years after the Completion Date against the quality of the orthopedic products of the Target Company which have been produced and sold prior to the Completion Date; and (ii) all claims made within the relevant quality guarantee period against the quality of the biomaterial products of the Target Company which have been produced prior to the Completion Date provided that all such claims are not caused by the defects in such products due to the inappropriate keeping by the Purchasers after the Completion Date. The Directors understand from the Target Company that there is no outstanding claim against the quality of its orthopedic products and biomaterial products as of the Latest Practicable Date, and that the quality guarantee period of the biomaterial products of the Target Company is generally 2 years; and

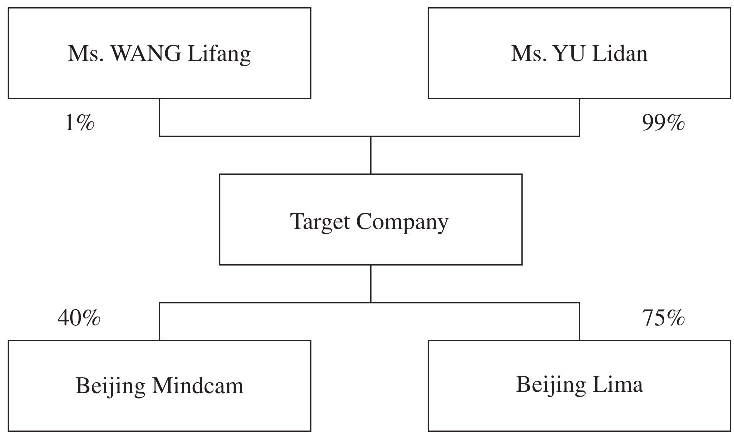
(d) the Vendors shall be responsible for all the debts and liabilities incurred by the Target Company prior to the Completion Date.

Guarantee by the Company

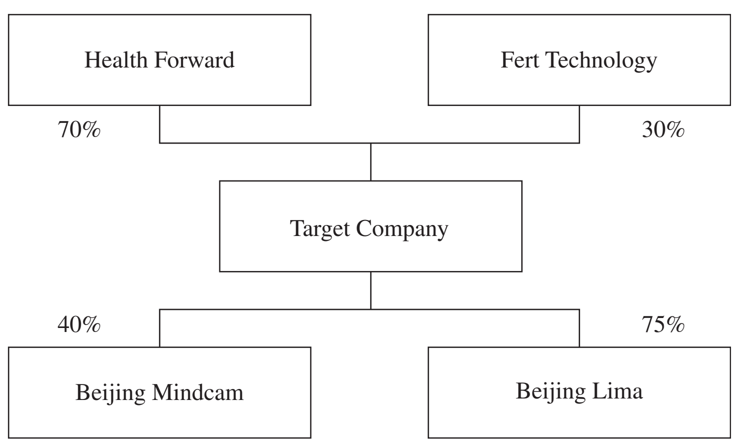
The Company has agreed to provide guarantee for Health Forward and Fert Technology in relation to their fulfilment of all their obligations under the Equity Transfer Agreement, including their respective obligation of payment and cooperation in respect of the SAIC filings for the Acquisition.

2. GENERAL INFORMATION ON THE TARGET GROUP

Corporate Structure of the Target Group immediately prior to the completion of the Acquisition



Corporate Structure of the Target Group immediately after the completion of the Acquisition



The Target Company is a limited liability company established in 2002 in the PRC. It has a registered capital of RMB25 million as of the Latest Practicable Date. The Target Company is owned as to 99% by Ms. YU Lidan and as to 1% by Ms. WANG Lifang.

The Target Company is a high-tech enterprise integrating research, development, production and sales service together. Its main products include regenerative medical biomaterials and orthopedic implant products. It has been granted the High-Tech Enterprise Certificate (《高新技術企業證書》) jointly by several government authorities of Beijing in October 2012. It owns a total of 11 patents and has obtained 7 registration certificates for Class III medical devices. It is also in the process of developing and applying for patents for a number of new products. It has an extensive nationwide distribution network with over 150 distributors covering the major provinces in the PRC. Such distribution network is managed and supported by the in-house marketing and sales team of 39 members.

The Target Company owns the right to use the land of its production base in Beijing with a gross floor area of approximately 6,400 square metres.

The Target Company owns 75% equity interest in Beijing Lima and 40% equity interest in Beijing Mindcam. Apart from Beijing Lima and Beijing Mindcam, the Target Company does not have equity interest in any other corporate entities as of the Latest Practicable Date. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the other shareholders of Beijing Mindcam and Beijing Lima are third parties independent of the Company and the connected persons of the Company. The Directors understand from the Target Company that Beijing Lima and Beijing Mindcam were established to seek cooperation opportunities with their respective other shareholders. However, none of Beijing Lima or Beijing Mindcam has carried out any business operation and they were immaterial to the Target Company's operation during the three years ended December 31, 2011, 2012 and 2013 and up to the Latest Practicable Date. Furthermore, the Company intends to continue to focus on the current business operations of the Target Company upon completion of the Acquisition.

3. FINANCIAL INFORMATION ON THE TARGET GROUP

The following discussion should be read in conjunction with the accountant's report on Target Group as set out in Appendix II to this circular. The audited consolidated financial information on the Target Group included in the accountant's report was prepared in accordance with HKFRS.

For illustration purpose, certain figures in this section have been subject to rounding adjustments.

Total Assets and Net Assets

According to its audited consolidated financial statements prepared in accordance with HKFRS, as of December 31, 2011, 2012 and 2013, the Target Group had total assets of approximately RMB143.5 million, RMB98.9 million and RMB109.0 million, and net assets of approximately RMB124.7 million, RMB27.5 million and RMB84.2 million, respectively.

Operating Results

Summary of the operating results

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	102,802	127,906	150,933
Cost of sales	(12,441)	(10,589)	(10,974)
Gross profit	90,361	117,317	139,959
Selling expenses	(16,861)	(18,909)	(20,453)
Administrative expenses	(4,386)	(7,917)	(6,627)
Research and development expenses	(5,218)	(6,298)	(6,746)
Other gains — net	12,856	3,312	999
Operating profit	76,752	87,505	107,132
Finance income	90	66	97
Profit before income tax	76,842	87,571	107,229
Income tax expense	(11,238)	(12,794)	(15,641)
Profit for the year	65,604	74,777	91,588
Profit attributable to:			
Owners of the Target Company	65,604	74,777	91,588
Non-controlling interests	—	—	—
	65,604	74,777	91,588

Operating results for the years ended December 31, 2013 and 2012

The Target Group derives its revenue mainly from sales of biomaterial products and orthopedic implant products.

Revenue increased by approximately 18.0% from approximately RMB127.9 million in 2012 to approximately RMB150.9 million in 2013 mainly attributable to the increased sales of biomaterial products. Sales of biomaterial products increased from approximately RMB120.6 million in 2012 to approximately RMB144.8 million in 2013 mainly attributable to the increase in the sales amount while the average selling price remained stable. Increase in the sales amount of biomaterials was mainly attributable to the expansion of the distribution network of the Target Company and the growth in the market demand. Increase in the sales of biomaterials was slightly offset by the decrease in the sales of orthopedic implant products from RMB7.3 million in 2012 to approximately RMB6.1 million in 2013.

Cost of sales slightly increased by approximately 3.8% from approximately RMB10.6 million in 2012 to approximately RMB11.0 million in 2013, as in line with the increase in the sales.

As a result of the foregoing, gross profit increased by approximately 19.4% from approximately RMB117.3 million in 2012 to approximately RMB140.0 million in 2013. Gross profit margin increased from 91.7% in 2012 to 92.8% in 2013 mainly due to a combination of (a) increased sales of the biomaterial products of the Target Company which commands higher margins than its orthopedic implant products, and (b) enhanced cost control.

Profit attributable to owners increase by approximately 22.5% from approximately RMB 74.8 million in 2012 to approximately RMB91.6 million in 2013.

Operating results for the years ended December 31, 2012 and 2011

Revenue increased by 24.4% from approximately RMB102.8 million in 2011 to approximately RMB127.9 million in 2012 mainly due to the increase in the sales of biomaterial products. Sales of biomaterial products increased from approximately RMB95.4 million in 2011 to approximately RMB120.6 million in 2012 mainly attributable to the increase in the sales amount while the average selling price remained stable. Increase in the sales amount of biomaterials was mainly attributable to the expansion of the distribution network of the Target Company and the growth in the market demand. Increase in the sales of biomaterials was slightly offset by the decrease in the sales of orthopedic implant products from approximately RMB7.4 million in 2011 to approximately RMB7.3 million in 2012.

Cost of sales decreased by approximately 14.5% from approximately RMB12.4 million in 2011 to approximately RMB10.6 million in 2012 mainly due to enhanced cost control.

As a result of the foregoing, gross profit increased by 29.8% from approximately RMB90.4 million in 2011 to approximately RMB117.3 in 2012. Gross profit margin increased from 87.9% in 2011 to 91.7% in 2012 mainly attributable to (a) increased sales of the biomaterial products of the Target Company which commands higher margins than its orthopedic implant products, and (b) enhanced cost control.

Profit attributable to owners increase by 14.0% from approximately RMB65.6 million in 2011 to approximately RMB74.8 million in 2012.

Liquidity and Financial Resources

As of December 31, 2011, 2012 and 2013, the Target Group had cash and cash equivalents of approximately RMB7.8 million, RMB9.8 million and RMB5.1 million respectively.

As of December 31, 2011, 2012 and 2013, the Target Group had no borrowings.

As of December 31, 2011, 2012 and 2013, the Target Group had available-for-sale financial assets of approximately RMB95.1 million, RMB50.0 million and RMB65.7 million respectively. The amount of the available-for-sale financial assets represents short-term investments placed in certain PRC state-owned banking institution with maturity within 1 year and non-determinable return rate. The fair values of these investments are based on average estimated return rate of 2.12%, 3.80%, and 2.60% for the year ended December 31, 2011, 2012 and 2013 respectively.

Capital Structure

As of December 31, 2013, the total equity of the Target Group was approximately RMB84.2 million. This represented an increase of approximately RMB56.7 million or by 206.2%, as compared to December 31, 2012. As of December 31, 2012, the total equity of the Target Group was approximately RMB27.5 million. This represented a decrease of approximately RMB97.2 million or by 77.9%, as compared to December 31, 2011. As of December 31, 2011, the total equity of the Target Group was approximately RMB124.7 million.

As of December 31, 2013, the gearing ratio (as calculated by total liabilities divided by total equity) of the Target Group was approximately 29.5%, as compared to 259.6% in 2012 and 15.0% in 2011.

The total liabilities in 2012, being approximately RMB71.4 million, was significantly higher than RMB18.7 million in 2011 and RMB24.8 million in 2013, mainly due to a total of RMB52 million dividends which was declared but remained payable for the year of 2012 (2011: Nil; 2013: Nil). The comparatively high total liabilities in 2012 led to the comparatively low total equity and high gearing ratio in 2012 as set out above.

The Target Group's treasury policy is to regularly monitor current and expected liquidity requirements and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and longer term.

As of December 31, 2011, 2012 and 2013, there is no use of financial instruments for hedging purposes by the Target Group.

Land Use Right, Buildings and Facilities

The Target Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC. The lease period of the land use right is 50 years. As of December 31, 2011, 2012 and 2013, the closing net book amount of the land use right of the Target Group is approximately RMB1.2 million, RMB1.2 million and RMB1.2 million, respectively.

As of December 31, 2011, 2012 and 2013, the closing net book amount of the buildings and facilities of the Target Group is approximately RMB17.6 million, RMB16.6 million and RMB15.7 million, respectively.

Acquisition and Disposal of Subsidiaries

There was no acquisition or disposal of subsidiary and associated company during each of the three years ended December 31, 2011, 2012 and 2013.

Employees and Remuneration Policy

As of December 31, 2011, 2012 and 2013, the Target Group employed a total of 141, 139 and 134 employees, respectively and the employee benefits expenses amount to approximately RMB14.5 million, RMB18.9 million and RMB22.4 million for the three years ended December 31, 2013 respectively. The Target Group recruits and promotes individuals based on merit and their development potentials for the positions offered. When formulating staff remuneration and benefit policies, primary considerations are given to their performance and prevailing salary levels in the market. Benefits provided to the employees by the Target Group include training, medical coverage, bonus scheme and the statutory retirement scheme.

Foreign Exchange Exposure

All the operations of the Target Group are located in the PRC and its assets, liabilities and transactions were mainly denominated in Renminbi. As such, the Target Group is not significantly exposed to foreign exchange risks exposure is minimum.

Significant Investments

The Target Group did not have any significant investment held and future plans for material investments or capital assets for the period from 2011 to 2013.

Contingent Liabilities and Obligations

As of December 31, 2011, 2012 and 2013, Target Group had no borrowings.

As of December 31, 2011, 2012 and 2013, the operating lease commitment (within a term of 5 years) of the Target Group were approximately RMB0.2 million, RMB0.5 million and RMB0.2 million, respectively.

Pledge of Assets

As of December 31, 2011, 2012 and 2013, no properties were pledged.

Dividends

The Target Company did not declare any dividend for the year ended December 31, 2011. Dividends amounting to RMB172 million and RMB35 million were declared for the year ended December 31, 2012 and 2013 respectively.

Prospects and Future Plans of the Target Group

Upon completion of the Acquisition, the Target Company will continue to concentrate on the manufacturing and sales of biomaterial products and orthopedic implant products and further penetrate into the relevant markets. It is expected that the Target Company will benefit from the continued growth in the markets for biomaterial products and orthopedic implant products.

As of the Latest Practicable Date, the Target Company does not have any specific future plans for material investments or capital assets.

4. FINANCIAL EFFECTS OF THE ACQUISITION

Upon completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company. The general financial effects of the Acquisition include but are not limited to the following: (1) the operating results of subsidiaries will be consolidated from the date on which control is transferred to the Group; (2) identifiable assets acquired and liabilities assumed in a business combination will be measured initially at their fair values at the acquisition date; and (3) the identified intangible assets with a finite useful live, e.g. trademarks and technology know-how acquired in the business combination will be carried at cost less accumulated amortisation and accumulated impairment losses after initial recognition. The amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives. Further, the cash consideration to be paid for the acquisition may have an impact on the Group's cash balance or borrowing balance, which may in turn have impacts on the Group's financial income or finance cost.

The unaudited pro forma financial information of the Enlarged Group illustrating the financial impacts of the Acquisition on the assets and liabilities of the Group is set out in Appendix III to this circular. The unaudited pro forma financial information of the Enlarged Group is prepared based on (i) the audited consolidated financial statements of the Group as of December 31, 2013 as set out in Appendix I to this circular; and (ii) the audited consolidated financial information of the Target Group as at December 31, 2013 as set out in Appendix II to this circular.

Effects on Assets and Liabilities

As shown in the unaudited pro forma financial information of the Enlarged Group, the pro forma total assets and pro forma total liabilities of the Enlarged Group upon completion of the Acquisition would amount to approximately RMB2,206.7 million and RMB308.0 million, respectively, as compared to the audited consolidated total assets and total liabilities of the

Group amounting to approximately RMB2,129.2 million and RMB230.5 million respectively, as of December 31, 2013 before the Acquisition. This represents an increase of approximately 3.6% in total assets and approximately 33.6% in total liabilities from those set out in the audited consolidated financial statements of the Group as of December 31, 2013.

The increase in the pro forma total liabilities of the Enlarged Group is mainly due to increase of deferred income tax liabilities amounting to RMB52.7 million arising from difference between the tax base and fair value of land use rights, property, plant and equipment and intangible assets upon completion of the Acquisition. Such liabilities will be settled gradually with the depreciation of property, plant and equipment and the amortisation of land use rights and intangible assets. There will be no cash outflow when such liabilities are settled. Furthermore, if compared to the pro forma total assets of the Enlarged Group as of December 31, 2013 (being approximately RMB2,206.7 million), the Directors consider that the pro forma total liabilities of the Enlarged Group as of the same date (being approximately RMB308.0 million) is consistent with the market average. Based on the above, notwithstanding the increase in the pro form total liabilities by a higher percentage than the increase in the pro forma total assets, the Directors consider that the Acquisition is in the interest of the Company and its shareholders.

For the purpose of the unaudited pro forma financial information, the Directors has conducted impairment assessment on the goodwill and other intangible assets arising from the proposed acquisition in accordance with Hong Kong Accounting Standard 36 "Impairment of Asset" and are not aware of any indications that an impairment of the goodwill and other intangible assets is required after considering the nature, prospects, financial condition and business risks of the Enlarged Group. The impairment assessment procedures performed by the director include:

(a) identify the cash-generating units

(b) review the latest budget of the target group and estimate the future cash inflows and outflows

(c) compare past actual outcomes with the projections

(d) consider the useful life of the intangibles

(e) assess the reasonableness of the assumptions used for the cash flows estimates

(f) applying the appropriate discount rate to those future cash flows

(g) compare the carrying amount of the cash generating units with the recoverable amount

(h) perform sensitivity analysis on principal assumptions

The Company has engaged its reporting accountant, PricewaterhouseCoopers, to report on the pro forma financial information in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" and the reporting accountant has issued its opinion on the pro forma financial information as set out in Appendix III of this Circular.

Effects on Earnings

As disclosed in the annual results announcement of the Company, its unaudited adjusted net profit of the Company for the year ended December 31, 2013 which was derived by excluding non-operational and one-off items comprising share-based compensation expenses and listing-related expenses (net of tax) from the profit for the year of Company amounted to approximately RMB140.7 million. Based on its audited consolidated financial statements, profit attributable to the owners of the Target Company was approximately RMB91.6 million for the year ended December 31, 2013. The Directors are of the view that if the Enlarged Group had been formed as of January 1, 2013, the net profit of the Enlarged Group for the year ended December 31, 2013 would have been significantly higher than the RMB140.7 million achieved by the Group for the same period given that the profit attributable to the owners of the Target Company was approximately RMB91.6 million for the year ended December 31, 2013.

5. INFORMATION ON THE COMPANY, THE PURCHASERS AND THE VENDORS

The Company is a medical device company focused on fast-growing and high-margin segments of China's medical device industry. The Company is a leader in its current business segments of orthopedic implants and advanced infusion sets.

Health Forward is an investment holding company indirectly wholly owned by the Company. Fert Technology is indirectly wholly owned by the Company and is principally engaged in developing and manufacturing advanced infusion sets. The Directors are of the view that the arrangement of Health Forward (incorporated in Hong Kong) and Fert Technology (established in PRC) both being Purchasers will facilitate the consideration settlement process and governmental approval procedure, and that the Target Company will enjoy more future cross-border financing opportunities by being a sino-foreign joint equity venture (中外合資企業) upon completion of Acquisition.

Ms. YU Lidan and Ms. WANG Lifang own 99% and 1% equity interest in the Target Company respectively. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors are third parties independent of the Company and the connected persons of the Company.

6. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors consider that the Acquisition will be beneficial to the Group from the following perspectives:

(1) As both the Target Company and the Group are engaged in the production of the same category of medical devices, the Acquisition will bring synergy between the Target Company and the Group in the areas of research, development, registration with China Food and Drug Administration (國家食品藥品監督管理總局) and hospital tendering process;

(2) The biomaterial products of the Target Company are well recognized in the industry in the PRC. The Group will take over the market share of the Target Company in relation to biomaterial products and further develop it with the benefits of the synergy in research, development, production and distribution after the completion of the Acquisition;

(3) The Acquisition will broaden the Group's product portfolio and enable the Group to offer a wider variety of orthopedic implant products. On the other hand, the products of the Target Company will also gain entry into the Group's extensive nationwide distribution network after the completion of the Acquisition; and

(4) The Target Company is engaged in the fast-growing and high margin segments of China's medical device industry, which is a strategic acquisition priority for the Group.

Based on the factors mentioned above, the Directors (including independent non-executive Directors) are of the view that the terms of the Equity Transfer Agreement (including the consideration) are on normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

None of the Directors has a material interest in the Acquisition and none of them is required to abstain, or has abstained, from voting on the relevant board resolutions approving the Equity Transfer Agreement and matters ancillary thereto.

7. FINANCIAL AND TRADING PROSPECTS

The Group will continue to focus on fast-growing and high-margin segments of China's medical device industry and strive to maintain as a leader in its current business segments of orthopedic implants and advanced infusion sets. After the completion of the Acquisition, the Group's performance in the biomaterial device sector will be enhanced. This is a strategic participation in a promising sub-sector of the large and fast growing medical device industry in China. The Group will consolidate the success of the Target Company as a market leader and technology innovator, and will further deepen its sales coverage as well as expand its product portfolio. The Group will also focus on realizing the strong synergies between the Target Company and the Group's existing business.

Upon completion of the Acquisition, the Target Company will continue to concentrate on the manufacturing and sales of biomaterial products and orthopedic implant products and further penetrate into the relevant markets. In light of the potential future prospects offered by the Acquisition as stated in the section headed "Reasons and Benefits for the Acquisition" above, the Directors are of the view that the Acquisition will likely contribute positively to the Enlarged Group. Nevertheless, the actual effect on earnings/losses of the Company will depend on the future financial performance of the Target Group.

8. LISTING RULES IMPLICATIONS

Based on the applicable percentage ratios, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, which is subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

The EGM will be convened to consider and, if thought fit, to approve the Equity Transfer Agreement and the Acquisition. Voting by the Shareholders at the EGM shall be taken by poll. To the Directors' best knowledge and belief, no Shareholder is required to abstain from voting in respect of such ordinary resolution.

9. EGM

A notice dated June 30, 2014 convening the EGM of the Company to be held at 1002–1003, Block C, Focus Square, No. 6 Futong East Avenue, Wangjing, Chaoyang District, Beijing, PRC on Wednesday, July 16, 2014 at 8:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event by not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be).

Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or at any adjournment thereof) should you so wish.

In accordance with Rule 13.39(4) of the Listing Rules, the resolution put to the vote of the EGM shall be decided by way of a poll. The results of the voting will be announced after the EGM.

As no Shareholder has a material interest in the Equity Transfer Agreement, no Shareholders are required to abstain from voting on the resolution approving the Equity Transfer Agreement.

10. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the Acquisition have been agreed on normal commercial terms after arm's length negotiations between the parties, and the terms of the Equity Transfer Agreement are fair and reasonable and in the interests of the Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the resolution.

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board
PW Medtech Group Limited
LIN Junshan
Chairman of the Board

1. FINANCIAL INFORMATION OF THE GROUP

The Company was listed on the Stock Exchange on November 8, 2013. Financial information of the Group for year ended December 31, 2011 and 2012 was disclosed in the "Financial Information" section and Appendix I of the Prospectus (pages I-4 to I-98) which is available on the following hyperlink:

http://www.hkexnews.hk/listedco/listconews/SEHK/2013/1028/LTN20131028015.pdf

The financial information of the Group for the year ended December 31, 2013 is disclosed in the annual report of the Company for the year ended December 31, 2013 (pages 49 to 132):

http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0423/LTN20140423517.pdf

2. INDEBTEDNESS

As at the close of business on April 30, 2014, being the latest practicable date for the purpose of the statement of indebtedness, the Enlarged Group had outstanding borrowings in the form of short-term bank loans of approximately RMB74,000,000, which were denominated in RMB. Among the short-term loans RMB35,000,000 were secured by the Enlarged Group's pledge of restricted cash with an aggregate carrying amount of RMB37,102,000, RMB25,000,000 were secured by the pledge of land use right with an aggregate carrying amount of RMB27,810,000, and with amount of RMB6,000,000 secured by pledge of buildings with an aggregate carrying amount of RMB5,801,000, and RMB8,000,000 were jointly guaranteed by Wu Dong, a senior management of the Enlarged Group, and his family member.

Save as disclosed above and apart from intra-group liabilities, the Enlarged Group did not have any debt securities issued and outstanding or agreed to be issued, bank borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities at the close of business on April 30, 2014.

3. WORKING CAPITAL

Taking into account the expected completion of the Acquisition, and the financial resources available to the Enlarged Group, including the internally generated funds, the Directors are of the opinion that, in the absence of unforeseen circumstances, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

30 June 2014

The Directors
PW Medtech Group Limited

Dear Sirs,

We report on the financial information of Beijing Tianxinfu Medical Appliance Co., Ltd. (the "Target Company") and its subsidiary (together, the "Target Group"), which comprises the consolidated and company balance sheets of the Target Company as at 31 December 2011, 2012 and 2013, the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Company for each of the years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of PW Medtech Group Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix II to the circular of the Company dated 30 June 2014 (the "Circular") in connection with the proposed acquisition of the Target Group by Health Forward Holdings Limited and Beijing Fert Technology Co., Ltd., both being indirectly wholly owned subsidiaries of the Company.

The Target Company was incorporated in the People's Republic of China (the "PRC") on 18 January 2002 as a company with limited liability under the Company Law of the PRC.

As at the date of this report, the Target Company has direct interests in a subsidiary as set out in Note 10 of Section II below.

The financial statements of the Target Company for each of the years ended 31 December 2011, 2012 and 2013 were audited by Beijing Lingfeng Certified Public Accountants, Beijing Jiarenhe Certified Public Accountants and Baker Tilly China, respectively.

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

The director of the Target Company during the Relevant Periods are responsible for the preparation of the consolidated financial statements of the Target Company for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSAs") issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiaries (together, the "Group") as set out in the annual report of the Company for the year ended 31 December 2013.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company and of the Target Group as at 31 December 2011, 2012 and 2013 and of the Target Group's results and cash flows for the Relevant Periods then ended.

I. FINANCIAL INFORMATION OF THE TARGET GROUP

The following is the financial information of the Target Group prepared by the directors of the Company as at 31 December 2011, 2012 and 2013 and for each of the years ended 31 December 2011, 2012 and 2013 (the "Financial Information"):

Consolidated Balance Sheets

		As at 31 December		
		2011	**2012**	**2013**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Land use right	*6*	1,233	1,203	1,174
Property, plant and equipment	*7*	27,613	24,289	23,068
Deferred income tax assets	*18*	1,636	2,214	2,628
		30,482	27,706	26,870
Current assets				
Inventories	*12*	9,293	10,254	10,514
Trade and other receivables	*13*	812	1,116	847
Available-for-sale financial assets	*9*	95,059	50,047	65,674
Cash and cash equivalents	*14*	7,806	9,750	5,110
		112,970	71,167	82,145
Total assets		143,452	98,873	109,015
Equity and liabilities				
Equity attributable to owners of the Target Company				
Paid-in capital	*15*	25,000	25,000	25,000
Capital surplus	*15*	137	137	137
Other reserves	*16*	8,831	12,547	12,674
Retained earnings/(accumulated losses)		89,593	(11,358)	45,230
		123,561	26,326	83,041
Non-controlling interests		1,167	1,167	1,167
Total equity		124,728	27,493	84,208

		As at 31 December		
		2011	2012	2013
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Current liabilities				
Trade and other payables	*17*	14,381	15,092	19,569
Dividend payable		—	52,000	—
Current income tax liabilities		4,343	4,288	5,238
		18,724	71,380	24,807
Total liabilities		18,724	71,380	24,807
Total equity and liabilities		143,452	98,873	109,015
Net current assets/(liabilities)		94,246	(213)	57,338
Total assets less current liabilities		124,728	27,493	84,208

Balance Sheets

		As at 31 December		
		2011	**2012**	**2013**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Land use right	*6*	1,233	1,203	1,174
Property, plant and equipment	*7*	27,613	24,289	23,068
Investment in a subsidiary	*10*	9,244	9,244	9,244
Investment in an associate	*11*	—	—	—
Deferred income tax assets	*18*	1,636	2,214	2,628
		39,726	36,950	36,114
Current assets				
Inventories	*12*	9,293	10,254	10,514
Trade and other receivables	*13*	812	1,116	847
Available-for-sale financial assets	*9*	95,059	50,047	65,674
Cash and cash equivalents	*14*	7,702	9,646	5,006
		112,866	71,063	82,041
Total assets		152,592	108,013	118,155
Equity and liabilities				
Paid-in capital	*15*	25,000	25,000	25,000
Capital surplus	*15*	137	137	137
Other reserves	*16*	8,831	12,547	12,674
Retained earnings/(accumulated losses)		89,733	(11,218)	45,370
Total equity		123,701	26,466	83,181

		As at 31 December		
		2011	**2012**	**2013**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Current liabilities				
Amount due to a subsidiary	*10*	10,167	10,167	10,167
Trade and other payables	*17*	14,381	15,092	19,569
Dividend payable		—	52,000	—
Current income tax liabilities		4,343	4,288	5,238
		28,891	81,547	34,974
Total liabilities		28,891	81,547	34,974
Total equity and liabilities		152,592	108,013	118,155
Net current assets/(liabilities)		83,975	(10,484)	47,067
Total assets less current liabilities		123,701	26,466	83,181

Consolidated Income Statements

		Year ended 31 December		
		2011	**2012**	**2013**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*5*	102,802	127,906	150,933
Cost of sales	*20*	(12,441)	(10,589)	(10,974)
Gross profit		90,361	117,317	139,959
Selling expenses	*20*	(16,861)	(18,909)	(20,453)
Administrative expenses	*20*	(4,386)	(7,917)	(6,627)
Research and development expenses	*20*	(5,218)	(6,298)	(6,746)
Other gains — net	*19*	12,856	3,312	999
Operating profit		76,752	87,505	107,132
Finance income	*22*	90	66	97
Profit before income tax		76,842	87,571	107,229
Income tax expense	*23*	(11,238)	(12,794)	(15,641)
Profit for the year		65,604	74,777	91,588
Profit attributable to:				
Owners of the Target Company		65,604	74,777	91,588
Non-controlling interests		—	—	—
		65,604	74,777	91,588
Dividend	*24*	—	172,000	35,000

Consolidated Statements of Comprehensive Income

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	65,604	74,777	91,588
Other comprehensive income			
Items that may be reclassified to profit or loss			
Disposal of available-for-sale financial assets	(54)	(59)	(47)
Change in value of available-for-sale financial assets	59	47	174
	5	(12)	127
Other comprehensive income for the year, net of tax	5	(12)	127
Total comprehensive income for the year	65,609	74,765	91,715
Attributable to:			
— Owners of the Target Company	65,609	74,765	91,715
— Non-controlling interests	—	—	—
Total comprehensive income for the year	65,609	74,765	91,715

Consolidated Statements of Changes in Equity

		Attributable to owners of the Target Company						
	Note	Paid-in capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2011		25,000	137	2,266	30,549	57,952	1,167	59,119
Comprehensive income								
Profit for the year		—	—	—	65,604	65,604	—	65,604
Other comprehensive income								
Disposal of available-for-sale financial assets	9	—	—	(54)	—	(54)	—	(54)
Change in value of available-for-sale financial assets	9	—	—	59	—	59	—	59
Total other comprehensive income, net of tax		—	—	5	—	5	—	5
Total comprehensive income		—	—	5	65,604	65,609	—	65,609
Transactions with owners								
Appropriation to reserves	16	—	—	6,560	(6,560)	—	—	—
Total transaction with owners		—	—	6,560	(6,560)	—	—	—
Balance at 31 December 2011		25,000	137	8,831	89,593	123,561	1,167	124,728
Balance at 1 January 2012		25,000	137	8,831	89,593	123,561	1,167	124,728
Comprehensive income								
Profit for the year		—	—	—	74,777	74,777	—	74,777
Other comprehensive income								
Disposal of available-for-sale financial assets	9	—	—	(59)	—	(59)	—	(59)
Change in value of available-for-sale financial assets	9	—	—	47	—	47	—	47
Total other comprehensive income, net of tax		—	—	(12)	—	(12)	—	(12)
Total comprehensive income		—	—	(12)	74,777	74,765	—	74,765

		Attributable to owners of the Target Company						
	Note	Paid-in capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Transactions with owners								
Appropriation to reserves	*16*	—	—	3,728	(3,728)	—	—	—
Dividends	*24*	—	—	—	(172,000)	(172,000)	—	(172,000)
Total transaction with owners		—	—	3,728	(175,728)	(172,000)	—	(172,000)
Balance at 31 December 2012		25,000	137	12,547	(11,358)	26,326	1,167	27,493
Balance at 1 January 2013		25,000	137	12,547	(11,358)	26,326	1,167	27,493
Comprehensive income								
Profit for the year		—	—	—	91,588	91,588	—	91,588
Other comprehensive income								
Disposal of available-for-sale financial assets		—	—	(47)	—	(47)	—	(47)
Change in value of available-for-sale financial assets		—	—	174	—	174	—	174
Total other comprehensive income, net of tax		—	—	127	—	127	—	127
Total comprehensive income		—	—	127	91,588	91,715	—	91,715
Transactions with owners								
Dividends	*24*	—	—	—	(35,000)	(35,000)	—	(35,000)
Total transaction with owners		—	—	—	(35,000)	(35,000)	—	(35,000)
Balance at 31 December 2013		25,000	137	12,674	45,230	83,041	1,167	84,208

Consolidated Statements of Cash Flows

		Year ended 31 December		
		2011	2012	2013
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Cash generated from operations	*25*	86,276	87,039	113,550
Income tax paid		(10,023)	(13,427)	(15,105)
Net cash generated from operating activities		76,253	73,612	98,445
Cash flows from investing activities				
Purchases of property, plant and equipment		(891)	(152)	(1,888)
Purchase of available-for-sale financial assets	*9*	(593,000)	(628,000)	(194,500)
Proceeds from disposals of available-for-sale financial assets		501,000	673,000	179,000
Realised gain on available-for-sale financial assets		1,591	3,418	1,203
Interest received		90	66	97
Proceeds from disposal of property, plant and equipment		—	—	3
Net cash (used) in/generated from investing activities		(91,210)	48,332	(16,085)
Cash flows from financing activities				
Dividends paid *(Note 24)*		—	(120,000)	(87,000)
Net cash used in financing activities		—	(120,000)	(87,000)
Net (decrease)/increase in cash and cash equivalents		(14,957)	1,944	(4,640)
Cash and cash equivalents at beginning of the year		22,763	7,806	9,750
Cash and cash equivalents at end of the year		7,806	9,750	5,110

II. NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION AND BASIS OF PREPARATION

1.1 General information

Beijing Tianxinfu Medical Appliance Co., Ltd. (the "Target Company") was incorporated in People's Republic of China (the "PRC") on 18 January 2002 with limited liability under the Company Law of the PRC, which is owned as to 99% by Ms. YU Lidan and as to 1% by Ms. WANG Lifang. The address of the Target Company's registered office is No. 30 Torch Street, Science and Technology Park, Changping District, Beijing.

The Target Company and its subsidiary (together, the "Target Group") is principally engaged in the development, manufacturing and sale of regenerative medical biomaterial products and orthopedic products in the PRC.

The Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

(a) *Adoption of new and amended standards and interpretations*

The Target Group has not early adopted the following new and amended standards and interpretations that have been issued but not effective.

		Effective for annual periods beginning on or after
Amendment to HKAS 32	Financial Instruments: Presentation on assets and liabilities offsetting	1 January 2014
Amendments to HKFRS 10, HKFRS12 and HKAS 27	Consolidation for investment entities	1 January 2014
Amendments to HKAS 36	'Impairment of assets' on recoverable amount disclosures	1 January 2014
Amendments to HKAS 39	Financial instruments: Recognition and Measurement — Novation of derivatives	1 January 2014
Amendment to HKAS19	Defined benefit plans	1 July 2014
HK(IFRIC) 21	Levies	1 January 2014
Annual improvements 2012	Changes from the 2010–2012 cycle of the annual improvements project	1 July 2014
Annual improvements 2013	Changes from the 2011–2013 cycle of the annual improvements project	1 July 2014
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 9	Financial instruments	The mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

The Target Group has assessed the impact of the above new standards and amendments to existing standards and based on the preliminary results of assessment, the Target Group currently does not expect the adoption of these standards and amendments would have a significant impact on its results of operations and financial position.

2.2 Subsidiaries

2.2.1 *Consolidation*

A subsidiary is an entity (including a structured entity) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

(a) *Business combinations*

The Target Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Target Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Target Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Target Group's accounting policies.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Target Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Target Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 *Separate financial statements*

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

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

2.3 Associates

An associate is an entity over which the Target Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Target Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Target Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Target Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Target Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Target Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Target Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Target Group and its associate are recognised in the Target Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

2.4 Segment reporting

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

2.5 Foreign currency translation

(i) ***Functional and presentation currency***

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Financial Information are presented in RMB, which is the Target Company's functional currency and the Target Group's presentation currency.

(ii) ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statements.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statements within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statements within 'other gains — net'.

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

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

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and provision for impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statements during the Relevant Periods in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

—	Buildings and facilities	20 years
—	Furniture, fittings and equipment	3–10 years
—	Machinery and equipment	5–10 years
—	Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains — net' in the consolidated income statements.

2.7 Land use rights

Land use rights are up-front payments made to use the land. It is stated at cost and charged to the consolidated income statements over the periods of the lease on a straight-line basis, net of any impairment losses.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 ***Classification***

The Target Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the directors of the Target Company. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Target Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the consolidated balance sheets (Note 13 and 14).

(c) *Available-for-sale financial assets*

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

2.9.2 ***Recognition and measurement***

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Target Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised and subsequently carried at fair value, and transaction costs are expensed and the fair value adjustments are recognised in the consolidated income statements. Available-for-sale financial assets are subsequently carried at fair value with the fair value adjustment recognised in equity. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statements as 'other gains — net'.

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

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Target Group has transferred substantially all risks and rewards of ownership.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Impairment of financial assets

(a) ***Asset carried at amortised cost***

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

(b) ***Assets classified as available-for-sale***

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Target Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statements on equity instruments are not reversed through the consolidated income statements. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statements.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The cost excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.15 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Current and deferred income tax

The tax expense for the Relevant Periods comprises current and deferred tax. Tax is recognised in the consolidated income statements, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) ***Current income tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Target Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) ***Deferred income tax***

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising on investments in subsidiaries and associates except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Target Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Target Group the ability to control the reversal of the temporary difference not recognised.

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

(c) ***Offsetting***

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

(a) ***Pension obligations***

The full-time employees of the Target Group in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Target Group contributes on a monthly basis to these pension plans. Under these plans, the Target Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expenses as incurred.

(b) ***Housing benefits***

The Target Group contributes to the state-prescribed housing fund. Such costs are charged to the consolidated income statements as incurred. Apart from those described above, the Target Group does not have other legal or constructive obligations over such benefits.

(c) ***Bonus entitlements***

The expected cost of bonus payments is recognised as a liability when the Target Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.18 Provisions and contingent liabilities

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

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

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

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

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

2.19 Revenue recognition

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

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

(a) ***Sales of medical devices and related products***

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

(b) ***Interest income***

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

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all the attached conditions.

Government grants relating to costs 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.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated income statements on a straight-line basis over the expected useful lives of the related assets.

2.21 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statements on a straight-line basis over the period of the lease.

2.22 Dividend distribution

Dividend distribution to the Target Company's shareholders is recognised as a liability in the Target Group and the Target Company's financial statements in the period in which the dividends are approved by the Target Company's shareholders or directors, where appropriate.

2.23 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. Risk management is carried out by the senior management of the Target Group and approved by the board of directors.

(a) *Market risk*

(i) *Foreign exchange risk*

The Target Group was not significantly exposed to foreign exchange risk as it mainly operates in the PRC, a majority of the transactions are denominated in RMB, and had no significant assets or liabilities denominated in foreign currency as at 31 December 2011, 2012 and 2013.

(ii) *Interest rate risk*

The Target Group has no significant interest-bearing assets and liabilities except for cash and cash equivalents. Management does not anticipate any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

(b) *Credit risk*

The carrying amounts of cash and cash equivalents, trade and other receivables and available-for-sale financial assets included in the Financial Information represent the Target Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Target Group's measures to manage credit risk is to control potential exposure to recoverability problem.

The credit risk of bank balances is limited because the counterparty is one of the four largest state-owned commercial banks.

In respect of trade receivable, as prepayment is always required before delivery of goods, trade receivable is considered not significant during the Relevant Periods.

In respect of other receivables, it was mainly advances to employee for various expense incurred in the ordinary course of business, there was no history of default.

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

(c) *Liquidity risk*

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

The contractual maturities of all of the Target Group's financial liabilities were within 1 year as at 31 December 2011, 2012 and 2013.

3.2 Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders.

The Target Group had no borrowings as at 31 December 2011, 2012 and 2013.

3.3 Fair value estimation

The table below analyses the Target Group's financial instruments carried at fair value as at 31 December 2011, 2012 and 2013, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

	Year ended 31 December		
	2011	2012	2013
	Level 3	Level 3	Level 3
	RMB'000	*RMB'000*	*RMB'000*
Available-for-sale financial assets	95,059	50,047	65,674

The fair value of available-for-sale financial assets is determined using income capitalisation approach. The valuation was determined using capitalisation of the net income by adopting estimated annual return rate provided by related bank during the Relevant Period. The annual return rate used to estimate the fair value of available-for-sale financial assets as at 31 December 2011, 2012 and 2013 was 2.12%, 3.80%, and 2.60%. The higher the annual return rate, the higher the fair value.

The fair value calculation of available-for-sale financial assets was prepared by the chief accountant and reviewed by the financial manager at each of the reporting date.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) *Income taxes*

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) *Estimated write-downs of inventories*

The Target Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances are so that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and write-downs of inventories in the period in which such estimate has been changed.

(c) *Useful lives of property, plant and equipment*

The Target Group determines the estimated useful lives for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Target Group will revise the depreciation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

5 REVENUE AND SEGMENT INFORMATION

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

The executive director considers the business from a product perspective, and determines that the Target Group has the following operating segments:

— Regenerative medical biomaterial business — manufacturing and sale of biomaterial duramax, duragide and artificial nerve; and

— Orthopedic implant business — manufacturing and sale of orthopedic implant products, including the product category of spine and joints.

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

(a) The segment information for the operating segments during the Relevant Periods is as follows:

Year ended 31 December 2011	**Regenerative medical biomaterial business**	**Orthopedic implant business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from external customers	95,398	7,404	102,802
Cost of sales	(6,881)	(5,560)	(12,441)
Gross profit	88,517	1,844	90,361

Year ended 31 December 2012	**Regenerative medical biomaterial business**	**Orthopedic implant business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from external customers	120,637	7,269	127,906
Cost of sales	(5,750)	(4,839)	(10,589)
Gross profit	114,887	2,430	117,317

Year ended 31 December 2013	**Regenerative medical biomaterial business**	**Orthopedic implant business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from external customers	144,829	6,104	150,933
Cost of sales	(6,467)	(4,507)	(10,974)
Gross profit	138,362	1,597	139,959

The director of the Company considered that no additional information should be disclosed as the chief operating decision-maker did not reply on the information for the purpose of allocating resources to the segment and assessing its performance.

(b) Concentration of customers

During the Relevant Periods, no revenue derived from sales made to individual external customer exceeded 10% or more of the Target Group's total revenue.

(c) Geographical segment information

The Target Group's operations, assets and all of the customers are located in the PRC. Accordingly, no geographical analysis of revenue, non-current assets and customers is presented.

6 LAND USE RIGHT

The Target Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC. The lease period of the land use right is 50 years.

Target Group and Target Company

	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December			
Opening net book amount	1,262	1,232	1,203
Amortisation charge	(29)	(29)	(29)
Closing net book amount	1,233	1,203	1,174
At 31 December			
Cost	1,457	1,456	1,456
Accumulated amortisation	(224)	(253)	(282)
Net book amount	1,233	1,203	1,174

7 PROPERTY, PLANT AND EQUIPMENT

Target Group and Target Company

	Buildings and facilities *RMB'000*	Machinery and equipment *RMB'000*	Furniture, fittings and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2011					
Cost	20,221	15,265	6,479	964	42,929
Accumulated depreciation	(1,673)	(4,418)	(5,706)	(847)	(12,644)
Net book amount	18,548	10,847	773	117	30,285
Year ended 31 December 2011					
Opening net book amount	18,548	10,847	773	117	30,285
Additions	—	832	59	—	891
Depreciation	(960)	(2,280)	(264)	(59)	(3,563)
Closing net book amount	17,588	9,399	568	58	27,613
At 31 December 2011					
Cost	20,221	16,097	6,538	964	43,820
Accumulated depreciation	(2,633)	(6,698)	(5,970)	(906)	(16,207)
Net book amount	17,588	9,399	568	58	27,613
Year ended 31 December 2012					
Opening net book amount	17,588	9,399	568	58	27,613
Additions	—	121	32	—	153
Depreciation	(960)	(2,326)	(181)	(10)	(3,477)
Closing net book amount	16,628	7,194	419	48	24,289
At 31 December 2012					
Cost	20,221	16,218	6,570	964	43,973
Accumulated depreciation	(3,593)	(9,024)	(6,151)	(916)	(19,684)
Net book amount	16,628	7,194	419	48	24,289
Year ended 31 December 2013					
Opening net book amount	16,628	7,194	419	48	24,289
Additions	56	1,688	144	—	1,888
Disposals	—	(5)	(6)	—	(11)
Depreciation	(964)	(2,066)	(68)	—	(3,098)
Closing net book amount	15,720	6,811	489	48	23,068
At 31 December 2013					
Cost	20,277	17,897	6,566	964	45,704
Accumulated depreciation	(4,557)	(11,086)	(6,077)	(916)	(22,636)
Net book amount	15,720	6,811	489	48	23,068

Depreciation charges were expensed in the following categories in the consolidated income statements:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	2,644	2,545	2,372
Administrative expenses	694	695	699
Selling expenses	225	237	27
	3,563	3,477	3,098

8 FINANCIAL INSTRUMENTS BY CATEGORY

Target Group

	Loans and receivables	**Available-for-sale financial assets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Assets per balance sheet			
At 31 December 2011			
Trade and other receivables (excluding prepayment and advances to employees)	39	—	39
Available-for-sale financial assets	—	95,059	95,059
Cash and cash equivalents	7,806	—	7,806
	7,845	95,059	102,904
At 31 December 2012			
Trade and other receivables (excluding prepayment and advances to employees)	38	—	38
Available-for-sale financial assets	—	50,047	50,047
Cash and cash equivalents	9,750	—	9,750
	9,788	50,047	59,835
At 31 December 2013			
Trade and other receivables (excluding prepayment and advances to employees)	109	—	109
Available-for-sale financial assets	—	65,674	65,674
Cash and cash equivalents	5,110	—	5,110
	5,219	65,674	70,893

Target Company

	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Assets per balance sheet			
At 31 December 2011			
Trade and other receivables (excluding prepayment and advances to employees)	39	—	39
Available-for-sale financial assets	—	95,059	95,059
Cash and cash equivalents	7,702	—	7,702
	7,741	95,059	102,800
At 31 December 2012			
Trade and other receivables (excluding prepayment and advances to employees)	38	—	38
Available-for-sale financial assets	—	50,047	50,047
Cash and cash equivalents	9,646	—	9,646
	9,684	50,047	59,731
At 31 December 2013			
Trade and other receivables (excluding prepayment and advances to employees)	109	—	109
Available-for-sale financial assets	—	65,674	65,674
Cash and cash equivalents	5,006	—	5,006
	5,115	65,674	70,789

Target Group

	Liabilities at amortised cost
	RMB'000
Liabilities per balance sheet	
At 31 December 2011	
Trade and other payables (excluding advance from customers, salary and staff welfare payables, deposits and other taxes payable)	6,885
At 31 December 2012	
Trade and other payables (excluding advance from customers, salary and staff welfare payables, deposits and other taxes payable)	5,528
Dividend payable	52,000
	57,528
At 31 December 2013	
Trade and other payables (excluding advance from customers, salary and staff welfare payables, deposits and other taxes payable)	7,091

Target Company

	Liabilities at amortised cost
	RMB'000
Liabilities per balance sheet	
At 31 December 2011	
Trade and other payables (excluding advance from customers, salary and staff welfare payables, deposits and other taxes payable)	6,885
Amount due to a subsidiary	10,167
	17,052
At 31 December 2012	
Trade and other payables (excluding advance from customers, salary and staff welfare payables, deposits and other taxes payable)	5,528
Dividend payable	52,000
Amount due to a subsidiary	10,167
	67,695
At 31 December 2013	
Trade and other payables (excluding advance from customers, salary and staff welfare payables, deposits and other taxes payable)	7,091
Amount due to a subsidiary	10,167
	17,258

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Target Group and Target Company

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	3,054	95,059	50,047
Additions	593,000	628,000	194,500
Net gain from change in fair value of available-for-sale financial assets	59	47	174
Net gain transferred from other comprehensive income to profit or loss upon disposal	(54)	(59)	(47)
Disposals	(501,000)	(673,000)	(179,000)
At 31 December	95,059	50,047	65,674

Available-for-sale financial assets include the following:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Short term investments	95,059	50,047	65,674

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

The fair values of these investments are based on average estimated return rate of 2.12%, 3.80%, and 2.60% for the year ended 31 December 2011, 2012 and 2013 respectively.

The maximum exposure to credit risk at the reporting date is the carrying value of these investments.

The credit quality of available-for-sale financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. None of these financial assets is either past due or impaired.

10 INVESTMENT IN A SUBSIDIARY AND AMOUNT DUE TO A SUBSIDIARY — TARGET COMPANY

(a) Investments in a subsidiary

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Investments in a subsidiary (i)	13,800	13,800	13,800
Impairment provision (ii)	(4,556)	(4,556)	(4,556)
	9,244	9,244	9,244

As at each reporting date of the Relevant Period and as at the date of this report, the Target Company has direct equity interests in the following subsidiary:

Name	Place and date of establishment	Issued and paid-in capital/ registered capital	Direct equity interests held *(Note iii)* 31 December 2011	2012	2013	As of the date of this report	Principal activities
Beijing Lima#	The PRC, 18 January 2002	EURO 1,518,500/ EURO3,200,000	75%	75%	75%	75%	Development, manufacturing and sale of orthopedic products

\# Beijing Lima Tianxinfu Medical Devices Co., Ltd. ("Beijing Lima"), being the subsidiary of the Target Company, has been inactive during the Relevant Periods.

(i) It represents the Target Company's equity investment in Beijing Lima. Beijing Lima was incorporated in the PRC on 10 November 2005 with limited liability under the Company Law of the PRC.

(ii) The directors of the Target Company consider that part of the carrying amount of the investment was not recoverable and certain impairment was made against the investment according to recoverability of the investment.

(iii) According to the agreement entered by the Target Company and a foreign shareholder ("NCI") and Beijing Lima's articles of association, Beijing Lima's registered capital was EURO3,200,000 and the Target Company and NCI committed to contribute 75% and 25% of Beijing Lima's registered capital and have proportionate voting rights, respectively. Upon incorporation of Beijing Lima in 2005, the actual paid in capital contributed by the Target Company and NCI was EURO1,358,500 and EURO 160,000, respectively. Therefore, the Target Company and NCI's share of dividend distribution and residual value of Beijing Lima is 89.5% and 10.5% respectively according to their respective percentage of the actual paid in capital contributed.

The director of the Target Company considered that the non-controlling interests of the subsidiary during the Relevant Periods were insignificant to the Target Group thus no separate financial information of this non-wholly owned subsidiary is required to be presented.

(b) Amount due to a subsidiary

The amounts due to a subsidiary as at 31 December 2011, 2012 and 2013 represented current account balances maintained by the Target Company with the subsidiary. All balances are unsecured, interest-free and repayable on demand.

11 INVESTMENT IN AN ASSOCIATE

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Investments in an associate (i)	4,366	4,366	4,366
Impairment provision (ii)	(4,366)	(4,366)	(4,366)
	—	—	—

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

(ii) Beijing Mindcam was inactive during the Relevant Periods. The directors of the Target Group consider that the carrying amount of the investment was not recoverable and full impairment was made against the investment.

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

12 INVENTORIES

Target Group and Target Company

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	1,838	1,493	1,232
Work in progress	3,057	3,366	3,998
Finished goods	4,398	5,395	5,284
	9,293	10,254	10,514

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB2,310,000, RMB1,813,000 and RMB1,368,000 for the years ended 31 December 2011, 2012 and 2013, respectively.

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

	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	1,141	1,276	1,279
Provision/(reversal) for impairment of inventories	135	3	(21)
Write off	—	—	(522)
At 31 December	1,276	1,279	736

13 TRADE AND OTHER RECEIVABLES

Target Group and Target Company

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables (a)	—	—	71
Prepayments (b)	512	940	470
Advances to employees (c)	261	138	268
Others	39	38	38
	812	1,116	847

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Target Group does not hold any collateral as security.

(a) In general, the Target Company did not grant credit term to customer. Customer should usually make prepayment before delivery of goods. The ageing of the trade receivables as at 31 December 2013 was up to 3 months based on invoice date. Based on the Target Group's assessment on the collectability of trade receivables, no impairment provision was made as at 31 December 2013.

(b) It mainly represented prepayments for electricity and heat.

(c) It mainly represented advances to employees for various expenses incurred in the ordinary course of business.

14 CASH AND CASH EQUIVALENTS

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Target Group			
Cash on hand	3	37	1
Cash at banks	7,803	9,713	5,109
	7,806	9,750	5,110
Target Company			
Cash on hand	3	37	1
Cash at banks	7,699	9,609	5,005
	7,702	9,646	5,006

All cash at bank are deposits with original maturity within 3 months.

15 PAID-IN CAPITAL

Target Company

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Issued and fully paid	25,000	25,000	25,000

It represented the paid-in capital of the Target Company according to the verification report issued by a certified public accountant registered in the PRC.

16 OTHER RESERVES

Target Group and Target Company

	Available-for-sale financial assets	**Statutory Reserve**	**Total**
	RMB'000	*RMB'000* *(Note(a))*	*RMB'000*
Balance at 1 January 2011	54	2,212	2,266
Disposal of available-for-sale financial assets	(54)	—	(54)
Change in fair value of available-for-sale financial assets	59	—	59
Appropriation to statutory reserve	—	6,560	6,560
Balance at 31 December 2011	59	8,772	8,831
Balance at 1 January 2012	59	8,772	8,831
Disposal of available-for-sale financial assets	(59)	—	(59)
Change in fair value of available-for-sale financial assets	47	—	47
Appropriation to statutory reserve	—	3,728	3,728
Balance at 31 December 2012	47	12,500	12,547
Balance at 1 January 2013	47	12,500	12,547
Disposal of available-for-sale financial assets	(47)	—	(47)
Change in fair value of available-for-sale financial assets	174	—	174
Balance at 31 December 2013	174	12,500	12,674

(a) According to the Company Law of the PRC and the Articles of Association of the Target Company, when distributing net profit each year, the Target Company has to set aside 10% of its net profit as reported in the PRC statutory accounts for the statutory general reserve fund (except where the fund has reached 50% of the Company's registered paid-in capital). As at 31 December 2012, the fund has reached 50% of the Target Company's registered paid-in capital. The fund can only be used, upon approval by the relevant authority, to offset accumulated deficit or increase capital.

17 TRADE AND OTHER PAYABLES

Target Group and Target Company

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	207	31	118
Salary and staff welfare payables	3,704	5,964	7,757
Provisions for sales rebate	4,290	5,164	6,890
Deposits	2,535	2,605	2,996
Advances from customers	542	173	623
Value added tax and other taxes	715	822	1,102
Accrued expenses	1,846	33	46
Others	542	300	37
	14,381	15,092	19,569

At 31 December 2011, 2012 and 2013, the ageing analysis of the trade payables based on invoice date are as follows:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Up to 3 months	114	29	115
3 to 6 months	—	—	3
7 months to 12 months	93	2	—
	207	31	118

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

18 DEFERRED INCOME TAX ASSETS

Target Group and Target Company

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets:			
— Deferred tax asset to be recovered within 12 months	1,636	2,214	2,628

Movement in deferred income tax assets during the Relevant Periods is as follows:

	Provision for receivables impairment	Provision for inventory impairment	Salary and staff welfare payable	Depreciation	Provision for sales rebate	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2011						
At beginning of the year	24	171	276	55	82	608
Credited to profit or loss	—	20	280	166	562	1,028
At end of the year	24	191	556	221	644	1,636
Year ended 31 December 2012						
At beginning of the year	24	191	556	221	644	1,636
Credited to profit or loss	8	1	339	99	131	578
At end of the year	32	192	895	320	775	2,214
Year ended 31 December 2013						
At beginning of the year	32	192	895	320	775	2,214
(Charged)/credited to profit or loss	—	(82)	269	(32)	259	414
At end of the year	32	110	1,164	288	1,034	2,628

19 OTHER GAINS — NET

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Realised gain on available-for-sale financial assets	1,591	3,418	1,203
Compensation received (i)	11,364	—	—
Donations	—	(30)	(273)
Losses on disposal of property, plant and equipment	—	—	(8)
Government grants	93	302	—
Sales of scraps	(158)	—	—
Others	(34)	(378)	77
	12,856	3,312	999

(i) It represented a compensation received from the Target Company's former chief financial officer ("former CFO") in 2011. In 2009, the management of the Target Company discovered that former CFO had embezzled money from the Target Company via making certain fictitious purchases and expenses reimbursement from year 2006 to 2008. The management then reported to police and claimed compensation from former CFO. According to the judgement made by local court in 2011, the Target Company received a compensation of RMB11,364,000 from former CFO to compensate related losses caused by her.

20 EXPENSES BY NATURE

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials and consumable used	3,382	1,813	1,368
Changes in inventories of finished goods and work in progress	(591)	(1,320)	40
Low-value consumables	841	749	730
Employee benefits expenses *(Note 21)*	14,476	18,934	22,355
Depreciation of property, plant and equipment *(Note 7)*	3,563	3,477	3,098
Advertising, promotions and business development costs	5,443	6,714	7,010
Office and communication expenses	1,866	1,933	1,431
Direct research costs	1,748	1,489	763
Travelling and entertainment expenses	2,495	2,723	2,001
Taxes and levies	785	1,101	1,228
Provision for impairment of other receivables	—	56	—
Provision/(reversal) for inventory impairment *(Note 12)*	135	3	(21)
Operating lease payments	216	292	334
Transportation costs	725	814	937
Amortisation of land use right *(Note 6)*	29	29	29
Legal and professional fee	2,050	2,609	1,736
Auditors' remuneration	50	10	50
Utilities	1,239	1,310	1,270
Others	454	977	441
Total cost of sales, selling expenses, administrative expenses and research and development expenses	38,906	43,713	44,800

21 EMPLOYEE BENEFITS EXPENSES

(a) Employee benefits expenses

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and bonuses	12,162	15,445	18,805
Social security costs and housing fund	1,504	2,269	2,551
Staff welfare	640	834	647
Others	170	386	352
	14,476	18,934	22,355

(b) Key management compensation

Key management includes director, general manager, vice president and head of sales department and research and development department. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and bonuses	2,382	4,033	5,354
Social security costs and housing fund	220	177	196
	2,602	4,210	5,550

22 FINANCE INCOME

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Finance income:			
— Interest income on short-term bank deposits	90	66	97

23 INCOME TAX EXPENSE

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Current income tax	12,266	13,372	16,055
Deferred income tax *(Note 18)*	(1,028)	(578)	(414)
	11,238	12,794	15,641

The Target Company was qualified as "High and New Technology Enterprises" under the corporate income tax ("CIT") Law in the PRC. Therefore, it was entitled to a preferential income tax rate of 15% on its estimated assessable profits during the Relevant Periods. It will continue to enjoy the preferential tax rate in the subsequent periods, provided that it continues to be qualified as "High and New Technology Enterprises".

The tax on the Target Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the entities as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	76,842	87,571	107,229
Tax calculated at a tax rate 15%	11,526	13,136	16,084
Tax effects of:			
— Additional deductible allowance for research and development expenses (a)	(352)	(408)	(584)
— Expenses not deductible for tax purpose	64	66	141
Income tax expense	11,238	12,794	15,641

(a) Pursuant to the CIT Law, an additional tax deduction is allowed based on the actual research and development expense charged to the consolidated income statements calculated at 50% of such expenses incurred if approved by tax authorities.

24 DIVIDENDS

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Dividends declared	—	172,000	35,000

Distribution was made to the shareholders with reference to the retained earnings as stated in the statutory audited accounts issued by a certified public accountant registered in the PRC.

Dividends amounting to RMB172,000,000 was declared in 2012. Amount of RMB120,000,000 and RMB52,000,000 was paid during the year ended 31 December 2012 and 31 December 2013, respectively. Dividends amounting to RMB35,000,000 was declared and paid during the year ended 31 December 2013.

25 CASH GENERATED FROM OPERATIONS

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	76,842	87,571	107,229
Adjustments for:			
Depreciation of property, plant and equipment *(Note 7)*	3,563	3,477	3,098
Amortisation of land use rights *(Note 6)*	29	29	29
Finance income *(Note 22)*	(90)	(66)	(97)
Realised gain on available-for-sale financial assets *(Note 19)*	(1,591)	(3,418)	(1,203)
Losses on disposal of property, plant and equipment *(Note 19)*	—	—	8
Provision for impairment of other receivables	—	56	—
Provision/(reversal) for impairment of inventories *(Note 12)*	135	3	(21)
	78,888	87,652	109,043
Change in working capital:			
— Inventories	57	(964)	(239)
— Trade and other receivables	374	(360)	269
— Trade and other payables	6,957	711	4,477
Cash generated from operations	86,276	87,039	113,550

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Net book amount *(Note 7)*	—	—	11
Losses on disposal of property, plant and equipment *(Note 19)*	—	—	(8)
Proceeds from disposal	—	—	3

26 COMMITMENTS AND CONTINGENCY

Operating commitment

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

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
No later than 1 year	207	310	216
Later than 1 year and no later than 5 years	—	187	—
	207	497	216

Contingency

There was no material contingency liability as at 31 December 2011, 2012 and 2013.

27 SIGNIFICANT 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 Target Company are of the view that the following was related party that had transactions or balances with the Target Group during the Relevant Period:

Name of related parties	Relationship with the Target Group	Period covered
Mr. Yu Haiying*	A family member of Ms. YU Lidan, the controlling shareholder of the Target Company	Started from 1 January 2011

* *Mr. Yu Haiying, who was the founder of the Target Company, passed away before the Relevant Period.*

Save as disclosed in Note 21, the following significant transactions were carried out between the Target Group and its related parties for the years ended 31 December 2011, 2012 and 2013. In the opinion of the directors of the Target Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Target Group and the respective related parties.

(a) Use of patents

During the Relevant Periods, the Target Company was granted with free access to fifteen patents. Among the fifteen patents, two of them were jointly owned by Mr. Yu Haiying and another independent individual while the remaining thirteen patents were wholly owned by Mr. Yu Haiying.

28 SUBSEQUENT EVENTS

On May 20, 2014, the Target Company entered into an equity transfer agreement ("Equity Transfer Agreement") with Health Forward Holdings Limited ("Health Forward") and Beijing Fert Technology Co., Ltd. ("Fert Technology"), both being the wholly-owned subsidiaries of the Company. Pursuant to the Equity Transfer Agreement, it has been conditionally agreed that Health Forward and Fert Technology will acquire the entire equity interest in the Target Company at a cash consideration of RMB802,632,000.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or its subsidiary in respect of any period subsequent to 31 December 2013 up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Target Company or its subsidiary in respect of any period subsequent to 31 December 2013.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information") which has been prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2013 as set out in the Company's published annual report for the year ended 31 December 2013, after making pro forma adjustments as set out in the notes below.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if it had taken place on 31 December 2013. It has been prepared on the basis of the notes set out below and is consistent with the accounting policies adopted by the Group.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as 31 December 2013 or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical information of the Group as set out in the published annual report of the Company for the year ended 31 December 2013 and other financial information included elsewhere in this circular.

(a) Unaudited pro forma statement of assets and liabilities of the Enlarged Group

		Pro forma adjustment		
	Audited consolidated statement of assets and liabilities of the Group as at 31 December 2013	Audited consolidated statement of assets and liabilities of the Target Group as at 31 December 2013	Other pro forma adjustments	Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	
ASSETS AND LIABILITIES				
Non-current assets				
Land use rights	51,759	1,174	12,485	65,418
Property, plant and equipment	201,121	23,068	4,410	228,599
Goodwill	249,727	—	419,522	669,249
Intangible assets	55,536	—	334,754	390,290
Deferred income tax assets	8,385	2,628		11,013
Long-term prepayments	43,672	—		43,672
	610,200	26,870		1,408,241
Current assets				
Inventories	95,052	10,514		105,566
Trade and other receivables	241,268	847		242,115
Available-for-sale financial assets	—	65,674		65,674
Restricted cash	37,000	—		37,000
Cash and cash equivalents	1,145,641	5,110	(802,632)	348,119
	1,518,961	82,145		798,474
Current liabilities				
Amounts due to related parties	66	—		66
Trade and other payables	114,513	19,569		134,082
Current income tax liabilities	4,566	5,238		9,804
Borrowings	93,000	—		93,000
	212,145	24,807		236,952
Non-current liabilities				
Deferred income tax liabilities	16,079	—	52,747	68,826
Borrowings	—	—		—
Deferred income	2,241	—		2,241
	18,320	—		71,067
Net current assets	1,306,816	57,338		561,522
Total assets less current liabilities	1,917,016	84,208		1,969,763
Net assets	1,898,696	84,208		1,898,696

(b) Notes to unaudited pro forma statement of assets and liabilities of the Enlarged Group

1. The balances are extracted from the audited consolidated balance sheet of the Group as at 31 December 2013 as set out in the Group's published annual results for the year ended 31 December 2013.

2. The balances are extracted from the audited consolidated balance sheet of the Target Group as at 31 December 2013 as set out in Appendix II to this circular.

3. Pursuant to the Equity Transfer Agreement, the aggregate consideration for the proposed acquisition is RMB806,250,000 which is assumed to be financed by internal fund of the Company.

   Upon the completion of the proposed acquisition, the net identifiable assets of the Target Group will be accounted for in the unaudited pro forma statement of assets and liabilities of the Enlarged Group at their fair values under the acquisition method in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" ("HKFRS 3 (Revised)").

   For the purpose of the Unaudited Pro Forma Financial Information and for illustrative purpose only, the Group has carried out an illustrative consideration allocation exercise following the guidance of HKFRS 3 (Revised). The identifiable assets and liabilities of the net identifiable assets are recorded in the unaudited pro forma statement of assets and liabilities of Enlarged Group at their fair values estimated by the directors of the Company with reference to the valuation performed by Jones Lang LaSalle, an independent professional qualified valuer, as at 31 December 2013 for the purpose of purchase price allocation. Income approach has been adopted by Jones Lang LaSalle in performing the valuation of the Target Group's intangible assets (i.e. Trademark and Technology).

   In this exercise, the fair value of the Trademark was developed through the application of the income approach technique known as the relief from royalty method. Using this technique, The royalty income contributed by the Trademark was first estimated. These nominal income streams directly or indirectly derived from such intangible asset are then capitalized at a rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the Trademark.

   The income approach technique adopted is known as multi-period excess earnings method ("MPEEM") to value the Technology. It is a derivative of the discounted cash flow method. Using this technique, the revenues attributed to the Technology are projected. Based on the projected revenues, the costs associated with supporting the business are subtracted. The net income projection is then adjusted by economic capital charges. The capital charges include returns on the assets that are used or used up in the generation of the income projection. Such assets are called contributory assets. Examples of contributory assets include fixed asset, net working capital and assembled workforce.

The principal assumptions used in the valuation are set out as below,

- Gross margin 86% to 90%
- EBITDA margin 51% to 59%
- Net profit margin 41% to 48%
- Terminal growth rate for free cash flow 4%, which is referred to China's long term average CPI growth rate
- Royalty rate 2%, which is referred to the average of comparable royalty transaction record acquired from the database: www.royaltysource.com
- Nominal annual royalty income for trademark RMB2,916,000 to RMB5,619,000
- Nominal annual capital charge for contributory asset RMB13,216,000 to RMB27,224,000
- Nominal annual cash flow attributed to technology RMB69,847,000 to RMB111,275,000
- Discount rate 17.2% to 18.2% which are calculated using Weighted Average Cost of Capital ("WACC"). WACC is the weighted average of the estimated rate of return required by equity and debt holders for an investment of this type.

For the purpose of the valuation by Jones Lang LaSalle, income approach is considered the most appropriate valuation method among the three ordinary valuation methods, namely, the income approach, the market approach and the cost approach. The income approach is commonly used for valuation of intangible assets, it takes into consideration the numerous empirical and theoretical justifications for the present value of expected future cash flows that allows the prospective valuation of future profits from the intangible asset. The market approach, on the contrary, requires market transactions of comparable assets as an indication of the value but no such comparable market transaction can be identified. Moreover, cost approach is not adopted as such approach does not directly account for the economic benefits contributed by the intangible assets.

The recognition of the goodwill of approximately RMB419,522,000 which represents the excess of the consideration for the Acquisitions over the fair value of the identifiable assets and liabilities of the Target Group is set out below. The goodwill is associated with a highly skilled workforce, established reputation of the Target Group and synergies derived from the Group and the Target Group.

Details of the net identifiable assets of the Target Group and the calculation of goodwill are as follows:

	Carrying amount	Fair value
	RMB'000	*RMB'000*
Land use rights	1,174	13,659
Property, plant and equipment	23,068	27,478
Intangible assets *(Note a)*	—	334,754
Deferred income tax assets	2,628	2,628
Inventories	10,514	10,514
Trade and other receivables	847	847
Available-for-sale financial assets	65,674	65,674
Cash and cash equivalents	5,110	5,110
Trade and other payables	(19,569)	(19,569)
Current income tax liabilities	(5,238)	(5,238)
Deferred income tax liabilities *(Note b)*	—	(52,747)
Net identifiable assets	84,208	383,110

	RMB'000
Aggregate consideration	802,632
Less: Fair value of net identifiable assets	(383,110)
Pro forma adjustments on goodwill	419,522

Note a: Intangible assets represent a trademark of approximately RMB22,785,000, a technology of approximately RMB311,969,000. Both the trademark and technology will be amortised on a straight line basis over fifteen years.

The recognition of trademark and technology as part of the proposed acquisition arose mainly from an upward valuation of brand name "天新福" and a patent technology applied in the biotech product against the competitors, which are expected to bring extra economic benefit to the Target Group.

The fair value of the trademark was developed through the application of the income approach technique which has taken into account of the estimated royalty income contributed by the trademark.

The fair value of the technology was developed through the application of the income approach technique and has considered the estimated future direct economic benefits and costs attributed to technology.

Note b: Deferred tax liability arose from the difference between the tax base and fair value of land use rights, property, plant and equipment and intangible assets. Tax rate of 15% was used to calculate deferred tax liability as it is the tax rate expected to apply in the period when the liability is settled.

Since the fair values of the net identifiable assets of the Target Group as at the Completion Date may be substantially different from the fair values used in the preparation of the Unaudited Pro Forma Financial Information, the final amount of the goodwill may be different from the amounts presented above.

The Directors confirm that consistent policies and assumptions have been applied for the purpose of assessing impairment of goodwill and other intangible assets under Hong Kong Accounting Standard 36 "Impairment of Assets", and the Directors are not aware of any indications that an impairment of the Enlarged Group's goodwill and other intangible assets is required after considering the nature, prospects, financial condition and business risks of the Enlarged Group.

Upon the completion of the proposed acquisition and at the end of the each reporting period, the Group will perform a review for impairment on the Enlarged Group's goodwill annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the Group's accounting policies and principal assumptions.

4. No other adjustments have been made to reflect any trading result or other transactions of the Group and the Target Group entered into subsequent to 31 December 2013. Unless otherwise stated, the adjustments above do not have a recurring effect.

B. LETTER FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A CIRCULAR

TO THE DIRECTORS OF PW MEDTECH GROUP LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of PW Medtech Group Limited (the "Company") and its subsidiaries (collectively the "Group"), and Beijing Tianxinfu Medical Appliance Co., Ltd. and its subsidiaries (the "Target Group") (collectively the "Enlarged Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2013 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-6 of the Company's circular dated 30 June 2014, in connection with the proposed acquisition of the Target Group (the "Transaction") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-6.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's financial position as at 31 December 2013 as if the Transaction had taken place at 31 December 2013. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the year ended 31 December 2013, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 June 2014

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of our Directors and the Chief Executive of Our Company

To the best knowledge of the Directors, as at the Latest Practicable Date, 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 are 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 or short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, are as follows:

Long Position in Shares and Underlying Shares of the Company

Name of Director	Capacity/Nature of Interest	Number of Shares	Number of Underlying Shares *(Note)*	Total Interests	Approximate % of the Company's Issued Share Capital
Mr. JIANG Liwei	Beneficial Owner	1,592,357	4,777,070	6,369,427	0.38%
Mr. LIN Junshan	Beneficial Owner	1,954,714	9,554,140	11,508,854	0.69%
Mr. CHEN Geng	Beneficial Owner	318,472	955,413	1,273,885	0.08%
Mr. WANG Xiaogang	Beneficial Owner	—	1,273,885	1,273,885	0.08%

Note: These underlying Shares are share options granted by the Company pursuant to the Company's Pre-IPO Share Option Scheme.

(b) Interests of the Substantial Shareholders

To the best knowledge of the Directors, as at the Latest Practicable Date, the following corporations/persons (other than a Director or chief executive of the Company) had interests in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	**Nature of interest and capacity**	**Number of Shares held**	**Approximate % of the Company's issued share capital**
Cross Mark Limited	Beneficial owner	547,061,863	32.63%
Ms. Yufeng LIU (1)	Interest of a controlled corporation	547,061,863	32.63%
Mr. ZHANG Zaixian (2)	Interest of spouse	547,061,863	32.63%
WP X Asia Medical Devices Holdings Limited	Beneficial owner	327,148,418	19.51%
Warburg Pincus Private Equity X, L.P. (3)	Interest of a controlled corporation	327,148,418	19.51%
Warburg Pincus X, L.P. (3)	Interest of controlled corporations	327,148,418	19.51%
Warburg Pincus X, LLC (3)	Interest of controlled corporations	327,148,418	19.51%
Warburg Pincus Partners LLC (3)	Interest of controlled corporations	327,148,418	19.51%
Warburg Pincus & Co. (3)	Interest of controlled corporations	327,148,418	19.51%
Right Faith Holdings Limited	Beneficial owner	232,256,544	13.85%
Mr. Marc CHAN (4)	Interest of controlled corporations	249,242,544	14.87%
Sparkle Wealthy Limited	Beneficial owner	93,533,175	5.58%
Mr. LI Ngai (5)	Interest of a controlled corporation	93,533,175	5.58%
Ms. CHAN Hiu Kwan (6)	Interest of spouse	93,533,175	5.58%
FMR LLC (7)	Investment Manager	100,932,000	6.02%

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. Ms. Yue'e ZHANG is the director of Cross Mark Limited.

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

(3) WP X Asia Medical Devices Holdings Limited ("**WP X**") is a subsidiary of Warburg Pincus Private Equity X, L.P. which is in turn a wholly owned subsidiary of Warburg Pincus X, L.P. Warburg Pincus X, L.P. is wholly owned by Warburg Pincus X, LLC which is in turn wholly owned by Warburg Pincus Partners LLC, a wholly-owned subsidiary of Warburg Pincus & Co. Under the SFO, the said five entities are deemed to be interested in the Shares held by WP X.

(4) 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 16,986,000 Shares as at the Latest Practicable Date, 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.

(5) The entire issued share capital of Sparkle Wealthy Limited is legally and beneficially owned by Mr. LI Ngai. Under the SFO, Mr. LI Ngai is deemed to be interested in the same number of Shares in which Sparkle Wealthy Limited is interested.

(6) Ms. CHAN Hiu Kwan is the spouse of Mr. LI Ngai. Under the SFO, Ms. CHAN Hiu Kwan is deemed to be interested in the same number of Shares in which Mr. LI Ngai is interested.

(7) Fidelity Management & Research (H.K.) Inc., Fidelity Management & Research Company Inc. and Fidelity Selectco, LLC are interested in 2,127,000 Shares, 85,523,000 Shares and 13,282,000 Shares respectively as at the Latest Practicable Date. The above three entities are controlled by FMR LLC. Under the SFO, FMR LLC is deemed to be interested in the same number of Shares in which the three entities are interested.

(c) Interests of the Substantial Shareholders of any Member of the Group (other than the Company)

Save as set out above, the Directors are not aware of any person (not being a Director or chief executive of our Company) who, as at the Latest Practicable Date, is interested, directly or indirectly, in 10% or more of the nominal amount of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than the Company) or any options in respect of such capital.

At the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since December 31, 2013 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

At the Latest Practicable Date, save as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement, which was subsisting and was significant in relation to the business of the Group.

At the Latest Practicable Date, none of the Directors of the Company or their respective associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group.

3. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance that is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

4. EXPERTS AND CONSENTS

The following is the qualification of experts who have provided advice referred to or contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants

PricewaterhouseCoopers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name in the form and context in which they respectively appear.

5. EXPERTS' INTEREST

As at the Latest Practicable Date, PricewaterhouseCoopers:

(a) did not have any shareholding interest in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Enlarged Group; and

(b) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since December 31, 2013 (being the date to which the latest published audited financial statements of the Company were made up).

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, with any member of the Group, a service agreement which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contract entered into in the ordinary course of business) within the two years preceding the date of this circular. All the defined terms in this section shall have the same meaning as in the Prospectus.

(a) a share transfer agreement dated July 10, 2012 entered into between Beijing Bright Westward Investment Consultancy Co., Ltd., or Beijing Westward, and Mr. RAN Nianmo, pursuant to which Beijing Westward agreed to transfer its 10% equity interest in Fert Device to Mr. RAN Nianmo for a consideration of RMB0.1 million;

(b) a capital contribution agreement dated August 28, 2012 entered among Health Forward, Walkman Biomaterial, PWM Investment and Yingshang Technological, pursuant to which PWM Investment agreed to inject in a foreign currency equivalent to RMB105 million into Walkman Biomaterial and increase its shareholding therein to 53.38%;

(c) a subscription agreement dated September 12, 2012 entered into between Sparkle Wealthy and PWM Investment, pursuant to which Sparkle Wealthy agreed to subscribe for 309 shares in PWM Investment for a consideration of US$956,235;

(d) a share subscription agreement dated September 20, 2012 entered into between Sparkle Wealthy and PWM Investment, pursuant to which Sparkle Wealthy agreed to subscribe for 116 shares in PWM Investment for a consideration of US$516,468;

(e) a share subscription agreement dated September 20, 2012 entered into between WP X and PWM Investment, pursuant to which WP X agreed to subscribe for 1,755 shares in PWM Investment for a consideration of US$7,805,519;

(f) a share transfer agreement dated October 24, 2012 entered into between Xiehong Investment, PWM Investment and Walkman Biomaterial, pursuant to which Xiehong Investment agreed to transfer its 30.7692% and 15.3846% equity interest in Bone Medical to PWM Investment and Walkman Biomaterial for RMB40 million and RMB20 million, respectively;

(g) a share subscription agreement dated December 17, 2012 entered into between Cross Mark and PWM Investment, pursuant to which Cross Mark agreed to subscribe for 2,003 shares in PWM Investment for US$8,230,389;

(h) a share purchase agreement dated February 26, 2013 entered into among Pyholding Limited, Cross Mark, Health Access, Beijing Westward, Fert Technology, Ms. Yue'e ZHANG and WP X, pursuant to which Cross Mark agreed to transfer its 15,890,041 shares in Pyholding Limited to WP X in settlement of a loan in the principal amount of US$46,274,873 borrowed by Ms. Yue'e ZHANG and subsequently assigned to Cross Mark;

(i) a capital contribution agreement dated March 1, 2013 entered among Health Forward, Walkman Biomaterial, PWM Investment and Yingshang Technological, pursuant to which the parties agreed to increase the registered capital of Walkman Biomaterial to RMB100 million by converting RMB74,257,625 from its capital reserves;

(j) a share transfer agreement dated March 27, 2013 entered into between Ms. WAN Li and Tianqiong Investment, pursuant to which Ms. WAN Li agreed to transfer her 80% equity interest in Yingshang Technological to Tianqiong Investment;

(k) a share transfer agreement dated March 27, 2013 entered into between Mr. BI Hongwei and Tianqiong Investment, pursuant to which Mr. BI Hongwei agreed to transfer his 20% equity interest in Yingshang Technological to Tianqiong Investment;

(l) a capital contribution agreement dated March 28, 2013 entered into among Health Access, PW Medtech (Beijing) and Fert Technology, pursuant to which Health Access agreed to inject in U.S. dollars equivalent to RMB50 million into Fert Technology and increase its shareholding therein to 86.515%;

(m) a share transfer agreement dated April 18, 2013 entered into among PWM Investment, Ms. WAN Li and Mr. BI Hongwei, pursuant to which PWM Investment agreed to acquire the entire equity interest in Tianqiong Investment from Ms. WAN Li and Mr. BI Hongwei for a total consideration of RMB120 million;

(n) a share transfer agreement dated April 28, 2013 entered into among Fert Technology, Mr. LU Jingli, Ms. LIU Xingling and Mr. LU Jingquan, pursuant to which Fert Technology agreed to acquire the entire equity interest in Yijia Medical from them for a consideration of RMB20 million;

(o) a share subscription agreement dated May 8, 2013 entered into among Pyholding Limited, Cross Mark, WP X and Sparkle Wealthy, pursuant to which Pyholding Limited agreed to acquire the entire equity interest in PWM Investment from each of Cross Mark, WP X and Sparkle Wealthy in exchange for 21,658,670 shares in Pyholding Limited;

(p) a share transfer agreement dated May 9, 2013 entered into between Xiehong Investment, Mr. WU Dong and PWM Investment, pursuant to which Xiehong Investment and Mr. WU Dong agreed to transfer their respective 39.2571% and 0.7429% equity interests in Bone Medical to PWM Investment for RMB57,354,623 and RMB1,085,377, respectively;

(q) a share subscription agreement dated May 24, 2013 entered into among Pyholding Limited, Right Faith and Sparkle Wealthy, pursuant to which Right Faith and Sparkle Wealthy agreed to subscribe for 5,929,204 shares and 3,126,308 shares in Pyholding Limited for US$17,794,170 and US$9,382,381, respectively;

(r) a share transfer agreement dated August 20, 2013 entered into between Walkman Biomaterial and Mr. YANG Fan, pursuant to which Walkman Biomaterial agreed to transfer its 35% equity interest in Renli Orthopedic to Mr. YANG Fan for a consideration of RMB10.82 million;

(s) a share transfer agreement dated August 20, 2013 entered into between Walkman Biomaterial and Mr. YANG Fan, pursuant to which Walkman Biomaterial agreed to transfer its entire equity interest in Yinger Biotechnology to Mr. YANG Fan for a consideration of RMB8.58 million;

(t) the Hong Kong Underwriting Agreement; and

(u) the International Underwriting Agreement.

8. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since December 31, 2013 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

9. GENERAL

(a) The registered office of the Company is at The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The principal share registrar and transfer office of the Company is Appleby Trust (Cayman) Ltd, Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

(d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The company secretary of the Company is Mr. William FU (ACS, ACIS).

(f) This circular is in both English and Chinese. In the event of inconsistency, the English text shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at Chen & Associates (in association with Wilson Sonsini Goodrich & Rosati, P.C.) at Room 1001, Henley Building, 5 Queen's Road Central, Central, Hong Kong for 14 days from the date of this circular:

(a) Equity Transfer Agreement;

(b) the memorandum and articles of association of the Company;

(c) each of the material contracts referred to in the section headed "7. Material Contracts" in this appendix;

(d) the annual report of the Company for the year ended December 31, 2013;

(e) the written consents referred to in paragraph headed "4. Experts and Consents" of this appendix;

(f) the Accountant's Report, the text of which is set out in Appendix II to this circular;

(g) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(h) the Prospectus; and

(i) this circular.

PW MEDTECH GROUP LIMITED
普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1358)

NOTICE OF AN EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of PW Medtech Group Limited (the "**Company**") will be held at 8:30 a.m. on July 16, 2014 (Wednesday) at 1002–1003, Block C, Focus Square, No. 6 Futong East Avenue, Wangjing, Chaoyang District, Beijing, PRC for the purposes of considering and, if thought fit, passing the following resolution. Unless otherwise indicated, capitalized terms used herein shall have the same meaning as those defined in the circular of the Company dated June 30, 2014 (the "**Circular**"):

AS ORDINARY RESOLUTION

"**THAT** the Equity Transfer Agreement be and is hereby approved and ratified and any one Director be and is hereby authorized to, on behalf of the Company, take all steps he/she considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Equity Transfer Agreement."

By order of the Board
PW Medtech Group Limited
LIN Junshan
Chairman of the Board

Hong Kong, June 30, 2014

As at the date of this notice, 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.

Notes:

1. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and vote instead of him/her/it. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's Branch Share Registrar in Hong Kong (i.e. Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong) as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the EGM and, in such event, the form of proxy shall be deemed to be revoked.

3. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting where the meeting was originally held within 12 months from such date.

4. Where there are joint registered holders of any shares, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.