

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission take no responsibility for the contents of this Web Proof Information Pack, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Web Proof Information Pack.

Web Proof Information Pack of

PW MEDTECH GROUP LIMITED

普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

WARNING

This Web Proof Information Pack is being published as required by The Stock Exchange of Hong Kong Limited (“**HKEx**”)/the Securities and Futures Commission solely for the purpose of providing information to the public in Hong Kong.

This Web Proof Information Pack is in draft form. The information contained in it is incomplete and is subject to change which can be material. This Web Proof Information Pack may not be updated until a document registered with the Registrar of Companies in Hong Kong is issued by PW Medtech Group Limited (the “**Company**”) which will be posted on this website. By viewing this document, you acknowledge, accept and agree with the Company, its sponsor and advisers, and the member of the underwriting syndicate that:

- (a) this Web Proof Information Pack is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and not for any other purposes. No investment decision should be based on the information contained in this Web Proof Information Pack;
- (b) the posting of the Web Proof Information Pack or supplemental, revised or replacement pages on the HKEx Website does not give rise to any obligation of the Company, any of its sponsor, advisers and/or members of the underwriting syndicate to proceed with an offering in Hong Kong or any other jurisdiction. There is no assurance that the Company will proceed with any offering;
- (c) the contents of the Web Proof Information Pack or supplemental, revised or replacement pages may or may not be replicated in full or in part in the actual prospectus;
- (d) the Web Proof Information Pack is in draft form and may be updated or revised by the Company from time to time but each of the Company, its affiliates, sponsor, advisers and members of the underwriting syndicate is under no obligation, legal or otherwise, to update any information contained in this Web Proof Information Pack;
- (e) this Web Proof Information Pack does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an offer or invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite or solicit offers by the public to subscribe for or purchase any securities;
- (f) this Web Proof Information Pack must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended;
- (g) neither the Company nor any of its affiliates, advisers, sponsor or members of the underwriting syndicate is offering, or is soliciting offers to buy, any securities in any jurisdiction through the publication of this Web Proof Information Pack;
- (h) neither the Company nor any of its affiliates, advisers, sponsors or members of the underwriting syndicate makes any express or implied representation or warranty as to the accuracy or completeness of the information contained in this Web Proof Information Pack;
- (i) each of the Company and any of its affiliates, advisers, sponsors or members of the underwriting syndicate expressly disclaims any and all liability on the basis of any information contained in, or omitted from, or any inaccuracies or errors in, this Web Proof Information Pack;
- (j) the Company has not registered and will not register the securities referred to in this Web Proof Information Pack under the United States Securities Act of 1933, as amended (the “**Securities Act**”), or any state securities laws of the United States, and the securities may not be offered or sold in the United States absent registration under the Securities Act or another exemption therefrom or in a transaction not subject to, the registration requirements of the Securities Act. The securities referred to in this Web Proof Information Pack have not been and will not be registered under the Securities Act or any state securities laws of the United States. The Company does not intend to register the securities under the Securities Act or any state securities laws of the United States or conduct a public offering in the United States. This Web Proof Information Pack is not for publication or distribution to persons in the United States. This Web Proof Information Pack is not an offer of securities for sale in the United States. You confirm that you are accessing this Web Proof Information Pack from outside of the United States; and
- (k) as there may be legal restrictions on the distribution of this Web Proof Information Pack or dissemination of any information contained in this Web Proof Information Pack, you agree to inform yourself about and observe any such restrictions applicable to you.

THIS WEB PROOF INFORMATION PACK IS NOT FOR PUBLICATION OR DISTRIBUTION TO PERSONS IN THE UNITED STATES. ANY SECURITIES REFERRED TO HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND MAY NOT BE OFFERED OR SOLD WITHOUT REGISTRATION THEREUNDER OR PURSUANT TO AN AVAILABLE EXEMPTION THEREFROM. NO PUBLIC OFFERING OF THE SECURITIES WILL BE MADE IN THE UNITED STATES.

NEITHER THIS WEB PROOF INFORMATION PACK NOR THE INFORMATION CONTAINED HEREIN CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN THE UNITED STATES. THIS WEB PROOF INFORMATION PACK IS NOT BEING MADE AND MAY NOT BE DISTRIBUTED OR SENT TO CANADA OR JAPAN.

No offer or invitation will be made to the public in Hong Kong until after a document of the Company is registered with the Registrar of Companies in Hong Kong in accordance with the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decisions solely based on a document of the Company registered with the Registrar of Companies in Hong Kong, and distributed to the public during the offer period.

CONTENTS

This Web Proof Information Pack contains the following information relating to the Company extracted from the draft document:

- **Summary**
- **Definitions**
- **Forward-looking Statements**
- **Risk Factors**
- **Directors**
- **Corporate Information**
- **Regulation**
- **Industry Overview**
- **History and Corporate Development**
- **Business**
- **Relationship with Controlling Shareholders**
- **Directors and Senior Management**
- **Share Capital**
- **Substantial Shareholders**
- **Financial Information**
- **Future Plans**
- **Appendix I — Accountant’s Report**
- **Appendix III — Summary of the Constitution of Our Company
and Cayman Islands Company Law**
- **Appendix IV — Statutory and General Information**

YOU SHOULD READ THE SECTION “WARNING” ON THE COVER OF THIS WEB PROOF INFORMATION PACK.

SUMMARY

OUR COMPANY

Introduction

PW Medtech is a medical device company focused on fast-growing and high-margin segments of China’s medical device industry. We are a leader in our current business segments of orthopedic implants and advanced infusion sets. We intend to further grow and consolidate our market position in the orthopedic implant and advanced infusion set markets, and potentially expand into other attractive sectors of China’s medical device industry.

In the orthopedic implant segment, as of the Latest Practicable Date, we were one of only two major domestic companies with a full product portfolio, including trauma, spine, as well as hip and knee implants. We have the third largest market share among domestic orthopedic implant companies in China (excluding Kanghui and Trauson⁽¹⁾) in terms of sales revenue for the 12 months ended June 30, 2013. In the advanced infusion set segment, we are a pioneer in developing advanced infusion sets in China, which is the largest infusion set market in the world. We have the second largest market share in terms of 2012 sales volume as well as 2012 revenue among advanced infusion set manufacturers in China. Advanced infusion sets consist primarily of precision filter infusion sets, light resistant infusion sets and non-PVC-based infusion sets, which have additional functional or safety features compared with conventional infusion sets. For more information, see “Industry Overview — Overview of the Infusion Set Industry in China — Introduction of Intravenous Therapy — Types of Infusion Sets.”

China’s orthopedic implant market reached RMB9.54 billion in 2012, and is expected to grow at a CAGR of 18.1% in the next five years. The average gross margin of major domestic orthopedic implant manufacturers was estimated at 69% in 2012. The advanced infusion set market reached 451 million units in 2012, comprising 5.7% of the overall infusion set market, and is expected to grow at a CAGR of 24.5% in the next five years and reach 11.0% of the overall infusion set market in 2017. The average gross margin of major domestic manufacturers of advanced infusion sets was estimated at 64% in 2012.

⁽¹⁾ Kanghui and Trauson were acquired by MNCs in 2012 and 2013, respectively.

SUMMARY

Business Segments and Product Portfolio

The following table sets forth the components of our revenue by business segment for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB'000 except percentages)									
	(unaudited)									
Orthopedic implants.	60,816	100.0%	75,379	43.0%	97,567	29.4%	45,568	31.3%	71,693	32.8%
Infusion sets.	—	—	99,888	57.0	233,974	70.6	100,205	68.7	147,057	67.2
Total.	60,816	100.0%	175,267	100.0%	331,541	100.0%	145,773	100%	218,750	100%

Orthopedic Implant Products

Our trauma and spine products are sold under the “Walkman” brand and our joint products under the “Bone (博恩)” brand. In the fast growing segment of hip and knee implants, the major areas of joint implants, we had the second largest number of registration certificates among major domestic companies as of the Latest Practicable Date, with five for hip implants and one for knee implants. The breadth and depth of our product portfolio in orthopedic implants enhance our ability to provide total solutions to hospitals to meet the needs of a broad range of patients. Since 2010, we have commercially launched 25 orthopedic implant products, including our bridge-link combined fixation system, which provides superior fixation stability and can be used in a significantly wider range of bone fractures than many competing products currently available on the market.

The following table sets forth the components of our revenue from orthopedic implant products by product category for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB'000 except percentages)									
	(unaudited)									
Trauma products	44,487	73.2%	56,261	74.6%	70,178	71.9%	31,886	70.0%	51,027	71.2%
Spine products	13,229	21.8	15,374	20.4	20,867	21.4	11,100	24.4	11,475	16.0
Joint products	—	—	—	—	—	—	—	—	5,789	8.1
Others ⁽¹⁾	<u>3,100</u>	<u>5.0</u>	<u>3,744</u>	<u>5.0</u>	<u>6,522</u>	<u>6.7</u>	<u>2,582</u>	<u>5.6</u>	<u>3,402</u>	<u>4.7</u>
Total	60,816	100.0%	75,379	100.0%	97,567	100.0%	45,568	100%	71,693	100%

(1) Primarily consisting of (i) associated instruments for trauma and spine products and (ii) joint products which were manufactured by Bone Medical and distributed by us in 2012. We acquired control in Bone Medical in January 2013.

We offer a wide selection of orthopedic implant products with various specifications and our selling prices for different products vary significantly.

SUMMARY

Infusion Sets

Our advanced infusion sets are sold under our “Fert (伏尔特)” brand through our subsidiary Fert Technology, and consist of two principal types: (i) precision filter infusion sets, which prevent insoluble particles in intravenous solutions from entering the blood vessels of patients; and (ii) non-PVC-based infusion sets with double-layer tubing, which eliminate the harmful effects of PVC additives and reduce drug absorption by the infusion set. Capitalizing on these fundamental technology building blocks, we have developed a full portfolio of products with a range of features and applications, such as light resistance and auto air venting.

We acquired Fert Technology on April 30, 2011, and the financial results of Fert Technology have been included in our combined financial information since that date. For purposes of presenting Fert Technology’s results of operation, we refer to the fiscal year ended December 31, 2010 as “Predecessor Period 2010,” the period from January 1, 2011 to April 30, 2011 as “Predecessor Period 2011,” and the period from May 1, 2011 to December 31, 2011 as “Successor Period 2011.” We present these data for information and illustrative purposes only. As we did not control the infusion set business for Predecessor Period 2010 and Predecessor Period 2011, we are not permitted under [●] to include its financial results in our combined financial statements for these periods.

The following table sets forth the components of Fert Technology’s revenue by product category for the period indicated. In Predecessor Period 2010, Predecessor Period 2011, Successor Period 2011, 2012 and the six months ended June 30, 2012 and 2013, Fert Technology’s net profit totaled RMB23.2 million, RMB16.5 million, RMB31.4 million, RMB69.0 million, RMB30.1 million and RMB43.1 million, respectively. The financial results of Fert Technology for Predecessor Period 2010 and Predecessor Period 2011 are derived from Fert Technology’s stand-alone pre-acquisition financial information while the financial results of Fert Technology for Successor Period 2011, 2012 and the six months ended June 30, 2012 and 2013 are derived from the segment financial information of our infusion set business. The combination of the results of the infusion set business with those of the infusion set business for these predecessor periods would not necessarily reflect our financial results had we acquired the infusion set business at any time during the predecessor periods.

	Pre-acquisition				Post-acquisition			
	For the year ended December 31, 2010 (Predecessor Period 2010)		For the period from January 1, 2011 to April 30, 2011 (Predecessor Period 2011)		For the period from May 1, 2011 to December 31, 2011 (Successor Period 2011)		For the year ended December 31, 2012	
	(RMB’000 except percentages)		(RMB’000 except percentages)		(RMB’000 except percentages)		(RMB’000 except percentages)	
Precision filter infusion sets . .	85,275	96.0%	34,801	95.4%	95,702	95.8%	221,059	94.5%
Non-PVC-based infusion sets .	—	—	—	—	—	—	2,915	1.2
Others ⁽¹⁾	3,534	4.0	1,675	4.6	4,186	4.2	10,000	4.3
Total	88,809	100.0%	36,476	100.0%	99,888	100.0%	233,974	100.0%

SUMMARY

	Post-acquisition			
	For the six months ended June 30,			
	2012		2013	
	(RMB'000 except percentages) (unaudited)			
Precision filter infusion sets	95,720	95.5%	137,528	93.5%
Non-PVC-based infusion sets	583	0.6	4,070	2.8
Others ⁽¹⁾	3,902	3.9	5,459	3.7
Total	100,205	100%	147,057	100%

(1) Primarily consisting of precision filters sold on a standalone basis.

The following table sets forth Fert Technology’s sales volume and average selling price of our precision filter infusion sets and non-PVC-based infusion sets by product category for the period indicated.

	Pre-acquisition				Post-acquisition							
	For the year ended December 31, 2010 (Predecessor Period 2010)		For the period from January 1, 2011 to April 30, 2011 (Predecessor Period 2011)		For the period from May 1, 2011 to December 31, 2011 (Successor Period 2011)				For the six months ended June 30,			
	(Units)	(RMB)	(Units)	(RMB)	(Units)	(RMB)	(Units)	(RMB)	2012		2013	
									(Units)	(RMB)	(Units)	(RMB)
									(unaudited)			
Precision filter infusion sets	33,991,676	2.5	9,602,718	3.6	23,552,260	4.1	45,791,861	4.8	22,139,004	4.3	24,772,796	5.6
Non-PVC-based infusion sets	—	—	—	—	—	—	444,952	6.6	120,796	4.8	598,270	6.8

Fert Technology is a pioneer in developing advanced infusion sets as one of the first manufacturers in China to receive CFDA approval to manufacture and market precision filter infusion sets in 1997. As of the Latest Practicable Date, we were one of the only three PRC manufacturers to receive CFDA approval for non-PVC-based infusion sets. We are committed to offering the highest quality infusion products to Chinese patients by using cutting-edge materials and technologies to enhance infusion safety. For instance, our precision filter infusion sets use filters made from nuclepore membranes, which have been shown to be significantly more effective in blocking insoluble particles than the leading alternative filtering materials on the market. For our non-PVC-based infusion sets, we have developed a patented double-layer tubing design, with TPU as the inner tubing and PVC as the outer tubing. TPU is the only type of TPE that has been tested and has met the U.S. FDA’s requirements for materials used as infusion tubing, unlike the types of TPE used by the other two CFDA-approved manufacturers. Furthermore, our double-layer tubing design enhances the cost advantage of our non-PVC-based infusion sets, which further strengthens our competitiveness.

SUMMARY

Sales and Distribution

We sell our products primarily through distributors across China, which in turn resell our products to hospitals in their designated territories. Sales to distributors accounted for a substantial majority of our sales during the Track Record Period. We have an extensive and fast-growing nationwide distribution network located across 30 provinces, municipalities and autonomous regions in China. Our distribution network for orthopedic implants primarily covers Class 2 hospitals in tiers II and III cities. In contrast, our distribution network for infusion sets primarily covers Class 3 hospitals in tiers I and II cities in China.

The following table sets forth the number of distributors and hospitals covered by our distribution network as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
<i>Orthopedic implants (trauma and spine)</i>				
Distributors	182	207	214	244
Hospitals	1,257	1,300	1,397	1,444
<i>Infusion sets</i>				
Distributors	33	28	182	211
Hospitals	602	765	995	1,113

In general, hospitals will only purchase products which have been approved and adopted through the tendering processes. As part of our service to our distributors, we prepare for and participate in the tendering processes conducted by hospitals and government bureaus rather than the distributors.

Production Facilities

We currently have a total of six production facilities, including three for orthopedic implant products in Tianjin, Anyang (Henan province) and Shenzhen (Guangdong province), and three for infusion sets in Fengtai (Beijing), Shijingshan (Beijing) and Xuzhou (Jiangsu province). As of June 30, 2013, we had an annual production capacity of 1,960,000 units of trauma implants, 230,000 units of spine implants, 8,000 sets of joint implants and 55 million infusion sets. In the six months ended June 30, 2013, the utilization rates of our trauma implant production facilities, spine implant production facilities, joint implant production facilities and infusion set production facilities were 79.6%, 74.0%, 44.4% and 81.5%, respectively. We believe that demand for our products will continue to increase.

From 2013 to 2017, according to the F&S Report, China’s markets for orthopedic implants and advanced infusion sets are expected to grow at a CAGR of 18.1% and 24.5%, respectively, supported by a number of favorable industry trends, such as an aging population, increasing import substitution for orthopedic implants and increasing health awareness about

SUMMARY

infusion safety. As a result, we plan to significantly increase our production capacities. We currently have two additional facilities under construction in Linyi, Shandong province and Pinggu, Beijing to expand our production capacity for infusion sets. We are also expanding production capacity for joint products at our facility in Shenzhen which is expected to be completed in 2016. In addition, we plan to expand our facilities in Tianjin beginning in the third quarter of 2014 to expand our production capacity for trauma and spine implant products. For details about our measures to manage our growth, see “Business — Production Facilities — Expansion Plans.”

Financial Track Record

Our business has expanded substantially as both of our orthopedic implant business and infusion set business grew during the Track Record Period. In 2010, 2011 and 2012, our revenue totaled RMB60.8 million, RMB175.3 million and RMB331.5 million, respectively, representing a CAGR of 133.5% over the three years. Our revenue increased by 50.1% from RMB145.8 million in the six months ended June 30, 2012 to RMB218.8 million in the same period in 2013. In 2010, 2011 and 2012, our net profit totaled RMB14.3 million, RMB49.3 million and RMB100.2 million, respectively, representing a CAGR of 164.4% over the three years. Our net profit increased by 35.2% from RMB44.6 million in the six months ended June 30, 2012 to RMB60.2 million in the same period in 2013.

Revenue of our orthopedic implant segment grew from RMB60.8 million in 2010 to RMB97.6 million in 2012, representing a CAGR of 26.7% over the three years. Revenue for this segment increased by 57.3% from RMB45.6 million in the six months ended June 30, 2012 to RMB71.7 million in the same period in 2013. Operating profit of our orthopedic implant segment increased from RMB19.4 million in 2010 to RMB37.6 million in 2012, representing a CAGR of 39.3% over the three years. Operating profit for this segment increased by 29.3% from RMB17.5 million in the six months ended June 30, 2012 to RMB22.6 million in the same period in 2013.

Fert Technology’s revenue increased from RMB88.8 million in 2010 to RMB234.0 million in 2012, representing a CAGR of 62.3% over the three years. Fert Technology’s revenue increased by 46.8% from RMB100.2 million in the six months ended June 30, 2012 to RMB147.1 million in the same period in 2013. Fert Technology’s operating profit increased from RMB27.3 million in 2010 to RMB90.9 million in 2012, representing a CAGR of 82.5% over the three years. Fert Technology’s operating profit increased by 48.0% from RMB38.2 million in the six months ended June 30, 2012 to RMB56.6 million in the same period in 2013.

STRENGTHS AND STRATEGY

We believe that the strengths of our Company that have helped us effectively compete in the industry include (i) leading positions in two fast-growing and high-margin segments of China’s medical device industry; (ii) our product portfolio which is well positioned to capture growth from market opportunities; (iii) our robust near-term product pipeline resulting from our

SUMMARY

strong research and development capabilities; (iv) our professional sales and marketing team managing an extensive nationwide distribution network; (v) proven capabilities of identifying acquisition opportunities and executing our growth strategy; together with (vi) our seasoned and dedicated management team.

We intend to grow and consolidate our market position in the orthopedic implant and advanced infusion set markets, and potentially expand into other attractive sectors of China’s medical device industry by (i) broadening and deepening our product portfolio; (ii) increasing production capacity and continuing to improve production efficiency; (iii) expanding our distribution network; and (iv) pursuing strategic acquisitions to complement our growth.

OUR CHALLENGES

We face a number of challenges in our business and industry. In particular, the infusion set market and orthopedic implant market in the PRC are highly competitive, and we face direct competition from both domestic companies and MNCs in China. In addition, executing our growth strategies could place considerable strain on our managerial, operational and financial resources. We also depend on distributors for a substantial portion of our revenue and our revenue growth, and we may be unable to maintain or renew relationships with our distributors, replace underperforming distributors, or add new distributors to expand our distribution network. Furthermore, if we are unable to successfully develop new products or expand our product line, our business, financial condition, results of operations and prospects may be materially and adversely affected.

For more details of the risks and uncertainties that we face, see the section headed “Risk Factors.”

RECENT DEVELOPMENTS

To the best of our knowledge, there was no material change in the general economic and market conditions in China or the industry in which we operate that materially and adversely affected our business, results of operations or financial condition since July 1, 2013. Based on our unaudited financial statements for the eight months ended August 31, 2013, our revenue and gross profit increased by 33.1% and 39.1%, respectively, to RMB292.1 million and RMB196.2 million, respectively, compared to the same period in 2012.

Our Directors confirm that, there had been no material adverse change in the financial or trading position, indebtedness or prospects of our Group since August 31, 2013 up to the Latest Practicable Date.

SUMMARY

CONTROLLING SHAREHOLDERS

Immediately following the completion of the [●] (but excluding any Shares which may be allotted and issued pursuant to the exercise of the [●] or any [●] which have been granted under the [●] Share Option Scheme or may be granted under the Share Option Scheme), Ms. Yufeng LIU and Cross Mark will hold approximately 34.19% of the [●] enlarged issued share capital of our Company and hence will continue to be the ultimate Controlling Shareholder of our Company. Our ultimate Controlling Shareholder confirms that she does not have any interest in any business which competes or is likely to compete, directly or indirectly, with our business and which would require disclosure under Rule 8.10 of the [●].

[●]

Pursuant to the resolutions of our shareholders passed on July 3, 2013 and October 14, 2013, we have conditionally adopted the [●] Share Option Scheme (which was amended on October 14, 2013) and the Share Option Scheme, respectively.

The principal terms of these share option schemes are set out in the sections headed “[●] Share Option Scheme” and “Share Option Scheme,” respectively, in Appendix IV to this document. As of the Latest Practicable Date, options to subscribe for an aggregate of 70,891,722 Shares had been conditionally granted under the [●] Share Option Scheme by our Company and remained outstanding. The exercise price in respect of each option granted under the [●] Share Option Scheme will be equal to 10 times the quotient of the net profit of our Company for the year ended December 31, 2012 divided by the number of Shares in issue immediately following the completion of the [●].

The options under the [●] Share Option Scheme vest in four equal tranches, with the first vesting day falling on the day immediately following the expiry of six months after the [●]. The second, third and last vesting days will fall on the first, second and third anniversaries, respectively, of the first vesting day. Further details of the conditions for vesting are set out in Appendix IV to this document.

The Shares subject to the options granted under the [●] Share Option Scheme represent (i) approximately 4.43% of our issued share capital immediately after completion of the [●] (excluding all Shares which may be allotted and issued upon the exercise of any options granted under the [●] Share Option Scheme or to be granted under the Share Option Scheme or the exercise of the [●]); and (ii) approximately 4.24% of our issued share capital immediately after completion of the [●] (assuming that all options granted under the [●] Share Option Scheme are exercised, but without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or the exercise of the [●]).

SUMMARY

The total number of Shares immediately following completion of the [●] (assuming the [●] and any options granted under the Share Option Scheme are not exercised) would be diluted by 4.24% upon the exercise in full of the options granted under the [●] Share Option Scheme.

Further, assuming that (i) 1,600,000,000 Shares were in issue as if the [●] has been completed on January 1, 2012 but takes no account of any Shares which may fall to be issued upon the exercised of the [●] or of any Shares which may be issued upon the exercise of any option which may be granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate; and (ii) all the options granted under the [●] Share Option Scheme in respect of 70,891,722 Shares were exercised in full on January 1, 2012, the pro forma earnings per Share for profit attributable to owners of our Company for the year ended December 31, 2012 would be approximately RMB0.0267.

In addition, we may issue additional Shares upon the exercise of options which may be granted under the Share Option Scheme. In such case, the percentage ownership of our existing shareholders may be reduced and they may experience dilution of their proportionate interests in our Company. There may also be a dilution in the earnings per Share and net asset value per Share as a result of the increase in the number of Shares after the issue of any additional Shares pursuant to the exercise of the aforesaid options.

For the eight months ended August 31, 2013, we had incurred expenses in connection with the [●] share options of RMB4.1 million.

Our Directors have undertaken to us that they will not exercise options granted under the [●] Share Option Scheme to such extent that the Shares held by the [●] (as defined in the [●]) after the [●] will fall below the required percentage set out in [●] or such other percentage as approved by the [●] from time to time.

SUMMARY

SUMMARY FINANCIAL INFORMATION

You should read the summary historical combined financial information set forth below in conjunction with our combined financial information included in the Accountant’s Report set forth in Appendix I to this [●], which is prepared in accordance with [●], together with the accompanying notes thereto. Operating results in any historical period may not be indicative of the results that may be expected in any future period.

Combined Income Statements

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	% of total Amount	revenue	% of total Amount	revenue	% of total Amount	revenue	% of total Amount	revenue	% of total Amount	revenue
(RMB’000 except percentages)										
(unaudited)										
Revenue	60,816	100.0%	175,267	100.0%	331,541	100.0%	145,773	100.0%	218,750	100.0%
Cost of sales	(16,629)	(27.3)	(66,150)	(37.7)	(112,694)	(34.0)	(54,521)	(37.4)	(71,360)	(32.6)
Gross profit	44,187	72.7	109,117	62.3	218,847	66.0	91,252	62.6	147,390	67.4
Selling expenses	(13,071)	(21.5)	(23,405)	(13.4)	(46,821)	(14.1)	(17,900)	(12.3)	(28,542)	(13.0)
Administrative expenses . .	(10,621)	(17.5)	(17,708)	(10.1)	(35,603)	(10.7)	(14,668)	(10.1)	(33,272)	(15.2)
Research and development expenses	(1,153)	(1.9)	(7,064)	(4.0)	(9,512)	(2.9)	(4,651)	(3.2)	(6,614)	(3.0)
Other gains — net	30	0.0	866	0.5	1,570	0.5	1,687	1.2	251	0.1
Operating profit	19,372	31.9	61,806	35.3	128,481	38.8	55,720	38.2	79,213	36.2
Finance income	38	0.1	201	0.1	329	0.1	71	0.1	247	0.1
Finance costs	(2,142)	(3.5)	(4,679)	(2.7)	(9,089)	(2.7)	(3,377)	(2.3)	(5,116)	(2.3)
Finance costs — net	(2,104)	(3.5)	(4,478)	(2.6)	(8,760)	(2.6)	(3,306)	(2.2)	(4,869)	(2.2)
Profit before income tax . .	17,268	28.4	57,328	32.7	119,721	36.1	52,414	36.0	74,344	34.0
Income tax expense	(2,936)	(4.8)	(7,982)	(4.6)	(19,538)	(5.9)	(7,845)	(5.4)	(14,104)	(6.4)
Profit for the year/period . .	14,332	23.6%	49,346	28.2%	100,183	30.2%	44,569	30.6%	60,240	27.5%

Our return on equity ratio, which is defined as profit attributable to owners of our Company for a given period divided by the average equity attributable to owners of our Company for such period, was 20.3%, 30.8%, 20.2% and 9.8% in 2010, 2011, 2012 and the six months ended June 30, 2013, respectively. See “— Key Financial Ratios” for more information.

SUMMARY

Summary Results of Operations of Orthopedic Implant Segment

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	% of		% of		% of		% of		% of	
	segment		segment		segment		segment		segment	
	<u>Amount</u>	<u>revenue</u>	<u>Amount</u>	<u>revenue</u>	<u>Amount</u>	<u>revenue</u>	<u>Amount</u>	<u>revenue</u>	<u>Amount</u>	<u>revenue</u>
(RMB'000 except percentages)										
(unaudited)										
Segment revenue	60,816	100.0%	75,379	100.0%	97,567	100.0%	45,568	100.0%	71,693	100.0%
Gross profit.	44,187	72.7	54,921	72.9	73,681	75.5	33,710	74.0	50,215	70.0
Segment operating profit . .	19,372	31.9%	22,521	29.9%	37,576	38.5%	17,476	38.4%	22,601	31.5%

The following table sets forth the gross profit and gross margin of orthopedic implants by product category for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Gross		Gross		Gross		Gross		Gross	
	profit		profit		profit		profit		profit	
	<u>profit</u>	<u>margin</u>	<u>profit</u>	<u>margin</u>	<u>profit</u>	<u>margin</u>	<u>profit</u>	<u>margin</u>	<u>profit</u>	<u>margin</u>
(RMB'000 except percentages)										
(unaudited)										
Trauma products.	33,792	76.0%	42,564	75.7%	54,994	78.4%	24,561	77.0%	37,547	73.6
Spine products.	9,746	73.7	11,427	74.3	16,543	79.3	8,499	76.6	8,488	74.0
Joint products.	—	—	—	—	—	—	—	—	3,041	52.5
Others.	649	21.0	930	24.8	2,144	32.9	650	25.2	1,139	33.5
Total	<u>44,187</u>	<u>72.7%</u>	<u>54,921</u>	<u>72.9%</u>	<u>73,681</u>	<u>75.5%</u>	<u>33,710</u>	<u>74.0%</u>	<u>50,215</u>	<u>70.0%</u>

Summary Results of Operations of Infusion Set Segment

	Pre-acquisition				Post-acquisition			
	For the year ended		For the period from		For the period from		For the year ended	
	December 31, 2010		January 1, 2011 to		May 1, 2011 to		December 31, 2012	
	(Predecessor		(Predecessor		(Successor		(Successor	
	Period 2010)		Period 2011)		Period 2011)		Period 2012)	
	% of		% of		% of		% of	
	segment		segment		segment		segment	
	<u>Amount</u>	<u>revenue</u>	<u>Amount</u>	<u>revenue</u>	<u>Amount</u>	<u>revenue</u>	<u>Amount</u>	<u>revenue</u>
(RMB'000 except percentages)								
Segment revenue	88,809	100.0%	36,476	100.0%	99,888	100.0%	233,974	100.0%
Gross profit.	37,352	42.1	20,057	55.0	54,196	54.3	145,166	62.0
Segment operating profit	27,291	30.7%	19,332	53.0%	39,285	39.3%	90,905	38.9%

SUMMARY

	Post-acquisition			
	For the six months ended June 30,			
	2012		2013	
	% of segment		% of segment	
	Amount	revenue	Amount	revenue
	(RMB'000 except percentages) (unaudited)			
Segment revenue	100,205	100.0%	147,057	100.0%
Gross profit	57,542	57.4	97,175	66.1
Segment operating profit	38,244	38.2%	56,612	38.5%

The following table sets forth the gross profit and gross margin of Fert Technology by product category for the period indicated.

	Pre-acquisition				Post-acquisition			
	For the year ended		For the period from		For the period from		For the year ended	
	December 31, 2010		January 1, 2011 to		May 1, 2011 to		December 31, 2012	
	(Predecessor Period 2010)		(Predecessor Period 2011)		(Successor Period 2011)		(Successor Period 2011)	
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
	(RMB'000 except percentages)				(RMB'000 except percentages)			
Precision filter infusion sets	34,923	41.0%	19,071	54.8%	50,649	52.9%	135,708	61.4%
Non-PVC-based precision infusion sets	—	—	—	—	—	—	1,923	66.0
Others	2,430	68.8	986	58.9	3,547	84.7	7,535	75.4
Total gross profit/gross margin . .	37,352	42.1%	20,057	55.0%	54,196	54.3%	145,166	62.0%

	Post-acquisition			
	For the six months ended June 30,			
	2012		2013	
	Gross profit	Gross margin	Gross profit	Gross margin
	(RMB'000 except percentages) (unaudited)			
Precision filter infusion sets	54,224	56.7%	90,981	66.2%
Non-PVC-based precision infusion sets	338	58.0	2,692	66.1
Others	2,980	76.4	3,502	64.1
Total gross profit/gross margin	57,542	57.4%	97,175	66.1%

SUMMARY

Selected Combined Balance Sheets

	As of December 31,			As of
	2010	2011	2012	June 30,
	(RMB'000)			2013
Non-current assets	56,386	349,549	471,598	574,945
Current assets	110,581	192,611	449,715	439,679
Current liabilities	38,441	185,901	387,823	227,773
Net current assets	72,140	6,710	61,892	211,906
Total assets less current liabilities	128,526	356,259	533,490	786,851
Total non-current liabilities	—	103,011	8,789	19,040
Net assets	128,526	253,248	524,701	767,811

Selected Combined Cash Flow Statements

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
	(RMB'000)			(unaudited)	
Net cash flows from/(used in) operating activities	11,735	15,713	24,906	(327)	31,494
Net cash flows used in investing activities	(24,002)	(246,714)	(117,581)	(8,464)	(28,545)
Net cash flows from/(used in) financing activities	63,336	230,001	244,030	(8,000)	(73,010)
Net increase/(decrease) in cash and cash equivalents	51,069	(1,000)	151,355	(16,791)	(70,061)
Cash and cash equivalents at beginning of year/period	13,308	62,750	61,142	61,142	212,466
Exchange losses on cash and cash equivalents	(1,627)	(608)	(31)	(31)	(213)
Cash and cash equivalents at end of year/period	62,750	61,142	212,466	44,320	142,192

SUMMARY

Recognition of Goodwill

In connection with the acquisition of subsidiaries during the Track Record Period, we recognized significant goodwill, which represents the excess of the consideration transferred over our interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries and the fair value of the non-controlling interest in the acquired subsidiaries.

We recognized goodwill of approximately RMB148.0 million in connection with our acquisition of Fert Technology, primarily due to (i) our increased ability to gain access and operate in the fast growing PRC advanced infusion sets market through the acquisition of Fert Technology; (ii) its leading market position in the advanced infusion set market and geographical coverage; (iii) its skilled workforce which benefited the acquired business; and (iv) expected synergies with our existing business, with which we expected to be able to increase the profitability and future return of the acquired business. We recognized goodwill of RMB101.7 million in connection with our acquisition of Bone Medical and Yijia Medical, primarily due to (i) the skilled workforce which will benefit for the acquired business; and (ii) synergies, such as competent management at group level, established networks in industry and established reputation, with which we would be able to increase the profitability and future return of Bone Medical and Yijia Medical’s business.

We test goodwill for impairment annually, or more frequently if events or circumstances indicate that goodwill might be impaired at the end of each reporting period. Examples of such events or circumstances include, but are not limited to, a significant adverse change in legal or business climate, an adverse regulatory action or unanticipated competition.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates. The calculation of value-in-use requires the use of estimates of gross margin, terminal growth rate, and discount rate, among other factors. We believe that no impairment charge was required against goodwill arising from acquisitions during the Track Record Period. Based on our testing, with respect to our regarding infusion set business or orthopedic implants business, had the gross margin been 10% lower with other assumptions held constant, or had the terminal growth rate been 1% lower with other assumptions held constant, or had the discount rate been 1% higher with other assumptions held constant, no impairment charge would be required against our goodwill for the Track Record Period.

SUMMARY

KEY FINANCIAL RATIOS

The following table sets forth our certain key financial ratios as of the date or for the period indicated.

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2010	2011	2012	2013
Return on equity ⁽¹⁾	20.3%	30.8%	20.2%	9.8%
Current ratio ⁽²⁾	2.9	1.0	1.2	1.9
Debt to equity ratio ⁽³⁾	29.9%	114.1%	75.6%	32.1%
Gearing ratio ⁽⁴⁾	5.2%	45.6%	20.8%	12.7%

(1) Profit attributable to owners of our Company for the period, divided by average equity attributable to owners of our Company at the beginning of the period plus the number at the end of the period.

(2) Current assets divided by current liabilities.

(3) Total liabilities divided by total equity.

(4) Total borrowings (bank borrowing plus amounts due to related parties of non-trade nature), divided by total capital. Total capital is calculated as total equity plus total borrowings.

Our return on equity increased from 20.3% in 2010 to 30.8% in 2011, which primarily reflected our acquisition of Fert Technology in April 2011 and our improved business performance with increased profit. Our return on equity decreased from 30.8% in 2011 to 20.2% in 2012, primarily because we received a total of RMB285.7 million in cash capital contribution at the end of 2012, which contributed to a significant increase in equity attributable to owners of our Company, partially offset by improved business performance with increased net profit in 2012. Our return on equity was 9.8% in the six months ended June 30, 2013, primarily because we recorded a total of RMB556 million in share premium as a result of share issuances to Cross Mark, Sparkle Wealthy and Right Faith from February to May in 2013, which contributed to a significant increase in equity attributable to owners of our Company, partially offset by our increased net profit in the six months ended June 30, 2013.

For more discussion on our key financial ratios, see “Financial Information — Key Financial Ratios.”

DIVIDEND POLICY

We will not declare or pay any dividends other than from distributable profit attributable to equity holders. Our shareholders may approve the declaration of dividends in a general meeting, but the amount may not exceed the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends as they deem appropriate.

SUMMARY

The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on our articles of association, the Companies Law, applicable laws and regulations and other relevant factors.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this document.

“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Articles of Association” or “Articles”	our amended and restated articles of association, as adopted on October 14, 2013, a summary of which is set out in Appendix III to this document, and as amended from time to time
“associate”	has the meaning ascribed to it under the [●]
“Audit Committee”	the audit committee of the Board
“Board of Directors” or “Board”	our board of Directors
“Bone Medical”	Shenzhen Bone Medical Device Co., Ltd. (深圳市博恩醫療器材有限公司), a Sino-foreign equity joint venture enterprise established under the laws of the PRC on November 12, 2002 and indirectly wholly owned by our Company
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Cayman”	the Cayman Islands
“Cayman Companies Law” or “Companies Law”	the Companies Law (2012 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“CFDA”	the China Food and Drug Administration (中華人民共和國國家食品藥品監督管理總局)
“China” or “PRC”	the People’s Republic of China, which for the purpose of this document and for geographical reference only, excludes Hong Kong, Macau and Taiwan
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company”, “our Company”, “Group”, “our Group”, “PW Medtech”, “we” or “us”	PW Medtech Group Limited (普华和顺集团公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on May 13, 2011 and except where the context indicated otherwise (i) our subsidiaries and (ii) with respect to the period before our Company became the holding company of our present subsidiaries, the business operated by our present subsidiaries or (as the case may be) their predecessors
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the [●] and unless the context requires otherwise, refers to Ms. Yufeng LIU, our ultimate controlling shareholder, and the company through which she holds equity interest in our Company, namely, Cross Mark
“Cross Mark”	Cross Mark Limited, a company incorporated in the BVI on January 11, 2007 and directly wholly owned by Ms. Yufeng LIU, our ultimate Controlling Shareholder
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“DEHP/DOP”	di (2-ethylhexyl) phthalate, a chemical added to PVC to make it softer and more elastic
“Director(s)”	the director(s) of our Company or any one of them
“Fert Device”	Fert Medical Device Co., Ltd. (北京伏爾特醫療器材科技有限公司), a limited liability company established under the laws of the PRC on August 14, 2002 and owned by Independent Third Parties
“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 our Company
“GDP”	gross domestic product
“Health Access”	Health Access Limited, a company incorporated under the laws of Hong Kong on June 29, 2011 and directly wholly owned by our Company
“Health Forward”	Health Forward Holdings Limited, a company incorporated under the laws of Hong Kong on January 21, 2010 and indirectly wholly owned by our Company

DEFINITIONS

“HK\$” or “Hong Kong dollars”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	a party which is not connected to our Group
“Kanghui”	China Kanghui Holdings, a PRC-based medical device company, which was acquired by Medtronic, Inc., an MNC, in 2012
“Latest Practicable Date”	October 21, 2013, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of our Company, as adopted on October 14, 2013, a summary of certain provisions of which is set out in Appendix III to this document, and as amended from time to time
“MNC”	multinational corporation
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOH”	the National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會)
“NASDAQ”	the National Association of Securities Dealers Automated Quotations
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PES”	polyethersulfone, a type of plastic material
“[●]”	the [●] adopted by our Company on July 3, 2013 and amended on October 14, 2013, the principal terms of which are summarized in Appendix IV — “Statutory and General Information — [●]”
“PVC”	polyvinyl chloride, a type of plastic material

DEFINITIONS

“PW Medtech (Beijing)”	PW Medtech (Beijing) Limited (普華和順 (北京) 醫療科技有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on August 10, 2000 and indirectly wholly owned by our Company
“PWM Investment”	PWM Investment Holdings Company Limited, a company incorporated under the laws of Hong Kong on October 30, 2009 and directly wholly owned by our Company
“related parties”	has the meaning as set out in the paragraph headed “Related parties” under Note 32 to the Accountant’s Report set out in Appendix I to this document
“Renli Orthopedic”	Tianjin Renli Orthopedic Instrument Co., Ltd. (天津市人立骨科器械有限公司), a limited liability company established under the laws of the PRC on September 2, 2002 and indirectly owned as to 60% by Walkman Biomaterial until September 2013, when such equity interest was sold to an Independent Third Party
“Reorganization”	the reorganization of our Group in anticipation of the [●], the details of which are set out in the section headed “History and Corporate Development” in this document
“Right Faith”	Right Faith Holdings Limited, a company incorporated in the BVI on March 30, 2010 and directly wholly owned by Mr. Marc CHAN, a financial investor in our Group
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Shandong Fert”	Shandong Fert Technology Co., Ltd. (山東伏爾特技術有限公司), a limited liability company established under the laws of the PRC on January 8, 2013 and directly wholly owned by Fert Technology
“Share(s)”	ordinary share(s) of par value US\$0.0001 each in the issued share capital of our Company
“Shareholder(s)”	holder(s) of Shares
“[●]”	the [●] conditionally adopted by our Company on October 14, 2013, the principal terms of which are summarized in Appendix IV — “Statutory and General Information — Other Information — [●]”
“Shengge Bioengineering”	Tianjin Shengge Bioengineering Co., Ltd. (天津市聖格生物工程有限公), a limited liability company established under the laws of the PRC on March 21, 2006 and directly wholly owned by Walkman Biomaterial
“Sparkle Wealthy”	Sparkle Wealthy Limited, a company incorporated in the BVI on March 17, 2010 and directly wholly owned by Mr. LI Ngai, a financial investor in our Group
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it in the [●]
“Tianqiong Investment”	Lhasa Tianqiong Investment Management Co., Ltd. (拉薩天穹投資管理有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on January 30, 2013 and indirectly wholly owned by our Company
“TPE”	thermoplastic elastomers, a material that is a physical mix of plastic and rubber
“TPU”	thermoplastic polyurethanes, a plastic material
“Track Record Period”	the period consisting of the three years ended December 31, 2012 and the six months ended June 30, 2013

DEFINITIONS

“Trauson”	Trauson Holdings Company Limited (創生控股有限公司), a PRC-based medical device company, which was acquired by Stryker Corporation, an MNC, in 2013
“United States” or “U.S.”	the United States of America, as defined in [●]
“U.S. FDA”	the Food and Drug Administration of the United States
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“Walkman Biomaterial”	Tianjin Walkman Biomaterial Co., Ltd. (天津市威曼生物材料有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on November 8, 2001 and indirectly wholly owned by our Company
“Weili Medical”	Anyang Weili Medical Instrument Manufacturing Co., Ltd. (安陽市偉力醫療器械製造有限責任公司), a limited liability company established under the laws of the PRC on August 12, 1996 and directly wholly owned by Walkman Biomaterial
“WP X”	WP X Asia Medical Devices Holdings Limited, a company incorporated in the BVI on November 22, 2007 and wholly owned by Warburg Pincus Private Equity X, L.P. and Warburg Pincus X Partners, L.P., private equity funds managed by Warburg Pincus LLC, a New York limited liability company
“Yijia Medical”	Xuzhou Yijia Medical Instrument Co., Ltd. (徐州一佳醫療器械有限公司), a limited liability company established under the laws of the PRC on June 30, 2003 and directly wholly owned by Fert Technology
“Yinger Biotechnology”	Tianjin Yinger Biotechnology Co., Ltd. (天津市英爾生物技術有限公司), a limited liability company established under the laws of the PRC on October 22, 2009 and directly wholly owned by Walkman Biomaterial until September 2013, when such equity interest was disposed of to an Independent Third Party in September 2013

DEFINITIONS

“Yingshang Technological”	Tianjin Yingshang Technological Development Co., Ltd. (天津市英尚科技發展有限公司), a limited liability company established under the laws of the PRC on October 16, 2009 and indirectly wholly owned by our Company
“Zhong Jian Kang Da”	Tianjin Pharmaceutical Zhong Jian Kang Da Medical Device Co., Ltd. (天津市醫藥集團眾健康達醫療器械有限公司), a limited liability company established under the laws of the PRC and a 40% shareholder of Renli Orthopedic
“Zhong Jie Tian Gong”	Beijing Zhong Jie Tian Gong Medtech Co., Ltd. (北京中杰天工醫療科技有限公司), a limited liability company established under the laws of the PRC on September 22, 2011 and directly wholly owned by Fert Technology
“%”	per cent

DEFINITIONS

Unless otherwise specified, statements contained in this document assume no exercise of the [●].

All times refer to Hong Kong time.

Unless otherwise specified, amounts denominated in RMB and US\$ have been converted into Hong Kong dollars in this document for the purpose of illustration only and at the rates set forth below:

US\$1: HK\$7.7541

RMB0.7925: HK\$1

No representation is made that any amounts in RMB, US\$ or HK\$ can be or could have been converted on the relevant dates at the above rates or at any other rate or at all.

Translated English names of Chinese laws and regulations, natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purposes only.

FORWARD-LOOKING STATEMENTS

We have included in this document forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this document. Forward-looking statements can be identified by words such as “may,” “will,” “should,” “would,” “could,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “continue,” “seek,” “estimate” or the negative of these terms or other similar terms. Examples of forward-looking statements include, but are not limited to, statements we make regarding our projections, business strategy and development activities as well as other capital spending, financing sources, the effects of regulation, expectations concerning future operations, margins, profitability and competition. The foregoing is not an exclusive list of all forward-looking statements we make.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. We give no assurance that these expectations and assumptions will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. We caution you therefore against placing undue reliance on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political economic, business, competitive, market and regulatory conditions and the following:

- the risks, challenges and uncertainties in the orthopedic implant and infusion set industries and for our business generally;
- changes in our strategies, plans, objectives and goals;
- uncertainties relating to our expectations regarding demand for and acceptance of our existing and new products;
- uncertainties relating to our ability to develop and successfully market new products;
- changes to our current expansion strategy, including our ability to expand our production facilities and capabilities;
- uncertainties relating to our ability to maintain and expand our distribution network;

FORWARD-LOOKING STATEMENTS

- changes in the healthcare industry in China and international markets, including changes in the healthcare policies and regulations of the PRC government;
- technological or therapeutic changes affecting the orthopedic implant and infusion set industries;
- uncertainties relating to our ability to comply with all relevant environmental, health and safety laws and regulations;
- uncertainties relating to our ability to obtain and maintain permits, licenses and registrations to carry on our business;
- changes in our planned [●];
- uncertainties relating to our future prospects, business development, results of operations and financial condition;
- changes in our future capital needs and capital expenditure plans;
- the actions and developments of our competitors; and
- fluctuations in general economic and business conditions in China.

Any forward-looking statement made by us in this document speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

RISK FACTORS

RISKS RELATING TO OUR BUSINESS

Failure to manage our growth could strain our managerial, operational and financial resources, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Our current business strategy includes broadening our product portfolio, increasing our production capacity, expanding our distribution network and pursuing strategic acquisitions. Executing these components of our strategy could place considerable strain on our managerial, operational and financial resources. In particular, the management of our growth will require, among other things:

- strengthening of financial and management controls in an efficient and effective manner;
- enhancement of information technology systems;
- increased marketing, sales and sales support activities;
- identifying suitable acquisition targets and potential business partners;
- continued enhancement of our research and development capabilities;
- raising adequate capital to fund our operations; and
- hiring and training of new personnel.

If we are unable to effectively manage our growth and implement these components of our business strategy, our business, financial condition, results of operations and prospects would be materially and adversely affected.

Our business is subject to intense competition, which may reduce demand for our products and materially and adversely affect our results of operations and prospects.

The orthopedic implant market and infusion set market in the PRC are highly competitive, and we expect competition to intensify. We face direct competition from both domestic and MNCs in China across most of our product lines. We compete based on factors including quality, reliability, product functionality and design, brand recognition, customer support, reputation as well as price. Some of our competitors may have:

- greater financial and other resources;
- larger variety of products;
- greater pricing flexibility;

RISK FACTORS

- more extensive research and development and technical capabilities;
- patent portfolios that may present an obstacle to our conduct of business;
- stronger brand recognition;
- larger distribution and sales networks; or
- better support in terms of technical training or, in the case of orthopedic implant business, surgical instruments provided.

As a result, we may be unable to offer products similar to, or more desirable than, those offered by our competitors, market our products as effectively as our competitors or otherwise respond successfully to competitive pressures. In addition, our competitors may be able to offer discounts on competing products as part of a “bundle” of non-competing products and services that they sell to customers, and we may not be able to profitably match those discounts. Furthermore, our competitors may develop technologies and products that are more effective than those we currently offer or that render our products obsolete or uncompetitive. In addition, the timing of the introduction of competing products into the market could affect the market acceptance and market share of our products. Our failure to compete successfully could materially and adversely affect our business, financial condition, results of operations and prospects.

Moreover, some of our MNC competitors have strengthened their market position through acquisitions of Chinese domestic manufacturers. If we are unable to develop competitive products, obtain regulatory approval or clearance and supply sufficient quantities to the market as quickly and efficiently as our competitors, market acceptance of our products may be limited, which could result in decreased sales.

We are subject to anti-corruption laws in China. Our failure to comply with these laws could result in penalties which could harm our reputation and have a material and adverse effect on our business, financial condition or results of operations.

We operate in the medical device industry in China and generally sell our products through distributors to hospitals. We are subject to anti-corruption laws of China which generally prohibit companies and their intermediaries from making improper payments to public officials, surgeons, hospital personnel or other decision-makers for the purpose of obtaining or keeping business and/or other benefits, along with various other anti-corruption laws. We have implemented policies and procedures designed to ensure that we, our employees, distributors and other intermediaries comply with applicable anti-corruption laws of China. These measures include organizing internal training programs conducted by outside experts, implementing internal policy governing our employees, and including standard anti-bribery provisions in our employee handbook. To minimize our exposure to improper conduct by our distributors, we conduct background checks on prospective distributors before entering

RISK FACTORS

into business relationships with them. We also include standard anti-bribery provisions in our distribution agreements requiring that our distributors not engage in any improper conduct in violation of anti-corruption laws. We cannot assure you, however, that our employees, distributors and other intermediaries will observe our policies and procedures at all times. If we are not in compliance with anti-corruption laws in China governing the conduct of business with government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures, which could cause reputation damage and have a material and adverse impact on our business, financial condition or results of operations.

If we are unable to successfully develop new products or expand our product lines, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our success depends on our ability to anticipate industry trends and identify, develop and market new and advanced products that meet our customers’ demand in a timely manner. Since 2010, we have developed and commercially launched 25 orthopedic implant products and non-PVC-based infusion sets. We plan to launch approximately 19 new products by June 2014 and expand our product portfolio to include more joint implant products and infusion sets with additional advanced features. We expect the orthopedic implant market and infusion set market to evolve toward newer and more advanced products, some of which we do not currently produce.

Developing new products in a timely manner can be time-consuming and costly. Based on our experience, the product development process is a lengthy process that may take two to three years before a new product is commercially launched. There is no assurance that our product development projects can be completed within the anticipated time frame and our research and development efforts may not lead to new products that are commercially successful. We may also experience delays or be unsuccessful in any stage of product development, manufacturing, clinical trials or product registration. We may not be able to successfully market our new products or our end customers may not be receptive to our new products. Our competitors’ product development capabilities may be more effective than ours, and thus enable them to launch their new products earlier than us and produce more effective products or on a more cost-efficient basis. The introduction of new products by our competitors may result in price reductions on our products or reduced margins or loss of market share, and may lead to our products becoming obsolete or noncompetitive. If our products become less marketable or obsolete due to the introduction of new products by us or our competitors, we may be required to recognize impairment provision on our products, which could materially and adversely affect our business, results of operations and financial condition. In addition, certain manufacturers of orthopedic implant products in more developed markets offer customized products based on the specific needs of individual patients. If it becomes an industry trend for orthopedic implants manufacturers to offer customized products in the PRC market, we would be required to invest significant capital and other resources to purchase additional advanced machinery, upgrade our production facilities and strengthen our research

RISK FACTORS

and development efforts to enable us to offer customized products in a timely manner. However, there is no assurance that our efforts will be successful and yield results as we expect.

Our new products may impact our gross margins depending on the level of market acceptance and pricing environment for each product. The success of any of our new product offerings will depend on several factors, including our ability to:

- properly identify and anticipate industry trends and market demand;
- optimize our manufacturing and procurement processes to predict and control costs;
- manufacture and deliver new products in a timely manner;
- minimize the time and costs required to obtain required regulatory clearances or approvals;
- anticipate and compete effectively with other infusion set and orthopedic implant developers, manufacturers and marketers;
- price our products competitively; and
- increase end customer awareness and acceptance of our new products.

If we are unable to successfully develop new products or expand our product portfolio, our business, financial condition, results of operation and prospects may be materially and adversely affected.

If we fail to successfully identify, acquire or complete acquisitions, or realize the anticipated benefits of our past and potential future acquisitions or investments or be able to integrate any acquired employees, businesses or products, our growth and prospects may be adversely affected.

A key component of our business strategy is to pursue strategic acquisitions in China’s medical device industry to complement our business, product lines, customer base and geographic coverage. Our ability to grow through acquisitions depends upon our ability to identify and complete suitable acquisitions as well as our ability to obtain necessary financing and any required governmental or third party consents, approvals and permits in a timely manner. Even if we complete acquisitions, we may experience:

- difficulties in integrating any acquired companies, technologies, personnel or products into our existing business;
- challenges in procuring and allocating resources to fund our expansion;

RISK FACTORS

- failure to achieve the intended objectives or benefits, or to generate sufficient revenue to recover the costs and expenses, of an acquisition or expansion plan;
- difficulties in implementing management and internal control mechanisms that timely and adequately respond to our expanded scope of operations;
- diversion of resources and management attention from our existing business;
- increased cost resulting from acquisitions including assumption of legal liabilities, potential write-offs related to the impairment of goodwill and amortization expenses related to intangible assets; and
- the cost of and difficulties in integrating acquired businesses and managing a larger business; and difficulties in retaining key employees of the acquired business who are essential to manage the acquired business.

If we offer products that are significantly different from our existing products or operate in a market new to us, the foregoing risks may increase because of our limited experience in operating such business or market. Our failure to address these risks successfully may have a material and adverse effect on our financial condition, results of operations and prospects.

If we are unable to obtain adequate supplies of the required materials, parts and manufacturing equipment that meet our production standards at acceptable costs, our ability to deliver products with the required quality at the required time could be affected, which could materially and adversely affect our business, financial condition and results of operations.

We purchase raw materials, parts, manufacturing equipment from a limited number of third party suppliers. The purchases from our five largest suppliers accounted for 36.8%, 34.3%, 14.7%, 22.0% and 17.7% of our total cost of sales in 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013, respectively. If the supply of raw materials, parts and manufacturing equipment is interrupted, our manufacturing processes would be delayed. We may also be unable to secure alternative supply sources in a timely and cost effective manner, if at all. In particular, we rely on two suppliers for the supply of nuclepore membranes which are a key component of our infusion sets. If these suppliers fail to supply sufficient amount of nuclepore membranes, the production of our infusion sets may be materially and adversely affected.

In addition, the prices of our principal raw materials, such as PVC granules and titanium alloy, are subject to fluctuation. Our ability to pass on any increase in raw material costs to our customers is limited. Significant increases in the prices of raw materials, parts and manufacturing equipment have a direct and negative impact on our profit margins. If we are unable to obtain adequate supplies of required materials and components that meet our production standards at acceptable costs or at all, our ability to accept and fulfill product orders

RISK FACTORS

with the required quality and at the required time could be affected. This could harm our reputation, reduce our revenue or profit margins, and cause us to lose market share, each of which could materially and adversely affect our business, financial condition and results of operations.

We depend on distributors for a substantial portion of our revenue and our revenue growth. We may be unable to maintain or renew relationships with our distributors, replace underperforming distributors, or add new distributors to expand our distribution network. And we may not be able to continue to obtain orders from our distributors at the current levels. We may also be unsuccessful in competing for desired distributors to promote and sell our products. Any of these events would materially and adversely affect our business, financial condition, results of operations and prospects.

A substantial majority of our sales during the Track Record Period were made to our distributors directly. As of June 30, 2013, we had 211 distributors for infusion set products and 244 distributors for orthopedic implant products. Our five largest distributors accounted for approximately 16.3%, 54.5%, 51.4%, 61.1% and 25.6% of our total revenue in 2010, 2011, 2012 and the six months ended June 30, 2012 and 2013, respectively. During the same periods, our largest distributor accounted for approximately 4.8%, 44.7%, 42.7%, 50.5% and 14.6% of our total revenue. We expect we will continue to rely on adding distributors for our revenue growth.

We generally do not enter into long-term distribution agreements. As our existing distribution agreements expire, we may not be able to renew such agreements with our preferred distributors on terms favorable to us or at all. In addition, we seek to limit the ability of our distributors to sell our competitors' products, which may make us less attractive to some large distributors.

Any decline in our major distributors' businesses could lead to a decline in purchase orders from these distributors. If any of our major distributors was to substantially reduce the size or amount of the orders they place with us or were to terminate their business relationship with us entirely, we may not be able to obtain orders from other customers to replace any such lost sales on comparable terms or at all. As a result, our business, financial condition and results of operations may be materially and adversely affected.

In addition, competition for distributors is intense. We compete for desired distributors with other leading medical device manufacturers and importers that may have greater visibility, brand recognition and financial resources, and a broader product portfolio than we do. Our competitors may enter into exclusive distribution agreements that restrict their distributors from selling our products. Consequently, maintaining relationships with existing distributors and replacing distributors may be difficult and time consuming. Any disruption of our distribution

RISK FACTORS

network, including our failure to renew our existing distribution agreements with our preferred distributors, could negatively affect our ability to effectively sell our products and would materially and adversely affect our business, financial condition and results of operations.

We may be unable to effectively manage our network of distributors, and our business, prospects and brand may be materially and adversely affected by actions taken by our distributors.

We have limited ability to manage the activities of our distributors, who are independent from us. Our distributors could take actions, including one or more of the following, which could have a material adverse effect on our business, prospects and brand:

- failing to meet the sales targets for our products in accordance with relevant agreements;
- selling products that compete with our products;
- selling our products outside their designated territories;
- failing to adequately promote our products;
- failing to maintain the requisite license or otherwise failing to comply with applicable regulatory requirements when selling our products;
- failing to provide proper training, surgical instruments and services to hospitals; or
- violating anti-corruption and other laws of China.

In addition, a substantial portion of our trade receivables at any given time typically represent amounts due from our distributors. Consequently, our cash flows depend on timely receipt of payments from distributors. As a result, increasing bargaining power of our distributors may lead to long settlement period of trade receivables which may in turn adversely affect our liquidity position and financial condition.

We may be unable to expand our production capacity and ramp up our operations as anticipated, which could result in material delay, increased costs and lost business opportunities.

We are in the process of substantially expanding our production capacity with new production facilities in Shandong, Beijing and Shenzhen. In addition, we recently acquired a facility for our infusion set business in Xuzhou, Jiangsu province in May 2013. Our facilities in Linyi, Shandong province, are currently under construction, and we expect to complete construction and begin production in the second half of 2014. We plan to reach an annual production capacity of 100 million precision filter infusion sets at these facilities by the end of 2015 and further expand their annual production capacity to 200 million precision filter

RISK FACTORS

infusion sets by the end of 2018. We have another production facility under construction in Pinggu, Beijing, and we expect to complete construction and begin production at this facility in the fourth quarter of 2016. The new facilities at our newly acquired Bone Medical business in Shenzhen are expected to be completed by the end of 2016. We also plan to expand our facilities in Tianjin beginning in the third quarter of 2014 and expect to complete the expansion in the second quarter of 2015. The construction and completion of these new facilities involve regulatory approvals and reviews by various authorities in China, including, but not limited to, urban planning and construction and environmental protection authorities. We may not be able to obtain all the required permits or licenses for construction of the new facilities in a timely manner or at all. Construction of the new facilities also may not be completed on the anticipated timetable or within budget. Furthermore, we need to obtain approval from the CFDA or its provincial counterpart before we can commence production at these new facilities and we may not obtain such approval in a timely manner or at all. We may be also unable to fully utilize the production capacity after our new facilities in Shandong, Beijing and Shenzhen commence operations. Any inability or material delay in commencing operations at these facilities, any substantial increase in costs to complete the facilities or ramp up operations and utilization could materially and adversely affect our results of operations and prospects, and result in lost business opportunities.

We are subject to product liability exposure and have limited insurance coverage. Any product liability claims or safety-related regulatory actions could require us to pay substantial damages, harm our reputation and materially and adversely affect our business, financial condition and results of operations.

Our products are used in the treatment of patients. Accordingly, our products expose us to potential product liability claims if their use causes or is alleged to have caused personal injuries or other adverse effects. In China, medical devices are classified according to a catalogue issued by the CFDA into three different categories, Classes I, II and III, depending on the degree of risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. A substantial portion of our products are classified as Class III, denoting that they generally pose high risk to the human body.

Any product liability claim or regulatory action, with or without merit, could be costly and time-consuming to defend. If successful, product liability claims may require us to pay substantial damages. We maintain limited product liability insurance to cover potential product liability arising from the sale of our orthopedic implant products in China. Our current product liability insurance policies for our orthopedic implant products cover up to RMB1.0 million per incident and RMB4.0 million per policy year. Other than these product liability insurance policies, we have no specific measures in place to mitigate any potential liabilities we may face from third parties. During the Track Record Period, we were not involved in any legal proceedings due to product liability claims. In addition, we believe product liability insurance available in China offers limited coverage compared to coverage offered in many other

RISK FACTORS

countries. As a result, we may not be able to purchase or maintain sufficient product liability insurance coverage on commercially reasonable terms, or at all. Future liability claims could be excluded from or exceed the coverage limits of our policies.

Moreover, a material design, manufacturing or quality failure or defect in our products, other safety issues or heightened regulatory scrutiny could each warrant a recall of our products and result in increased product liability claims. In China, violation of PRC product quality and safety requirements may result in the confiscation of earnings related to such products, penalties, termination of sales of the violating product or suspension of operations pending rectification. Furthermore, if the violation is determined to be sufficiently serious, our business license could be suspended or revoked, in which case we would be required to suspend or terminate production. Should any of these events occur, our business, financial condition and results of operations would be materially and adversely affected.

Any failure to protect our intellectual property rights could harm our business and competitive position.

We have developed a substantial portfolio of intellectual property rights in China to protect the technologies, inventions and improvements significant to our business. We rely on a combination of patents, trademarks, trade secrets, confidentiality agreements and other methods to protect our intellectual property rights. As of the Latest Practicable Date, we had 28 patents, including 18 for orthopedic products and 10 for infusion set products, and nine patent applications, including four for orthopedic products and five for infusion set products. In addition, we are the registered owner of 10 trademarks including “Fert (伏尔特)” and “Walkman”, “Bone (博恩)” and associated logos which are protected under PRC law. Since we currently do not have any overseas sales, we have not applied for any patents or trademarks outside of China (other than Hong Kong). In the future, to the extent we start our international sales, we may seek protection for our patents and trademarks for our products or technologies outside China. The process of seeking patent protection can be lengthy and expensive, our patent applications may fail to result in the patents being issued, and our existing and future patents may be insufficient to provide us with meaningful protection or commercial advantage. Our patents and patent applications may also be challenged, invalidated or circumvented.

We also rely on trade secret rights to protect our business through confidentiality agreements with employees. If our employees breach their confidentiality obligations, we may not have adequate remedies in China, and our trade secrets may become known to our competitors. In addition, we use technologies licensed from third parties from time to time. For example, we acquired the key technology in our bridge-link system from a member of our research and development team, who has obtained a patent for the technology and granted us an exclusive right to use his patented technology in China for the 20-year term of the patent. If he breaches his license agreement with us, our business, results of operations and financial condition may be materially and adversely affected.

RISK FACTORS

Implementation of PRC intellectual property-related laws has historically been lacking, primarily because of ambiguities in PRC law and enforcement difficulties. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in the western countries such as the United States. Furthermore, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to resort to litigation to enforce or defend our patents or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation, if any, could result in substantial costs and diversion of resources and management attention, which could harm our business and competitive position.

We may be subject to intellectual property infringement claims and successful claims of infringement could materially and adversely harm our reputation and affect our business, financial condition and results of operations.

We operate in an industry in which companies may use intellectual property litigation to gain a competitive advantage and may utilize similar technologies and product designs. Consequently, our competitors may claim intellectual property rights over the technologies and product designs used in our products. While we do not believe our products infringe on the intellectual property rights of our competitors or any third parties, we cannot assure you that any third parties may not raise a claim of intellectual property infringement against us. Consequently, we may become subject to legal proceedings and claims relating to the intellectual property rights of third parties. Legal proceedings involving intellectual property rights can be expensive and time consuming, and their outcome is uncertain. Successful infringement claims brought by third parties could subject us to substantial monetary liability, require us to obtain licenses (which we may not be able to obtain on commercially reasonable terms or at all), pay on-going royalties, modify aspects of our technology and product design or subject us to injunctions prohibiting the production and sale of products or the use of our technologies, which could materially and adversely harm our business and reputation.

If we fail to obtain or maintain applicable licenses or registrations for our products, or if such licenses or registrations are delayed, we will be unable to commercially manufacture, distribute and market our products at all or in a timely manner, which could significantly disrupt our business and materially and adversely affect our sales and profitability.

The infusion set and orthopedic implant products we sell are subject to extensive regulation in China. For the manufacturing and sale of our products, we need to obtain and renew licenses and registrations with the CFDA. To obtain product registrations for Classes II and III medical devices in China, we must conduct, at our own expense, adequate and well-controlled clinical trials to demonstrate the efficacy and safety of our products. Clinical testing is expensive, can take years and has an uncertain outcome. Our clinical trials may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical and/or non-clinical testing. Our failure to adequately demonstrate the efficacy and safety of any of our products would prevent receipt of regulatory approval and,

RISK FACTORS

ultimately, the commercialization of that product. As a result, we may be unable to manufacture, market and sell new products in a timely manner or at all due to our failure to obtain regulatory licenses or registrations.

The process for renewing regulatory licenses or registrations does not require substantial costs; however, the process for obtaining approval can be lengthy. The approval guidance for renewal applications relating to domestically manufactured Class III product registration certificates published by the CFDA states that it normally takes no more than 90 business days to review and approve the renewal applications subject to the sufficiency and satisfaction of application documents and no more than 10 additional business days to deliver a written approval. However, such process usually takes a much longer time in practice, and the CFDA from time to time issues public notices to allow the continuing production of products, whose registration certificates have expired, during the review and approval process of the CFDA. Although we do not foresee any substantial obstacles that would prevent us from obtaining such approvals, if the CFDA determines not to grant the approvals, we will not be able to manufacture and sell the related products, which would materially and adversely affect our business, financial conditions and results of operations.

In addition, the relevant regulatory authorities may introduce additional requirements or procedures that delay or prolong the approval of licenses or registrations for our existing or new products. If we are unable to obtain or maintain licenses or registrations needed to manufacture and market our existing or new products, or obtain or maintain such licenses or registrations in a timely fashion or at all, our business would be significantly disrupted, and our sales and profitability could be materially and adversely affected.

If surgeons, doctors and nurses are not receptive to our products, our sales will decline and we will be unable to increase our sales and profits.

We sell our products primarily to distributors, which in turn sell them to hospitals within designated territories. We also sell a portion of infusion set products directly to hospitals. Receptiveness to our products depends on educating surgeons, doctors and nurses as to the distinctive characteristics, benefits, safety and cost-effectiveness of our products compared to our competitors' products, as well as training surgeons, doctors and nurses in the proper application of our products. If we or our distributors are not successful in educating the surgeons, doctors and nurses of the merits of our products, our sales may decline.

In addition, we believe recommendations and support for our products by influential doctors and surgeons are essential for market acceptance and adoption. If we do not receive support from such doctors and surgeons, other hospitals and surgeons may not use our products. In particular for our orthopedic implant products, surgeons face a learning process to become proficient in the use of our products, and a significant role of our sales and marketing team is to provide surgeons with adequate instruction and training in the use of our products. This training process may take longer than expected and may therefore affect our ability to

RISK FACTORS

increase sales. Following the completion of the training process, we rely on trained surgeons to advocate the benefits of our products in the marketplace. Convincing surgeons to dedicate the time and energy necessary for adequate training remains challenging, and we cannot assure you we will be successful in these efforts. If surgeons are not properly trained, they may misuse or ineffectively use our products. This may also result in unsatisfactory patient outcome, patient injury, negative publicity or lawsuits against us, any of which could have a significant adverse effect on our reputation, sales, results of operations and prospects.

For our advanced infusion set products, head nurses in hospitals typically perform a key role in the hospitals’ procurement decision on advanced infusion set products and implementing their usage in the hospital. Our sales and marketing team and the salesforces of our distributor, educate head nurses and the broader nursing staff at hospitals on the medical safety benefits of our precision filter and non-PVC infusion sets, and train them on the usage of these products. The general level of awareness and understanding of the medical benefits of advanced infusion sets is not high. As a result, this education and training is key to acceptance and use of our advanced infusion set products. If our education and training efforts are not adequate or effective, nurses may not be receptive to our advanced infusion sets which could have a significant adverse effect on our sales growth and results of operations.

Our net profit could be adversely affected if we recognize impairment losses on goodwill and other intangible assets relating to our acquisition of Fert Technology.

In connection with our acquisition of Fert Technology, we recorded goodwill and other intangible assets of RMB201.3 million, the balance of which was RMB198.6 million, RMB194.5 million and RMB192.5 million as of December 31, 2011, December 31, 2012 and June 30, 2013, respectively. We amortize intangible assets related to such acquisition on a straight-line basis over their economic lives and test for impairment whenever events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable. We test goodwill for impairment as of each year end or more frequently if events or circumstances indicate that goodwill might be impaired. Examples of such events or circumstances include, but are not limited to, a significant adverse change in legal or business climate, an adverse regulatory action or unanticipated competition. We did not recognize any impairment losses on the recorded goodwill and intangible assets associated with the acquisition of Fert Technology for the Track Record Period. However, we may recognize impairment losses on goodwill and other intangible assets in the future and that impairment could result in a charge to our results of operations and negatively affect our profitability.

We depend on our key personnel, and our business and growth may be severely disrupted if we lose their services.

Our future operations and financial performance depend upon the continued service of our key executives, including Mr. JIANG Liwei, our chief executive officer, who has 20 years of experience in the medical device industry. If any member of our management team resigns or if

RISK FACTORS

we otherwise lose their services, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could disrupt our business.

Furthermore, as we expect to continue to expand our operations, we will need to continue attracting and retaining experienced management personnel. Competition for personnel in the medical device industry is intense, and the availability of suitable and qualified candidates in China is limited. We compete to attract and retain qualified senior management personnel with other companies in the healthcare industry. Competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which could materially and adversely affect our financial condition and results of operations. We may be unable to attract or retain the personnel required to achieve our business objectives and failure to do so could disrupt our business and growth.

We may not be able to secure additional funding in the future to fund our operations or expansion plans.

Our expansion plans may change due to changing circumstances, the development of our business, unforeseen contingencies or new opportunities. If there is a change of our expansion plans, we may need to obtain additional debt or equity financing. If we are unable to obtain such additional financing, or are unable to obtain additional financing on acceptable terms, we may not be able to expand our business and our operations may be adversely affected. The availability of funding is subject to various factors, some of which are beyond our control, including governmental approvals, prevailing market conditions, credit availability, interest rates and the performance of our business. Our inability to procure additional financing in a timely manner on terms that are satisfactory to us could materially and adversely affect our business, results of operations and expansion plans.

Our products may be subject to decreasing pricing trends and reduced margins. If we are unable to successfully replace these products subject to those trends with newer, more profitable products, our sales and results of operations could suffer.

Our products may be subject to price declines over time due to competitive forces, while manufacturing and material costs may remain constant or increase. Growing pricing pressure may arise in the future due to competition. As our products enter into a later stage in their lifecycles, the gross margins of those products may decrease. Our profitability depends on our ability to successfully control costs during the manufacturing process by increasing the efficiency of our manufacturing processes, reduce raw material consumption and increase production yields. In addition, changes in our product mix may negatively affect our overall gross margins. If we are unable to successfully design, manufacture and market new products, which typically generate higher gross margins, or if we fail to effectively increase the efficiency of our manufacturing processes or control manufacturing costs, our business, financial condition and operating results could be materially and adversely affected.

RISK FACTORS

If we fail to comply with the CFDA’s quality system regulations, our manufacturing process could be delayed and we may be subject to enforcement action by the CFDA.

We are required to comply with the CFDA’s quality system regulations, which cover our production facilities and equipment, as well as the methods and documentation of production, quality control, quality assurance, labeling and packaging of our products. The CFDA enforces the quality system regulations through document review and on-site inspections. If we fail a quality system review or inspection or if any corrective action plan is not sufficient, our manufacturing process could be delayed or suspended. We may also be subject to fines, or fail to obtain registration for our new products, or our medical device manufacturing license could be revoked.

We are subject to risks relating to the operation of our production facilities.

Our production facilities face the risk of operational breakdowns caused by accidents occurring during the operating process, including but not limited to faulty construction and operator error. Any interruption in, or prolonged suspension of any part of production at, or any damage to or destruction of, any of our production facilities arising from unexpected or catastrophic events or otherwise may prevent us from supplying products to our customers, which in turn may result in a material adverse effect on our business and operations. There is also a risk of injury or damage to persons, the property of others or the environment, which in turn could lead to considerable financial costs and may also have legal consequences. In particular, if we were to incur a significant liability for which we have not maintained sufficient insurance coverage, we might not be able to finance the amount of the uninsured liability, and might be obligated to divert a significant portion of cash flow from normal business operations. Consequently, our business, financial condition and results of operations may be materially and adversely affected.

In addition, any breakdown or suspension of production or failure to supply our products to our customers in a timely manner may result in breach of contract and loss of sales, as well as expose us to liability and the requirement to pay compensation under the relevant agreements, lawsuits and damages to our reputation, which could have a material and adverse effect on our business, financial condition and results of operations.

We face certain risks relating to the real properties that we own, use or lease.

We have a number of title defects with respect to certain properties that we own, use and/or lease. In respect of four buildings with an aggregate gross floor area of 12,620.3 square meters located in Tianjin, we had not obtained the relevant certificates of completion before commencing operations on these properties as of the Latest Practicable Date. In respect of 30 of our owned properties with an aggregate gross floor area of 11,718.0 square meters located in Fengtai, Beijing, we had not obtained the relevant planning and construction permits as of the Latest Practicable Date. In respect of one parcel of our owned land with a site area of 53,333.6 square meters and its associated buildings with an aggregate gross floor area of 10,869.2

RISK FACTORS

square meters in Xuzhou, Jiangsu province, we had not obtained the title certificates as of the Latest Practicable Date. Yijia Medical, a company that we acquired in May 2013, had begun construction on this site prior to our acquisition without obtaining the land use right certificate and the planning and construction permits. We are in the process of applying for the relevant permits and title certificates. However, we cannot assure you that the government authorities will not order us to cease operations in such properties pending the application for the relevant permits or title certificates, or seek demolition of the buildings in the future. Should government enforcement actions arise, we may encounter difficulty in continuing to occupy and operate in such properties.

In respect of eight of our leased properties with an aggregate gross floor area and/or site area of 15,485.3 square meters, our landlords have not provided us with evidence of their valid and enforceable building ownership rights, the relevant title documents or evidence of their relevant rights or authority to sub-lease such properties. These properties are primarily used as offices and warehouses. Should disputes arise relating to the title of these properties, we may encounter difficulties in continuing to lease the properties.

If any of the foregoing occurs, we may be required to relocate and we may incur additional costs relating to such relocations as well as business interruption. Furthermore, we may not be able to find suitable alternative premises and our business may be adversely affected if we relocate to less desirable locations.

Lack of sufficient sophisticated orthopedic surgeons that can perform surgical operations in China may adversely affect our orthopedic implant business.

Sophisticated orthopedic surgeons that can perform surgical operations play a significant role in our business. We involve surgeons in our product research and development stage and solicit their feedback, proposals and suggestions with respect to our new products based on their clinical experience. We also rely on influential surgeons to endorse the quality of our orthopedic implant products and promote their use among hospitals. Additionally, sales volume of our orthopedic implant products is largely determined by the number of surgical operations performed by surgeons, and their performance is key to ensuring the proper implantation and function of our products in human bodies. However, a limited number of qualified surgeons in China have sufficient expertise and experience, and many of them are employed by Class 3 hospitals located in large cities, where sales of our orthopedic implant products remain small. As a result, we only have limited access to sophisticated surgeons, which may adversely affect our research and development efforts and sales of our products.

RISK FACTORS

Any failure by our large customers to make contracted payments to us or any disputes over, or significant delays in receiving, such payments could materially and adversely affect our cash flows and profitability.

We grant credit periods and/or credit limits to qualified distributors based on their payment history, business performance and/or market position. The average turnover days for our trade receivables were 121 days, 89 days, 105 days and 134 days for 2010, 2011, 2012 and the six months ended June 30, 2013, respectively. In particular, the trade receivable turnover days of our orthopedic implant business historically have been longer, at 121 days, 143 days, 164 days and 182 days in 2010, 2011, 2012 and the six months ended June 30, 2013, respectively. A significant portion of our outstanding trade receivables is derived from sales to a limited number of customers. Our five largest outstanding trade receivables from distributors accounted for approximately 30.4%, 51.9%, 36.9% and 27.3% of our total outstanding accounts receivable as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively. Any failure by our customers to pay us our contracted price, or any disputes over or significant delays in receiving such payments from our customers could require us to increase provisions made against our trade receivables or write off accounts receivable, either of which could adversely affect our cash flows and profitability. In addition, in our orthopedic implant business, we are seeking to lower the percentage of our permitted returned and exchanged products, and have recently revised our standard distribution agreement accordingly. However, we cannot assure you that our efforts will be successful.

Failure to manage our inventory turnover may materially and adversely affect our business, results of operations and financial condition.

Our average inventory turnover days were 304 days, 194 days, 207 days and 191 days in 2010, 2011, 2012 and the six months ended June 30, 2013, respectively. During the same periods, the average inventory turnover days of our orthopedic implant segment were 304 days, 297 days, 441 days and 362 days, respectively. The long inventory turnover of our orthopedic implant segment was primarily due to the need to maintain a broad range of products in stock to meet the demands of hospitals, which is consistent with the industry practice. The average inventory turnover days of our infusion set segment were 165 days, 144 days and 118 days in Successor Period 2011, 2012 and the six months ended June 30, 2013, respectively. The average inventory turnover of our infusion set segment was relatively long primarily because we maintained a relatively large balance of raw materials to meet strong demand for our products. If we fail to manage our inventory turnover effectively, our inventories may become obsolete or we may experience a shortage in inventories, either of which may materially and adversely affect our business, results of operations and financial condition.

RISK FACTORS

Our business depends significantly on the strength of our brand names and reputation. Our failure to develop, maintain and enhance our brands and reputation may materially and adversely affect the level of market recognition of, and trust in, our products.

Brand recognition and reputation are critical to the success of our new products and the continued popularity of our existing products. We believe that our “Fert (伏尔特)” and “Walkman” brands are well recognized among Chinese hospitals and surgeons, allowing us to further strengthen our market position in China. Our ability to develop, maintain and enhance the image and recognition of our brand names depends largely on our ability to remain a leader in the infusion and orthopedic implant industry in China. Our brand promotion efforts may be expensive and may fail to effectively promote our brands or generate additional sales.

Our brand names, reputation and product sales could be harmed if, for example:

- our products fail to gain acceptance by hospitals, surgeons and patients;
- our products contain defects or malfunctions;
- we provide poor or ineffective customer service; or
- we are subject to product liability claims.

Unauthorized use of our brand names by third parties may adversely affect the value of our brand names, reputation and business; legal actions (including litigation) to enforce our rights to our brand names may involve significant costs and divert of our resources.

We regard our brand names as critical to our success. Unauthorized use of our brand name by third parties may adversely affect the value of our brand names, our business and reputation, including the perceived quality and reliability of our products. We rely on trademark law and agreements with our distributors to protect the value of our brand names. As of the Latest Practicable Date, we had registered 10 trademarks. We may be unable to prevent unauthorized use of our brand names by random third parties. In certain circumstances, litigation may be necessary to protect our brand names. However, because the validity, enforceability and scope of protection of trademarks in China are uncertain and still evolving, we may not be successful in litigating these cases. Further, litigation could also result in substantial costs and diversion of our resources, and could disrupt our business, as well as materially and adversely affect our results of operations.

RISK FACTORS

We rely on our information technology systems for our sales and other functions and to maintain our research and development data. If our information technology systems fail to adequately perform these functions, or if we experience an interruption in their operation, our business and results of operations could be adversely affected.

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage accounting and financial functions, order entry, order fulfillment and inventory replenishment processes, and to maintain our research and development data. The failure of our information technology systems to perform as we anticipate could disrupt our business and product development and could result in decreased sales and increased overhead costs, all of which could materially and adversely affect our business, financial condition and results of operations. In addition, our information technology systems are vulnerable to damage or interruption from:

- earthquake, fire, flood and other natural disasters;
- attacks by computer viruses or hackers;
- power loss; and
- computer systems, Internet, telecommunications or data network failure.

Any such interruption could materially and adversely affect our business and results of operations.

Our operations are subject to hazards and natural disasters that may affect our operations and may not be fully covered by our insurance policies.

Our production facilities, distribution network and sources of raw materials face the risk of interruptions resulting from external factors beyond our control, such as natural disasters (including but not limited to flooding, cyclones, typhoons, earthquakes, blizzard and snow storm), acts of terrorism or other third-party interference. We cannot assure you that all claims under our insurance policies will be honored fully or on time. We do not carry any business interruption insurance or third-party liability insurance for personal injury or environmental damage arising from accidents at our facilities. In addition, there are certain types of losses, such as those resulting from war, acts of terrorism, earthquakes, typhoons, flooding or other natural disasters for which we cannot obtain insurance at a reasonable cost or at all. Should an accident, natural disaster or terrorist act occur, or should an uninsured loss or a loss in excess of insured limits occur, we could suffer from financial losses, as well as damage to our reputation or lose all or a portion of future revenues anticipated to be derived from the relevant facilities. Any material loss not covered by our insurance could materially and adversely affect our business and results of operations.

RISK FACTORS

Our ultimate Controlling Shareholder has substantial influence over our Company and her interests may not be aligned with the interests of our other shareholders.

Our ultimate Controlling Shareholder has substantial influence over our business, including matters relating to our management and policies and decisions regarding mergers, expansion plans, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Our ultimate Controlling Shareholder is Ms. Yufeng LIU. Immediately following completion of the [●] and assuming that the [●] is not exercised, Ms. LIU will, through Cross Mark, hold 547,061,863 Shares representing approximately 34.19% of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our ultimate Controlling Shareholder may exercise her substantial influence over us and cause us to enter into transactions or take, or fail to take, other actions or make decisions which conflict with the best interests of our other Shareholders.

RISKS RELATING TO OUR INDUSTRY

The PRC healthcare industry is highly regulated, and the regulatory framework, requirements and enforcement trends may change in a manner adverse to our business.

The healthcare industry in China is highly regulated. We are governed by various local, regional and national regulatory regimes in all aspects of our operations, including licensing and certification requirements and procedures for manufacturers and distributors of medical devices, and environmental protection laws and regulations. We cannot assure you that the legal framework, licensing and certification requirements and enforcement trends in the healthcare industry will not change, or that we will be successful in responding to such changes. Such changes may result in increased compliance costs, which would adversely affect our business, financial condition and results of operations.

All medical device manufacturers and distributors in China are required to obtain certain permits and licenses from various PRC governmental authorities, including production permits and product registration certificates for manufacturers. We have obtained all necessary permits and licenses required for the manufacture and distribution of our infusion set and orthopedic implant products. However, these permits and licenses are subject to periodic renewal and/or reassessment by the relevant PRC government authorities and the standards of such renewal or reassessment may change from time to time. Although we intend to apply for the renewal of these permits, licenses and certifications when required by applicable laws and regulations, there can be no assurance that we will successfully procure such renewals. Any failure by us to obtain the necessary renewals and otherwise maintain all licenses, permits and certifications

RISK FACTORS

necessary to carry on our business at any time could severely disrupt our business, and prevent us from continuing to carry on our business, which could have a material adverse effect on our business, financial condition and results of operations. In addition, any inability to renew these permits, licenses and certifications could severely disrupt our business, and prevent us from continuing to carry on our business. Any changes in the standards used by governmental authorities in considering whether to renew or reassess our business licenses, permits and certifications, as well as any enactment of new regulations that may restrict the conduct of our business, may also decrease our revenues and/or increase our costs, and materially reduce our profitability and prospects. Further, if the interpretation or implementation of existing laws and regulations changes or new regulations come into effect requiring us to obtain any additional permits, licenses or certificates that were previously not required to operate our existing businesses, we cannot assure you that we may successfully obtain such permits, licenses or certificates.

We are subject to regular inspections, examinations, inquiries or audits by the regulatory departments as part of the process of maintaining or renewing the various permits, licenses and certifications required for the manufacture and distribution of medical devices. In the event that any of our products or facilities fails such inspections, our business, profitability and reputation would be adversely affected.

Aspects of the impending healthcare reform in China may adversely affect our business.

The Chinese government has approved in principle a healthcare reform plan to address the affordability of healthcare services, the rural healthcare system and healthcare service quality in China. The healthcare reform covers various sectors of medical services, including the use of infusion sets and implantable medical devices, such as our orthopedic implants.

In particular, the NDRC drafted the Opinions on Strengthening the Monitoring and Administration of the Pricing of Implantable Medical Devices (《關於加強植(介)入醫療器械價格監測和管理的意見》), or the Pricing Opinions, published in July 2006. The Pricing Opinions proposed to fix a maximum premium range from 25% to 50% on the price difference between the ex-factory price offered by manufacturers to distributors and the ultimate retail price offered by hospitals to patients for the implantable medical devices on the NDRC’s monitoring list, and to require manufacturers or importers of such implantable medical devices to report their price offered to distributors with the relevant pricing authority in China and clarify the reason for subsequent price increases upon the request of such pricing authority. The Pricing Opinions are still pending and have not been promulgated to date. The ultimate retail prices of our products to patients vis-a-vis our ex-factory price currently may be higher than the maximum premium range proposed under the Pricing Opinions, depending on several factors, such as the bidding [●], the pricing strategy of each distributor, the different regions and hospitals in which the products are sold, the number of intermediaries, such as sub-dealers, and whether the products are trauma, spine or joints, or new models or older generation products.

RISK FACTORS

The PRC government continued to express an interest in the pricing of implantable medical devices in the Implementation Plan for the Recent Priorities of the Health Care System Reform (2009–2011) (《醫療衛生體制改革近期重點實施方案(2009–2011)》), issued by the State Council on March 18, 2009, where the Chinese government proposes to regulate the use of implantable medical devices by public hospitals. In addition, the Opinion on the Reform of Pharmaceuticals and Healthcare Service Pricing Structures (《改革藥品和醫療服務價格形成機制的意見》) issued on November 9, 2009 by the NDRC, the MOH and the Ministry of Human Resources and Social Security, aims to regulate the price of implantable medical devices by restricting margins in distribution channels and publishing market price data.

Although no detailed policies or rules have been issued by the NDRC or other PRC government authorities to date, the Chinese government may announce further steps towards regulation of implantable medical devices or implement the proposals described above. If that occurs, we may incur additional expenses or costs to comply with the new requirements. Moreover, we may not be able to find sufficient qualified distributors to sell our products due to decreased distributor margins, and we may be subject to significant pricing pressure on our products as well as pressure on our gross margin. If we fail to comply with the proposed new requirements when they become effective, we may be subject to penalties, including a fine up to the amount equal to five times the illegal income or up to RMB1 million, if no illegal income is generated, confiscation of illegal income and, under severe cases, suspension of operations for rectification and for those who seek excessive profits by violating pricing laws and regulations, revocation of their business licenses by the SAIC. All of these events could materially and adversely affect our business, financial condition, results of operations and prospects.

If the government, public insurers or third-party payers do not provide sufficient coverage and reimbursement for the use of our products, our revenue and growth prospects could be adversely affected.

Sales of medical devices, in particular our orthopedic implant products, largely depend on the availability of adequate reimbursement from government, public insurers or third-party payers. Surgeons and patients generally rely on these sources to reimburse all or part of the costs and fees associated with the use of the medical devices and procedures performed with these devices. Surgeons and patients are unlikely to use certain medical devices if they do not receive reimbursement adequate to cover the cost of their use in surgical procedures. In 2012, 31.3% of total health expenditures in China were sourced from direct payments by the government, and 35.2% of total health expenditures were sourced from government-directed public medical insurance schemes, commercial insurance plans and employers, according to the F&S Report. Urban residents in China can be covered by one of two urban public medical insurance schemes and rural residents can be covered under a rural healthcare insurance program launched in 2003.

RISK FACTORS

Furthermore, healthcare costs have risen significantly over the past decade. There have been and may continue to be proposals by legislators, regulators and third-party payers to contain these costs. Legislators, regulators and third-party payers may attempt to control costs by authorizing fewer elective surgical procedures or by requiring the use of the least expensive devices possible. These cost-control methods also potentially limit the amount which third-party payers may be willing to pay for medical devices. The continuing efforts of third-party payers, whether governmental or commercial, whether inside or outside China, to contain or reduce these costs, combined with closer scrutiny of such costs, could restrict our customers’ ability to obtain adequate coverage and reimbursement from these third-party payers. The cost containment measures in China could harm our business by adversely affecting the demand for our products or the price at which we can sell our products.

If national or provincial authorities in China decide to reduce the coverage or reimbursement levels for use of our products, patients may opt for or be forced to resort to other products, materially and adversely affecting our revenue and growth prospects.

If the PRC government decides to expand price control on our products, our business, profitability, results of operations and prospects would be materially and adversely affected.

There is currently no price control imposed by the PRC government in relation to medical devices sold in the PRC. Individual hospitals and local government bureaus that organize tendering processes for hospitals set the maximum selling prices for medical devices of individual manufacturers on a case-by-case basis in their tendering processes. During the Track Record Period, the maximum selling prices of our products set by individual hospitals and local government bureaus were generally stable, and we have generally maintained and increased our average selling prices by continually developing new products and features for our products. In contrast, the prices of certain pharmaceutical products sold in China, primarily those included in the national and provincial medical insurance catalogue, are subject to price controls mainly in the form of fixed prices or price ceilings. Manufacturers and business operators cannot set the actual price for any given price-controlled product above the price ceiling or deviate from the fixed price imposed by the government.

In recent years, the PRC government has been making continuous and increasing efforts in stepping up the healthcare system reform. In 2008 and 2009, the PRC government announced a series of healthcare reform plans, the goal of which was to establish a universal healthcare framework and to ensure that basic healthcare services are accessible to Chinese nationals. As part of this trend, the MOH has increased its involvement in the administration of the tendering processes used by hospitals for selecting their suppliers for medical devices and their procurement price. We are unable to predict any future changes to the price control policy to be adopted by the PRC government in the healthcare sector. In the event of any changes in such policy resulting in our products being subject to price control, our business, profitability, results of operations and prospects would be materially and adversely affected.

RISK FACTORS

There may be corrupt practices in the healthcare industry in China, which may place us at a competitive disadvantage if our competitors engage in such practices.

There may be corrupt practices in the healthcare industry in China. For example, in order to secure more orders, our competitors or their respective agents or distributors may engage in corrupt practices in order to influence surgeons, hospital personnel or other decision-makers in violation of the anti-corruption laws of China. As competition persists and intensifies in our industry, we may lose potential customers or sales to the extent that our competitors engage in such practices or other illegal activities.

We are subject to various environmental, safety and health regulations in the PRC, compliance with which may be difficult or expensive, and any failure to comply with such regulations may render us subject to penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business.

Our operations are subject to the environmental protection, safety and health laws and regulations in China. Failure to comply with these regulations may result in penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business. Non-compliance with the relevant regulations may result in us being ordered to suspend or cease production, subject us to penalty of up to three times the value of the products manufactured and the confiscation of the income derived from such manufacturing activity. Given the number and complexity of these regulations, compliance with them may be difficult or involve significant financial and other resources to establish efficient compliance and monitoring systems. In addition, these regulations are constantly evolving. There can be no assurance that the PRC government will not impose additional or more stringent laws or regulations, the compliance with which may cause us to incur significant costs which we may be unable to pass on to our customers and may take significant time which may affect or interrupt our operation.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

As all of our operations are conducted in the PRC, any change in the PRC’s political, economic and social conditions, laws, regulations and policies may have a material adverse effect on us.

The economy of the PRC differs from the economies of most developed countries in many respects, including but not limited to:

- structure;
- level of governmental involvement;
- level of development;

RISK FACTORS

- growth rate;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been in transition from a planned economy to a more market-oriented economy. The PRC government has implemented economic reform measures emphasizing responsiveness to market forces in the development of the PRC economy. Yet, the PRC government continues to play a highly significant role in regulating industries by imposing industrial policies. Despite the implementation of such reforms, we cannot predict whether changes in the PRC’s political and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, results of operations or financial condition.

The PRC’s legal system embodies uncertainties that could materially and adversely affect our business and results of operations.

All of our operations are conducted in the PRC and substantially all of our employees are PRC citizens. Our operations are therefore generally affected by and subject to the PRC legal system and PRC laws and regulations. Since the late 1970s, a substantial number of new laws and regulations covering general economic matters have been promulgated in China. Despite these efforts, China’s system of laws is still evolving. Even where adequate law exists in China, the enforcement of laws or contracts based on existing law may be uncertain, and it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. The PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited for reference but have limited weight as precedents. The relative inexperience of China’s judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.

It may be difficult to enforce against us, our Directors or our senior management in the PRC any judgments obtained from non-PRC courts.

Substantially all of our assets are located within China. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with many countries, including Japan, the United States and the United Kingdom. Therefore, it may be difficult for you to enforce against us, any of our Directors or our senior management in the PRC any judgments obtained from non-PRC courts.

RISK FACTORS

Changes in the PRC government policy on foreign investment in China may adversely affect our business and results of operations.

According to the latest version of the Foreign Investment Catalogue (《外商投資產業指導目錄》), which became effective on January 30, 2012, our business does not fall within the prohibited or the restricted category. As the Foreign Investment Catalogue is updated every few years, there can be no assurance that the PRC government will not change its policies in a manner that would render part or all of our businesses to fall within the restricted or prohibited categories. If we cannot obtain approval from relevant approval authorities to engage in businesses which become prohibited or restricted for foreign investors, we may be forced to sell or restructure our businesses which have become restricted or prohibited for foreign investment. If we are forced to adjust our corporate structure or business line as a result of changes in government policy on foreign investment, our business, financial condition and results of operations may be materially adversely affected.

Our acquisitions may be affected by PRC regulations relating to acquisitions of domestic companies by foreign entities.

Effective as of September 8, 2006, foreign investors must comply with the Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (2009 Revision) (《關於外國投資者併購境內企業的規定》), or the M&A Regulation, should they seek to purchase the equity of a domestic non-foreign invested company and thus change the company into a foreign-invested enterprise. According to the M&A Regulation, which provide the procedures for the approval of foreign investment projects in China, the business scope of such foreign-invested enterprise must conform to the Foreign Investment Catalogue (《外商投資產業指導目錄》).

We cannot assure you that we or the owners of any domestic company that we may seek to purchase in the future will be successful in obtaining all necessary approvals and completing all the relevant procedures under the M&A Regulation. In the event that the acquisition of domestic companies cannot be completed as part of our business strategies, our business and future plan may be adversely affected.

Under the EIT Law, dividends paid by our PRC subsidiaries may be subject to PRC tax. In addition, we may be considered as a PRC resident enterprise for tax purposes, in which case our global income may be subject to the 25.0% EIT, and dividends we pay to our overseas shareholders and gains realized from the transfer of Shares by our overseas shareholders may also be subject to PRC withholding tax.

We are a holding company incorporated in the Cayman Islands and our business operations are principally conducted through our PRC subsidiaries. Under the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), or the EIT Law, which became effective on January 1, 2008, dividends payable by a foreign-invested enterprise to its foreign investors are subject to a 10.0% withholding tax, unless such foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a different

RISK FACTORS

withholding tax arrangement. Pursuant to an applicable tax arrangement between the PRC and Hong Kong, a company incorporated in Hong Kong is subject to a reduced withholding tax rate of 5.0% on dividends it receives from a company incorporated in the PRC if it holds 25.0% or more interest in such PRC company. Accordingly, dividends paid by Fert Technology to Health Access, and by Walkman Biomaterial to Health Forward, are subject to a 5.0% PRC withholding tax, unless Health Access or Health Forward is deemed to be a PRC resident enterprise for the purposes of EIT Law. Further, according to a circular released by the SAT on October 27, 2009, or SAT Circular 601, a corporate resident of a contracting state will not be entitled to the lower withholding tax rate under the tax treaty if it is considered a “conduit company” set up merely for the purpose of avoiding or reducing tax or transferring or accumulating profits, as opposed to a beneficial owner who owns and controls an item of income, or the right or property from which that item of income is derived, and is normally engaged in substantive business activities such as manufacturing, sales and management. Therefore, if either of Health Access and Health Forward is not considered to be the beneficial owner of Fert Technology or Walkman Biomaterial, respectively, under the terms of SAT Circular 601, we may not be able to enjoy the applicable tax arrangement benefits between the PRC and Hong Kong, and any dividends paid by Fert Technology to Health Access and by Walkman Biomaterial to Health Forward may attract a higher withholding tax rate of 10.0%. There is no similar tax treaty between the Cayman Islands or the British Virgin Islands on one hand and China on the other.

Under the EIT Law, enterprises established under the laws of jurisdictions outside China with their “de facto management bodies” located within China may be considered PRC resident enterprises for tax purposes. The SAT promulgated the “Circular on Identifying Chinese-Controlled Offshore Enterprises as Chinese Resident Enterprises in accordance with Criteria for Determining Place of Effective Management” in April 2009 which defines the term “management body” in respect of enterprises that are established offshore by PRC enterprises. However, no definition of “management body” is provided for enterprises established offshore by private individuals or foreign enterprises like us. As such, our PRC legal adviser has advised us that there is uncertainty whether our Company will be deemed to be a PRC resident enterprise for the purpose of the EIT Law. If our Company is considered a PRC resident enterprise under the above definition, our global income will be subject to EIT at the rate of 25.0%. In addition, although the EIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from EIT, due to the short history of the EIT Law, it remains unclear as to the detailed qualification requirements for such exemption and whether dividend payments by our subsidiaries to us will meet such qualification requirements even if we are considered a PRC resident enterprise for tax purposes. Furthermore, the implementation rules of the EIT Law set forth that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interest of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how “domicile” may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are

RISK FACTORS

considered a PRC resident enterprise for tax purposes, any dividends we pay to our overseas shareholders as well as gains realized by such shareholders from the transfer of our Shares may be regarded as PRC-sourced income and as a result become subject to PRC withholding tax at a rate of up to 10%.

Since the EIT Law took effect in 2008, it remains uncertain in many aspects as to how it would be implemented by the relevant PRC tax authorities. If dividend payments from our PRC subsidiaries to us are subject to PRC withholding tax at the rate of 10.0%, our financial condition, results of operations and the amount of dividends available to pay our shareholders may be adversely affected. If our dividend payments to our overseas shareholders and gains realized by such shareholders from the transfer of our Shares are subject to PRC withholding tax, it may materially and adversely affect your investment return and the value of your investment in us.

The discontinuation of the preferential tax treatments for “High and New Technology Enterprises” currently available to us in China could materially reduce our net income and profitability.

Fert Technology and Walkman Biomaterials are currently qualified as “High and New Technology Enterprises” under the PRC income tax law and were entitled to a preferential income tax rate of 15.0% on their estimated assessable profits during the Track Record Period. Their qualification as “High and New Technology Enterprises” is valid through 2014. We intend to apply for renewal of such qualification thereafter but there is no assurance that our application will succeed. In the event that this preferential tax treatment is discontinued, Fert Technology and Walkman Biomaterials will become subject to a 25.0% standard enterprise income tax rate, which would increase our income tax expenses and could materially reduce our net income and profitability.

We face uncertainty with respect to PRC tax liabilities in connection with direct and indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》), or SAT Circular 698, issued by the SAT on December 10, 2009 with retroactive effect from January 1, 2008, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5%; or (ii) does not tax foreign income of its residents, the foreign investor must report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a

RISK FACTORS

reasonable commercial purpose and was established for the purpose of avoiding PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10.0%.

SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There is uncertainty as to the application of SAT Circular 698. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, and the process and format of the reporting of an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, to date there have not been any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to avoid PRC tax. As a result, we may become at risk of being taxed under SAT Circular 698 due to the Reorganization and we may be required to expend resources to comply with SAT Circular 698 or to establish that SAT Circular 698 is not applicable to us, all of which may have an adverse effect on our results of operations and financial condition.

Our Company is a holding company that relies on dividend payments from our subsidiaries for funding.

Our Company is a holding company incorporated in the Cayman Islands and our operations are conducted through our subsidiaries in the PRC. Therefore, the availability of funds to pay dividends to our Shareholders and to service our indebtedness depends on dividends received from these subsidiaries. If our subsidiaries incur any debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends or other distributions and to service our indebtedness will be restricted.

PRC law requires that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including [●]. PRC law also requires foreign-invested enterprises, such as our subsidiaries in China, to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends.

RISK FACTORS

Government control of currency conversion may materially and adversely affect our financial condition, results of operations and ability to remit dividends.

The RMB is not a freely convertible currency. In China, the conversion of the RMB into foreign currencies, including the HK dollars and US dollars, is based on rates set by the PBOC. The official exchange rate for the conversion of the RMB to US dollars had generally been stable from 1994 until July 2005, when the PRC government introduced a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. On July 21, 2005, or the effective date of the new regime, the RMB appreciated against the US dollar and HK dollar by approximately 2.0%. On September 23, 2005, the PRC government widened the daily trading band for the RMB against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system. It is uncertain if the exchange rates of the Hong Kong dollars and US dollars against the RMB will further fluctuate. Any appreciation of the RMB may subject us to increased competition from imported orthopedic products. In addition, since our revenue and net profit are denominated in RMB, any depreciation of the RMB would materially and adversely affect the value of, and any dividends payable on, our Shares in foreign currency terms.

In addition, the conversion of the RMB into other currencies is subject to a number of foreign exchange control rules, regulations and notices issued by the PRC government. In general, foreign-invested enterprises are permitted to convert the RMB to foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks following prescribed procedural requirements. Control over conversion of the RMB to foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations. The requirement for us to pay dividends in a currency other than the RMB to our Shareholders may expose us to foreign exchange risk. Under the current foreign exchange control system, there is no assurance that we will be able to obtain sufficient foreign currency to pay dividends or satisfy other foreign exchange requirements in the future.

RISK FACTORS

The outbreak of any severe communicable disease in China, if uncontrolled, may materially and adversely affect our financial condition, results of operations and future growth.

The outbreak of any severe communicable disease in China, if uncontrolled, could have an adverse effect on the overall business sentiment and environment in China, which in turn may have an adverse impact on domestic consumption and, possibly, on the overall GDP growth of China. As all of our revenue is derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption or slowdown in the growth of GDP of China may materially and adversely affect our financial condition, results of operations and future growth. In addition, if our employees are affected by a severe communicable disease, we may be required to institute measures to prevent the spread of the disease, which may materially and adversely affect or disrupt our operations, resulting in an adverse effect on our results of operations. The spread of any severe communicable disease in China may also affect the operations of our customers and suppliers, which again, may have a potentially adverse effect on our financial condition and results of operations.

DIRECTORS

DIRECTORS

Name	Address	Nationality
Executive Director		
Mr. JIANG Liwei (姜黎威)	302, Gate 4, Building 118 District A Wangjing East Park Beijing, PRC	Chinese
Non-executive Directors		
Mr. LIN Junshan (林君山)	1402, Gate 1, Building 10 Jin Yu Guan Lan Beijing, PRC	Chinese
Ms. Yue’e ZHANG (張月娥)	1512 NW 157th Ave Pembroke Pines FL33028, United States	American
Mr. FENG Dai (馮岱)	4C Excelsior Building 364 Nathan Road Kowloon, Hong Kong	Chinese (Hong Kong)
Independent Non-executive Directors		
Mr. ZHANG Xingdong (張興棟)	15/8F, Building 6 3 Kehua Street, Wuhou District Chengdu, Sichuan province, PRC	Chinese
Mr. CHEN Geng (陳庚)	1101, Gate 5, Building 3 Xi Er Qi De Yuan, Haidian District Beijing, PRC	Chinese
Mr. WANG Xiaogang (王小剛)	No. 3–1, Long Hu Yan Lan Shan Hou Sha Yu, Shunyi District Beijing, PRC	Chinese

CORPORATE INFORMATION

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 Wanchai, Hong Kong
Headquarters and principal place of business in China	505–506, Block C Focus Square, No. 6 Futong East Avenue Wangjing, Chaoyang District Beijing, PRC
Company secretary	Mr. William FU
Authorized representatives	Mr. JIANG Liwei Mr. William FU
Audit committee	Mr. WANG Xiaogang (<i>Chairman</i>) Mr. CHEN Geng Ms. Yue’e ZHANG
Remuneration committee	Mr. CHEN Geng (<i>Chairman</i>) Mr. ZHANG Xingdong Mr. FENG Dai
Nomination committee	Mr. LIN Junshan (<i>Chairman</i>) Mr. WANG Xiaogang Mr. ZHANG Xingdong
Company website address	www.pwmedtech.com <i>(the information on this website does not form part of this document)</i>

REGULATION

This section sets forth a summary of the most significant aspects of laws and regulations relating to our business operations in PRC or our shareholders’ rights to receive dividends and other distributions from us.

GENERAL REGULATORY FRAMEWORK

Infusion sets and joint implants are subject to regulatory controls governing medical devices. Manufacturers of medical devices are subject to regulation and oversight by the CFDA, and its relevant local branches. We are also subject to other PRC laws and regulations applicable to manufacturers in general. CFDA requirements include obtaining production permits, product registrations and compliance with clinical testing standards, manufacturing practices, pricing practices, quality standards, applicable industry standards, reporting procedures with respect to adverse events reporting, and advertising and packaging standards.

CLASSIFICATION OF MEDICAL DEVICES

In China, medical devices are classified into three different categories, Classes I, II and III, depending on the degree of risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. The class to which a medical device is assigned determines, among other things, whether a manufacturer needs to obtain a production permit and the level of regulatory authority involved in granting such permit. The classification of a medical device also determines the types of product registration certificates required and the level of regulatory authority involved in granting the product registration certificates.

Class I devices are those with low risk to the human body and are subject to “general controls.” Product registration certificates for Class I devices are regulated and granted by the city-level food and drug administration where the manufacturer is located. Class II devices pose medium risk to the human body and are subject to “special controls.” Product registration certificates for Class II devices are regulated and granted by the provincial food and drug administration where the manufacturer is located, usually through a quality system assessment. Class III devices impose high risk to the human body, such as life-sustaining, life-supporting and implantable devices. Product registration certificates for Class III devices are regulated and granted by the CFDA under the strictest regulatory control.

Our orthopedic implant and infusion set products are both Class III devices.

REGULATION

PRODUCTION PERMIT

Pursuant to the Regulations on the Supervision of Medical Devices (《醫療器械監督管理條例》), in addition to the required product registration certificates, a manufacturer must obtain a production permit from the respective level of food and drug administration before commencing the manufacture of Classes II and III medical devices. In general, the SAIC and/or its local branches will not issue a business license to a manufacturer of Classes II and III medical devices before it has obtained a production permit. Accordingly, a manufacturer will not be able to commence any business operations without a production permit. No production permit is required for the manufacture of Class I devices; however, the manufacturer must notify the provincial level food and drug administration where the manufacturer is located and file for record with it.

An application for the production permit for a Class II medical device is made to the provincial level food and drug administration, and will be reviewed based on a number of criteria including the qualifications of the individuals in charge of production, quality and technology; the ratio of technicians to general staff; the location, suitability and overall conditions of the production facility and warehouse; and the quality control system and capabilities of the manufacturer.

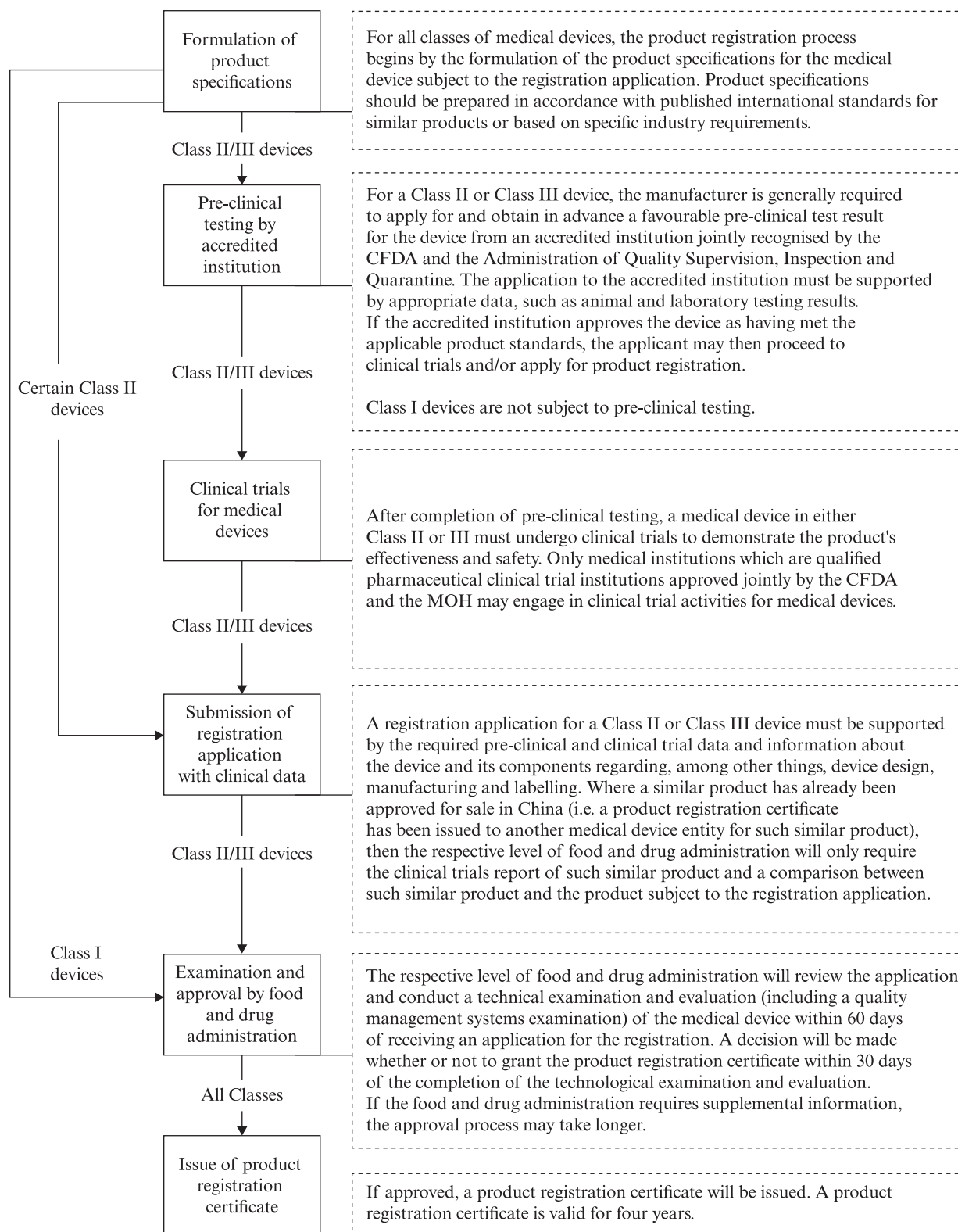
An application for the production permit of a Class III medical device is also reviewed by the provincial level food and drug administration, but subject to further criteria which primarily require an even more stringent quality control system having been put in place. A production permit, once obtained, is valid for five years and is renewable upon expiration.

PRODUCT REGISTRATION FOR MEDICAL DEVICES

Pursuant to the Administrative Measures for the Registration of Medical Devices (《醫療器械註冊管理辦法》) promulgated by the CFDA effective August 9, 2004, before a medical device can be manufactured for commercial distribution, a manufacturer must register and obtain a registration certificate for the medical device by proving its safety and effectiveness to the satisfaction of the respective levels of the food and drug administration. Domestically manufactured Class III devices are subject to direct review by the CFDA whereas Classes I and II devices are reviewed and approved by the provincial and local food and drug administration, respectively.

REGULATION

The following diagram sets out the typical application procedures for registering a medical device:



REGULATION

DISTRIBUTION LICENSE

A distributor must undergo examination and approval procedures and obtain a distribution license in order to engage in the sales and distribution of Classes II and III medical devices in China. A distribution license is valid for five years and is renewable upon expiration.

TENDERING PROCESSES FOR MEDICAL DEVICES

Centralized procurement processes are required for medical devices. On June 21, 2007, the MOH issued the Notice of the Ministry of Health on Further Strengthening the Administration of Centralized Procurement of Medical Devices (《衛生部關於進一步加強醫療器械集中採購管理的通知》), which requires that all non-profit medical institutions under all levels of government and state-owned enterprises participate in the centralized procurement. Public tendering shall be the principal method of centralized procurement. On February 28, 2011, the General Office of the State Council issued the 2011 Pilot Reform Arrangement of Public Hospitals (《2011年公立醫院改革試點工作安排》), which provides that tendering process, which is one of the centralized procurement methods, be applied to implantable (invasive) medical consumables.

We are subject to the regulations on centralized procurement processes. On December 17, 2012, the MOH and five other related governmental authorities issued the Administrative Norms on Centralized Procurement of High Value Medical Consumables (for Trial Implementation) (《高值醫用耗材集中採購工作規範(試行)》), which allows manufacturers of medical consumables to bid directly with hospitals during the process of centralized procurement and in accordance with the requirements of the centralized procurement documents. Such manufacturers are required to truthfully furnish, on the centralized procurement system, letters of authorization and qualification certificates of products and enterprises, which are authentic, effective and valid, ex-factory prices for the past two to three years, supply-guarantee letters, and lists of authorized dealers.

The government agencies in charge of centralized procurement in each province, autonomous region and municipality are also responsible for producing the catalogues of centralized procurement, which are effective within their respective jurisdictions. Each province may also explore and set its own methods of centralized procurement based on local practices.

REGULATION

CONTINUING CFDA REGULATION

We are subject to continuing regulation by the CFDA. Our products are subject to, among others, the following regulations:

Renewal of Permits and Certificates

Production permits are valid for five years from their issuance date while product registration certificates expire after four years. An application for renewal of these permits and certificates must be made with the respective food and drug administration within the prescribed timeframe prior to their expiry. Failure to renew the relevant permit and/or certificate on time may result in fines being imposed by the CFDA or revocation of the permit and/or certificate. If production of a particular medical device has stopped for two consecutive years or more, the product registration certificate will no longer be renewable. Anyone who wishes to resume production of such device in China must apply for a new product registration certificate afresh.

Changes to Content of Permits and Certificates

Any changes to the contents or particulars stated in the production permit must be reported to the CFDA.

Similarly, if any of the contents stated in the product registration certificate is changed, an application for the modification or re-registration of the product registration certificate must be filed with the CFDA within 30 days after the change occurs. In the event of significant modification to an approved medical device, such as changes to (i) the model and specification of the device; (ii) location of the production facility; (iii) product standards; (iv) function, structure and composition of the device, or (v) application scope of the device, a re-registration may be required. A modification filing will be sufficient with respect to changes of a minor nature, such as changes to the device name.

Other Ongoing Regulations

We are subject to continuing regulation by the CFDA. Our products are subject to, among others, the following regulations:

- the CFDA’s quality system regulations which require medical device manufacturers to create, implement and follow certain design, testing, control, documentation and other quality assurance procedures;
- the CFDA’s quality surveillance system which imposes mandatory adverse event monitoring and reporting obligations on medical device manufacturers, distributors and medical institutions. Such entities are required to set up an adverse event monitoring system, which shall include the maintenance of a logbook recording

REGULATION

incidents of adverse reaction and other events involving their products. They must also comply with various reporting obligations to the relevant authorities. For example, manufacturers of Classes II and III medical devices are required to file an annual adverse event report to the provincial level adverse event monitoring authorities reporting on any recently occurred adverse event incidents; and

- according to “Medical Device Recall Management Measures (for Trial Implementation)” (《醫療器械召回管理辦法(試行)》) issued by the MOH, medical device manufacturers should immediately decide to make a voluntary recall when a defective product was found in defect investigation.

Further, Classes II and III devices may also be subject to special controls applicable to them, such as supply purchase information, performance standards, quality inspection procedures and product testing devices which may not be required for Class I devices.

We are also subject to inspection and market surveillance by the CFDA to determine compliance with regulatory requirements. The CFDA is empowered to institute a number of enforcement actions, including:

- fines, injunctions and civil penalties;
- mandatory recall or seizure of our products;
- the imposition of operating restrictions, partial suspension or complete shutdown of production; and
- criminal prosecution.

GOOD MANUFACTURING PRACTICES

The CFDA issued the “Good Manufacturing Practice for Medical Apparatus and Instruments (for Trial Implementation)” (the “GMP”) in December 16, 2009. The GMP came into operation in January 1, 2011 with two relevant standards — “Implementation Regulations on Criteria for the Quality Control of Implanted Medical Devices Manufacturing (for trial implementation)” and “Implementation Regulations on Criteria for the Quality Control of Sterilised Medical Devices Manufacturing (for Trial Implementation).” Manufacturing companies are required to comply with the newly established GMP standard.

REGULATION

QUALITY CONTROL OF CLASS III MEDICAL DEVICES

The rules and regulations regarding quality control of Class III of medical devices primarily include the following:

- On August 9, 2004, the China Food and Drug Administration issued the Measures for the Administration of Medical Device Registration (《醫療器械註冊管理辦法》), which provides that “Class III medical devices are subject to registration tests by the medical device test organizations recognized by the SFDA and the General Administration of Quality Supervision, Inspection and Quarantine. Such medical devices shall be proved to conform to the applicable product standards through tests before the medical devices are used for clinical trial or an application is submitted for registration.”
- On July 23, 2008, the China Food and Drug Administration issued the Provisions on Enhance and Regulate the Registration Administration of Medical Devices (《關於進一步加強和規範醫療器械註冊管理的暫行規定》), which provides that during the checking process of the quality management system, the Food and Drug Administrations of all the provinces shall check the application documents (especially the clinical trial report) and producing processes of samples submitted by the applicants, and the SFDA shall inspect the checking results of the application documents mentioned above if necessary.

PRODUCT LIABILITY AND CONSUMER PROTECTION

Product liability claims may arise if the products sold have any harmful effect on consumers. The injured party can claim for damages or compensation. The General Principles of the Civil Law of China (《民法通則》), which became effective on January 1, 1987 amended on August 27, 2009, states that manufacturers and sellers of defective products causing property damage or injury shall incur civil liabilities.

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) was enacted in 1993 and amended in 2009 to strengthen quality control of products and reinforce consumers’ rights. Under this law, manufacturers and operators who produce and sell defective products may be subject to confiscation of earnings from such sales, the revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liability.

REGULATION

Product Liability

The PRC Tort Law (《中華人民共和國侵權責任法》) was promulgated on December 26, 2009 and came into effect on July 1, 2010. Under this law, a patient who suffers injury from a defective medical device can claim for damages from either the medical institution or the manufacturer. If the patient claims for damages from the medical institution, the medical institution has the right to claim for repayment from the manufacturer.

The PRC Law on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) was promulgated on October 31, 1993 and enacted from January 1, 1994 amended on August 27, 2009 to protect consumers’ rights when they purchase goods or services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers. In some cases, medical device manufacturers and distributors may be subject to criminal liability if their goods or services lead to the death or injuries of patients or other third parties.

OTHER REGULATIONS

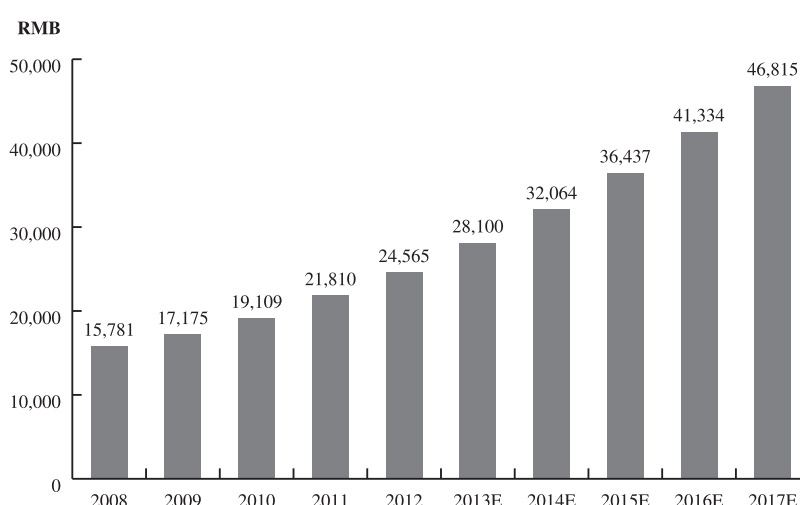
Laws regulating medical device manufacturers and distributors cover a broad array of subjects. We must comply with numerous additional state and local laws relating to matters such as safe working conditions, manufacturing practices, environmental protection and fire hazard control.

INDUSTRY OVERVIEW

Certain information and statistics relating to our industry provided in this section have been derived from official government sources. In addition, this section and elsewhere in the document contains information extracted from a commissioned report, or the F&S Report, prepared by Frost & Sullivan for purposes of this document. See “— About This Section.” We believe that the sources of the information in this “Industry Overview” section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. However, the information has not been independently verified by us, the [●], any of our or their respective directors, officers, employees, advisers, agents or representatives or any other party involved in the [●] and no representation is given as to its accuracy. Except as otherwise noted, all the data and forecast in this section are derived from the F&S Report.

OVERVIEW OF MACRO-ECONOMIC ENVIRONMENT IN CHINA

As one of the most important economies in the world, China has experienced robust economic growth since the onset of the economic reform. The 2008 financial crisis triggered the debate of structural changes to its economic model. While export remains a major growth driver for China, it has gradually shifted its focus from being an export-oriented economy to one that is increasingly driven by domestic consumption. China’s urban disposable income has been growing at a double-digit rate since 2008. Driven by increasing urbanization, China’s urban population is also expected to grow in tandem with the rise in purchasing power of urban dwellers. The following chart illustrates the average annual disposable income per capita in China for urban households from 2008 to 2012 and the forecast from 2013 to 2017.



Source: National Bureau of Statistics, Frost & Sullivan estimates

INDUSTRY OVERVIEW

Beijing, Guangzhou, Shanghai and Shenzhen, which are usually defined as tier I cities, contributed 10.0% to 15.0% of total GDP in China in 2010. Tianjin, Chongqing, most provincial capital cities, and certain coastal cities situated in economically developed provinces are usually defined as tier II cities, and the rest are tier III and county level cities.

HEALTHCARE INDUSTRY IN CHINA

Total Healthcare Expenditure Growth in China

China’s total healthcare expenditure has been growing rapidly along with the ongoing healthcare reform, and is expected to continue to grow in the next several years. Total healthcare expenditure is composed of government healthcare expenditure and social healthcare expenditure, which includes social medical funds, employers’ contribution and individual’s healthcare expenditure. China’s total healthcare expenditure increased from RMB1,453.5 billion in 2008 to RMB2,891.4 billion in 2012, and is expected to reach RMB5,367.2 billion in 2017, representing a CAGR of 15.6% during the ten-year period.

Healthcare expenditure in China varies significantly among tiers I, II and III cities. In 2010, tier I cities represented 11.2% of the total healthcare expenditure in China while the population of these cities represented only 4.7% of the total population. The fact that tier I cities incur considerable healthcare expenditure is attributable to a combination of factors, such as relatively high average income levels, concentrated medical resources and a large number of patients attracted from nearby cities and provinces.

Per Capita Healthcare Spending

China achieved higher growth in per capita healthcare expenditure in comparison to most of the developed countries. China’s per capita healthcare expenditure increased from RMB1,094.5 in 2008 to RMB2,135.4 in 2012, and is expected to reach RMB3,866.9 in 2017, representing a CAGR of 15.1% during the ten-year period. This growth rate compares favorably to 3.5% in the United States, (1.4)% in the United Kingdom, and 10.3% in Japan in the same period. The robust increase in per capita healthcare spending is largely attributable to an increase in medical needs as a result of an increasingly aging society, increasing household income, increasing focus on the quality of life, changing lifestyle, such as less reliance on manual labor due to increased automation during the industrialization processes in China, improvements in medical facilities and expansion of medical insurance coverage. Nevertheless, per capita healthcare expenditure of RMB2,135.4 in China in 2012 remained relatively low comparing to RMB54,401.9 in the United States, RMB20,993.1 in the United Kingdom, and RMB20,061.6 in Japan.

INDUSTRY OVERVIEW

Overview of Government-sponsored Medical Insurance Schemes

The health insurance system in China is led by the government. The ongoing healthcare reform aims to build a nationwide insurance system to provide substantially all of China’s population with affordable medical services. Currently, such system consists of three types of essential medical insurance, Urban Employee Basic Medical Insurance Scheme as a mandatory health insurance program for urban employees and retirees, Urban Resident Basic Medical Insurance Scheme as a voluntary program for other urban residents, and New Rural Co-operative Medical Scheme, or NRCMS, as a voluntary program for all rural population. By the end of 2012, the coverage of the two urban insurance schemes reached 536 million urban residents, accounting for approximately 95% of the total registered urban population, and NRCMS covered 805 million rural residents, accounting for approximately 98% of the total registered rural population. For certain illnesses that require expensive medical procedures, a supplemental medical reimbursement system is in place, which provides a minimum of 50% reimbursement in addition to the basic social medical insurance coverage.

In 2012, 31.3% of total healthcare expenditures in China were directly paid by the governments, and 35.2% of total healthcare expenditures were paid by government-directed public medical insurance schemes, commercial insurance plans and employers.

Hospital Classification in China

Hospitals in China are statutorily classified into three classes including Classes 1, 2 and 3 hospitals. Generally, Class 3 hospitals are the largest hospitals that provide the services with the highest degree of complexity and sophistication, and perform a broad range of educational and medical research functions. In addition, compared to hospitals in other classes, Class 3 hospitals are more concentrated in tiers I and II cities, and have more surgeons with a broader range of specialties and a higher degree of technical expertise and experience. Class 2 hospitals are typically regional hospitals that are smaller and provide fewer and less complex services compared to Class 3 hospitals, but also perform certain educational and medical research functions. Class 2 hospitals are typically found in cities throughout China. Class 1 hospitals are the smallest hospitals offering basic medical services. Class 1 hospitals are typically found in small cities throughout China. According to the 2012 China Healthcare Yearbook, of the 21,979 hospitals in China in 2011, there were 1,399 Class 3 hospitals, 6,468 Class 2 hospitals, 5,636 Class 1 hospitals and 8,476 other hospitals.

MEDICAL DEVICE INDUSTRY IN CHINA

The medical device market in China covers all the medical devices on the CFDA device list, the major categories of which include basic medical devices (such as surgical knives and forceps), medical electronic devices (such as patient monitors, ventilators, and anesthesia machines), optic devices (such as endoscopes and microscopes), medical imaging devices (such as X-ray, CT, and ultrasound), low-value consumables (such as suture, needle, syringes, and infusion sets), high-value consumables (such as intraocular lens, stents, and orthopedic

INDUSTRY OVERVIEW

implants), IVD devices (such as clinical chemistry analyzers, blood gas analyzers, and immunoassay analyzers) and others (such as software, disinfection devices, traditional Chinese medicine devices, and physical therapy devices).

The total size of China’s medical device market was RMB242 billion in 2012, with an expected growth of a CAGR of 19.8% in the next five years. The total size of China’s medical device market is expected to reach RMB597 billion in 2017.

MEDICAL CONSUMABLE INDUSTRY IN CHINA

Medical consumables are one of the major categories of medical devices, mainly consisting of high-value consumables and low-value consumables. Medical consumables play a very important role in the overall medical device industry. According to the Ministry of Industry and Information Technology, or the MIIT, there are over 20,000 medical device companies in China, and based on Frost & Sullivan’s estimate, about 5,000 of them are manufacturers of medical consumables.

In recent years, China’s medical consumables market grew at a double-digit growth rate and reached RMB48 billion in 2012, fostered by factors such as strong government investment in the healthcare industry, substantial development of the public medical insurance system, as well as high disease prevalence resulting from an aging population and changing lifestyle. In 2012, China’s medical consumables market accounted for approximately 20% of China’s medical device market, with a growth rate slightly higher than that of China’s overall medical device market. The medical consumables market is estimated to grow at a CAGR of 19.8% in the next five years, and the market size is expected to reach RMB119 billion in 2017.

Key Growth Drivers

Factors that contribute to the growth of the medical consumables industry in China include the following:

- *Aging population.* According to 2010 population census, there were 177 million individuals aged above 60 years old, or 13.3% of the total population in China. The number is growing at a relatively fast pace and is expected to reach 450 million by the end of 2030.
- *Steady economic growth.* As one of the most important economies in the world, China has experienced robust economic growth since the onset of its economic reforms. The Chinese economy is expected to continue its robust growth from 2013 to 2017. In line with the growing economy, per capita GDP of China is growing at a relatively fast pace and is expected to continue its growth momentum.

INDUSTRY OVERVIEW

- *Expansion in public health investment.* The government encourages the development of private hospitals and is expected to further accelerate the reform and development of general hospitals by investing in healthcare infrastructures and prioritizing the reform of county-level general hospitals. It is estimated that over RMB100 billion will be invested in this public health infrastructure upgrade.
- *Changing lifestyle.* In China, the prevalence of chronic health problems, such as hypertension, diabetes and hyperglycemia, grew rapidly over the last decade and is expected to continue to grow significantly in the future due to the change of lifestyle. For example, the incidence rate of hypertension among adults in Beijing has increased to 33.8%.
- *Expansion of nationwide healthcare insurance.* The healthcare reform program of 2009 aimed to build a nationwide insurance system. By the end of 2012, the coverage of the two urban insurance schemes reached approximately 95% of the total registered urban population, and the NRCMS covered approximately 98% of the total registered rural population. For certain illnesses that require expensive medical procedures, a supplemental medical reimbursement system is in place, which provides a minimum of 50% reimbursement in addition to the basic social medical insurance coverage.
- *Urbanization.* China’s rapid economic growth has coincided with its unprecedented urbanization since the 1990s. Because cities often offer better employment prospects, educational opportunities and investment options, together with better living environment as a result of comprehensive transportation, logistics infrastructure and recreational environment, there has been an increasing migration trend to the cities, and hence, leading to the convergence of household income and medical demand of rural dwellers.

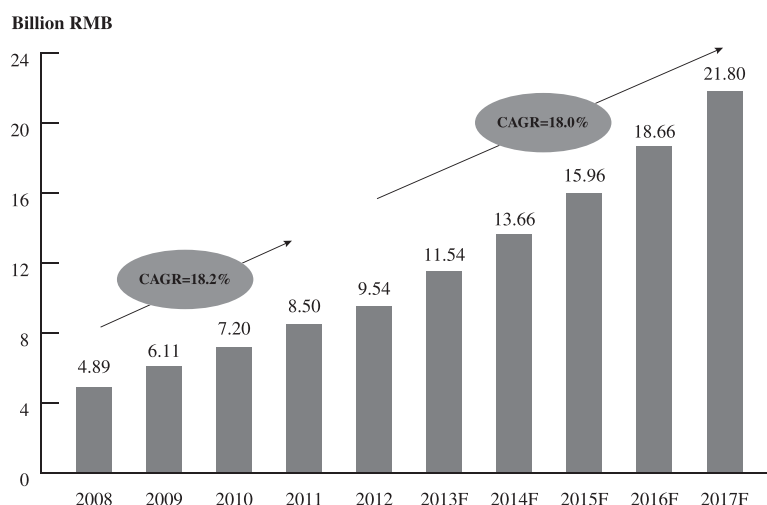
ORTHOPEDIC IMPLANT INDUSTRY IN CHINA

Market Size and Growth

China’s orthopedic implant market reached RMB9.54 billion in 2012, with a CAGR of 18.2% from 2008 to 2012. In the next five years, this market is expected to continue to grow at a CAGR of 18.0% and reach RMB21.8 billion in 2017, supported by factors such as an aging population and relatively low penetration rates (particularly in the spine and joint segments) compared to more developed countries. Despite the relatively high growth rate, China’s orthopedic implant market remains small compared to developed countries such as the United States, with a market of approximately a quarter the size of that of the United States and per

INDUSTRY OVERVIEW

capita spending only about 5% of that of the United States based on statistics for 2011. The following chart illustrates the sales revenue of orthopedic implants in China from 2008 to 2012 and the forecast from 2013 to 2017.



Source: Frost & Sullivan database and forecasting

In 2012, the market size for tier I cities was RMB3.83 billion, and the market size for tiers II and III and county level cities was RMB5.71 billion. The growth rate in tiers II, III and county level cities, with a CAGR of 20.4% from 2008 to 2012, was much higher than that of tier I cities (15.3%), driven by factors such as larger population in these regions than tier I cities and restrictions in reimbursement policies which only reimburse surgeries performed at local hospitals. The market size for tier I cities is estimated to be RMB7.13 billion in 2017, representing a CAGR of 12.3% from 2013 to 2017, while the market size for tiers II, III and county level cities is estimated to be RMB14.67 billion, representing a CAGR of 20.1% from 2013 to 2017. Due to limited household income and the cap on healthcare reimbursement, domestic brands are more popular in tiers II, III and county level cities as a result of their attractive pricing and improved quality. Therefore, the high growth of tiers II, III and county level cities will contribute to the growth of domestic companies in the next few years.

Market Composition

According to CFDA registration data, there are approximately 80 domestic companies registered as orthopedic implants manufacturers, of which 40 to 50 companies are actively selling orthopedic products, according to Frost & Sullivan’s estimate, and 15 MNCs in China. In 2012, the MNCs had a total market share of 64.3%, with domestic companies having the remaining 35.7%. In recent years, domestic companies have increasingly taken market shares away from the MNCs, driven by price competitiveness, strong local market access, and improved design and quality. For instance, PW Medtech’s orthopedic implant products are on average 50.0% less expensive than international brands. In recent years, the market shares of

INDUSTRY OVERVIEW

MNCs vis-a-vis domestic companies have been affected by the acquisitions of leading domestic companies, such as Kanghui and Trauson (the two largest orthopedic products manufacturers in China, with a collective market share of 9.7% in 2012) by Medtronic, Inc. and Stryker Corporation, respectively, in 2012 and 2013, respectively. Excluding the effect of these acquisitions, orthopedic products of domestic companies experienced a growth trend during the past three years, accounting for collective market shares of 39.7%, 41.4%, 43.1% and 45.4% in 2009, 2010, 2011 and 2012, respectively. In addition, Frost & Sullivan estimates that most domestic companies had market share less than 1.0% in the overall market. The fragmentation of this market presents attractive consolidation opportunities for the market leaders.

As the average gross margin of major domestic orthopedic implant manufacturers was estimated at 69% in 2012, the orthopedic implant business can be categorized as high margin business.

Key Growth Drivers

Key industry drivers contributing to the growth of the orthopedic implant industry in China include: (i) high degenerative disease population caused by aging population or stressful lifestyle; (ii) greater demand for higher quality of life supported by rising income levels; (iii) increasing health insurance coverage; and (iv) improvement of surgical skills.

Competitive Landscape of the Orthopedic Implant Industry in China

Excluding Kanghui and Trauson from the category of “domestic companies,” Shandong Weigao is currently the largest domestic company in China’s orthopedic implant market, with sales revenue of RMB267 million and a market share of 2.8% during the 12 months ended June 30, 2013. Tianjin Zhengtian is the second largest domestic company with sales revenue of RMB196 million and a market share of 2.1% during the same period. PW Medtech ranks the third in domestic companies, with sales revenue of RMB124 million and a market share of 1.3% during the same period, followed by Chunli Zhengda and Suzhou Ideal, with sales revenues of RMB109 million and RMB105 million, respectively, during the same period.

Product Portfolio Comparison of Major Domestic Companies

Orthopedic implant products can usually be segmented into three major categories: trauma, spine and joint. Furthermore, there are about nine sub-categories, covering at least 90.0% of the market demands in terms of volume.

The technologies required to develop and produce these three major categories of orthopedic implant products vary from one another. The entry barrier for orthopedic implants mainly consists of technical and regulatory aspects. The production of orthopedic implants requires a deep understanding of material science, mechanical engineering, biomedical engineering and human anatomy. As orthopedic implants are Class III devices, which are directly regulated by the CFDA, strict technical evaluation and clinical trials are required and

INDUSTRY OVERVIEW

product registrations, especially for joint products, are difficult to obtain and sometimes may take years. Most domestic orthopedic implant companies only focus on trauma products, and a few companies expanded into spine products in recent years. A wide product coverage generally confers certain market advantages. For example, orthopedic doctors practicing at Class 2 hospitals tend to be generalists and not to focus on a specific type of orthopedic surgery, and therefore, a wide product coverage may increase cross-selling opportunities.

PW Medtech, with a coverage of nine sub-categories, had the widest product coverage among all domestic companies as of the Latest Practicable Date. A majority of the major participants cover trauma and/or spine products. There are also some domestic companies that mainly focus on joint implants, such as Aikang Yicheng and Beijing BaimTec. The following chart illustrates the product coverage of major domestic companies (including Kanghui and Trauson) in China’s orthopedic implant market as of the Latest Practicable Date.

	Trauma ⁽¹⁾				Spine ⁽¹⁾			Joint ⁽²⁾		Segment Coverage
	Intramedullary Rod	Bone Plates	Maxillofacial Plates	Bone Screws	Anterior Fixation System	Posterior Fixation System	Lumber Fusion Cage	Hip	Knee	
PW Medtech	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Shandong Weigao	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Kanghui ⁽³⁾	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Suzhou Xinrong	✓	✓	✓	✓	✓	✓	✓	✓		8
Trauson ⁽³⁾	✓	✓	✓	✓	✓	✓	✓			7
Tianjin Zhengtian	✓	✓	✓	✓	✓	✓		✓		7
Xiamen Dabo	✓	✓	✓	✓	✓	✓	✓			7
Shanghai Puwei	✓	✓	✓	✓		✓		✓	✓	7
Suzhou Ideal	✓	✓	✓	✓	✓	✓	✓			7
Chunli Zhengda					✓	✓	✓	✓	✓	5
Beijing BaimTec								✓	✓	2
Aikang Yicheng								✓	✓	2

Source: Frost & Sullivan analysis based on public data

- (1) Each subcategory includes surgical instruments for the respective implants.
- (2) Other joint subcategories such as upper extremity joints represented an insignificant segment of the market in 2012.
- (3) Kanghui and Trauson were acquired by MNCs in 2012 and 2013, respectively.

INDUSTRY OVERVIEW

Trauma Segment

Trauma implant products currently represent the largest segment of the orthopedic implant market. China’s trauma implant market reached RMB3.13 billion in 2012, with a CAGR of 16.6% from 2008 to 2012. Nevertheless, the penetration rate for trauma surgeries remains relatively low. In 2012, the penetration rate (as calculated by dividing the number of people who have undergone surgeries by the number of people who require surgeries) for trauma surgeries in China was 4.9%, compared to 66.0% in the United States. In the next five years, this market is expected to continue to grow at a 15.8% CAGR, and reach RMB6.51 billion in 2017. Excluding impact from the MNCs’ recent acquisitions of Kanghui and Trauson, domestic trauma products experienced a growth trend during the past four years, accounting for collective market shares of 50.5%, 53.5%, 56.1% and 60.2% in 2009, 2010, 2011 and 2012, respectively.

Excluding Kanghui and Trauson from the category of “domestic companies,” Shandong Weigao is currently the largest domestic company in China, with sales revenue of RMB155 million and a market share of 4.9% in the 12 months ended June 30, 2013. Shandong Weigao’s trauma products cover a wide range, and its product quality is widely accepted in Chinese hospitals. PW Medtech is the second largest domestic company in the trauma segment, with sales revenue of RMB89 million and a market share of 2.8% in the 12 months ended June 30, 2013.

Spine Segment

China’s spine implant market reached RMB2.05 billion in 2012, with a CAGR of 20.8% from 2008 to 2012. The penetration rate for spine surgeries is relatively low, estimated at 1.5% in China in 2012, compared to 38.0% in the United States. In the next five years, this market is expected to continue to grow at a 19.8% CAGR, and reach RMB5.06 billion at 2017. Excluding impact from the MNCs’ recent acquisitions of Kanghui and Trauson, domestic spine products experienced a growth trend during the past four years, accounting for collective market shares of 26.4%, 27.6%, 30.5% and 33.4% in 2009, 2010, 2011 and 2012, respectively.

Excluding Kanghui and Trauson, Shandong Weigao remains the market leader in domestic companies. Its sales revenue in spine products reached RMB61 million in the 12 months ended June 30, 2013, with a market share of 3.0% in the overall spine segment. Shandong Weigao’s products cover anterior and posterior fixation systems, and have high brand awareness among hospitals. Tianjin Zhengtian is the second largest domestic spine product manufacturer with a market share of 2.9% in the 12 months ended June 30, 2013. Beijing Fule ranks the third with a market share of 2.9% and PW Medtech is the fourth largest domestic company with a market share of 1.0% in the 12 months ended June 30, 2013.

INDUSTRY OVERVIEW

Joint Segment

China’s joint implant market reached RMB2.99 billion in 2012, with a CAGR of 22.9% from 2008 to 2012. The penetration rate for joint surgeries remains relatively low, estimated at 0.6% in China in 2012, compared to 43.0% in the United States. In the next five years, this market is expected to continue to grow at a 22.1% CAGR, and reach RMB8.11 billion in 2017. Joint implant products are expected to have the largest market share in the overall orthopedic implant product market by 2017. Innovation capabilities, competitive pricing and wide sales network are among the factors that will help a company gain market share in this segment.

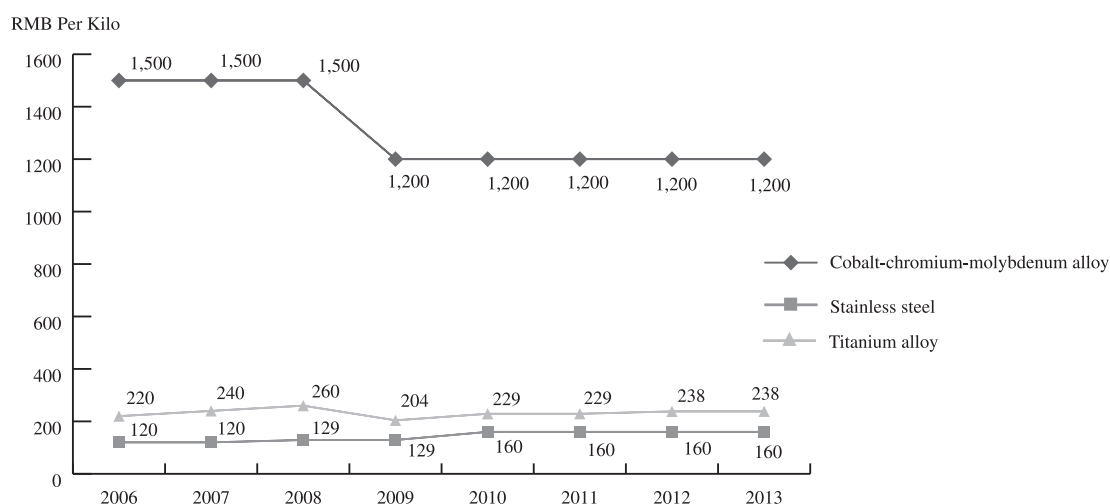
Joint products principally consist of hip and knee implants, which accounted for approximately 95% of all joint implants sold in China in 2012 in terms of sales volume. There is a relatively higher entry barrier for joint products compared with trauma and spine products primarily due to requirements for research and development capabilities and the difficulty to get the registration licenses for joints products. As a result, there are currently a small number of domestic companies in the joint implant market with relatively complete product licenses. The leading domestic companies include Aikang Yicheng and Chunli Zhengda, with 3.0% and 2.6% market shares, respectively, in the 12 months ended June 30, 2013. Other companies with relatively complete product licenses include PW Medtech, Beijing BaimTec, Tianjin Zhengtian and Shandong Weigao. As of the Latest Practicable Date, PW Medtech had the second largest number of registration certificates among major domestic companies in terms of hip and knee implants, the major areas of joint implants, with five registration certificates for hip implants and one for knee implants. Excluding impact from the MNCs’ recent acquisitions of Kanghui and Trauson, domestic joint products experienced a growth trend during the past four years, accounting for collective market shares of 25.4%, 26.9%, 28.2% and 29.7% in 2009, 2010, 2011 and 2012, respectively.

Compared with their market share in the trauma implant market, the domestic companies’ market shares in the spine and joint implant markets were relatively low in 2012, which is mainly attributable to the fact that most domestic companies mainly focus on trauma products, and that trauma surgeries generally require less expertise and less high-end surgical equipment. As a result, trauma surgeries performed at tiers II, III and county level cities have contributed to the growth in the trauma implant market in recent years, where domestic brands were desired due to their attractive pricing and improved quality. As the national medical insurance is largely established and an increasing number of people can afford the spine and joint implant products, there is also a great growth opportunity for domestic participants in the spine and joint implant markets, particularly at tiers II, III and county level cities.

INDUSTRY OVERVIEW

Historical Prices of Major Raw Materials

Based on different clinical needs, orthopedic implants are usually made of different types of metal materials. The most widely used metal materials for orthopedic implants include titanium alloy, medical grade stainless steel and cobalt-chromium-molybdenum alloy. The historical purchasing prices of orthopedic companies’ major raw materials were stable. Cobalt-chromium-molybdenum alloy price experienced a slight decline since 2009. The following chart illustrates the historical prices for orthopedic companies’ major raw materials from 2006 to 2013.



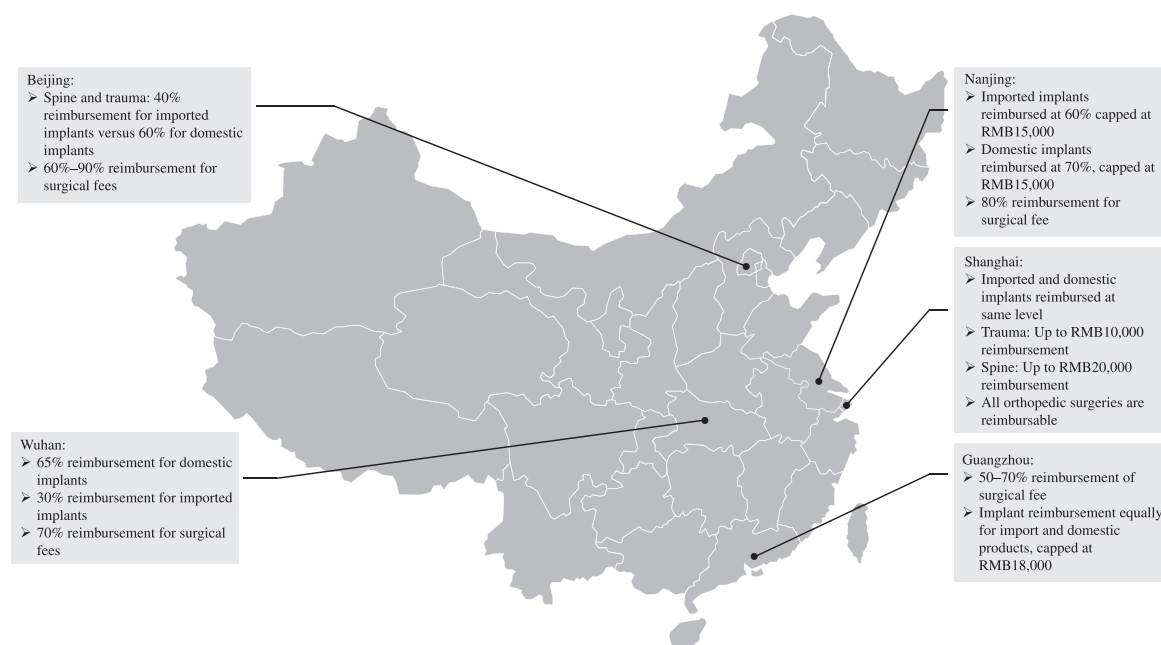
Source: Historical purchasing prices of Walkman Biomaterial, Frost & Sullivan analysis

Reimbursement Policies in China

Orthopedic implant surgeries, particularly the MNC brands, are relatively expensive for Chinese patients. As a result, health insurance reimbursement is particularly important for Chinese patients in deciding whether to undergo these surgeries and selecting the brand of orthopedic implants. Because Chinese health insurance policies often have a cap on the

INDUSTRY OVERVIEW

reimbursement amount and insurance coverage often only allows reimbursement for orthopedic surgeries performed in local hospitals, and in light of the improving quality and design of domestic branded implants, many physicians and patients may elect to use domestic branded implants for surgeries to reduce patients’ out-of-pocket expenses. The following map shows the reimbursement policies of the cities indicated.



Source: Frost & Sullivan analysis based on interviews

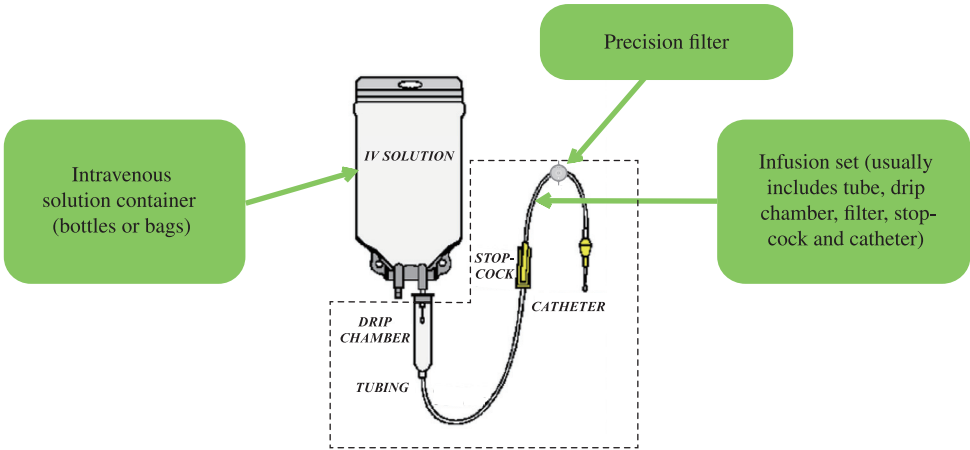
OVERVIEW OF THE INFUSION SET INDUSTRY IN CHINA

Introduction of Intravenous Therapy

Intravenous therapy refers to the infusion of therapeutic solution directly into the vein, which is one of the most commonly used therapy methods in the clinical field. Intravenous therapy may be used to correct electrolyte imbalances, deliver medications, transfuse blood or correct dehydration. Intravenous therapy can also be used for chemotherapy. An intravenous

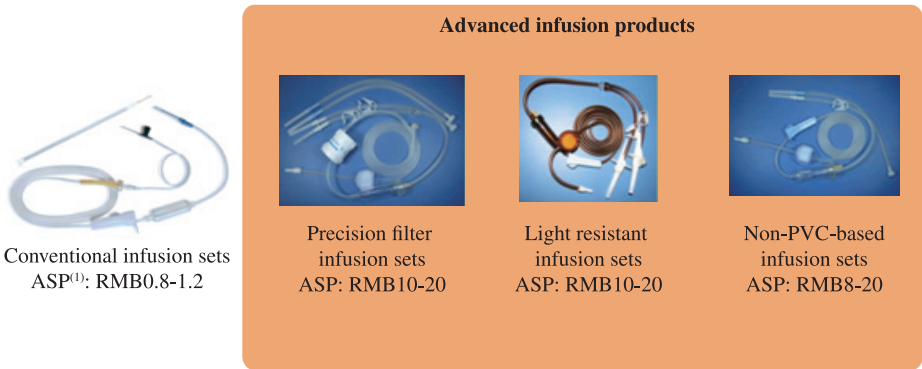
INDUSTRY OVERVIEW

therapy system usually consists of an intravenous solution container and an infusion set. The following picture illustrates how an infusion set operates in an intravenous therapy system.



Types of Infusion Sets

In China, infusion sets are generally divided into conventional infusion sets, with basic functionalities, and advanced infusion sets, with added functional or safety features. Advanced infusion sets are further divided into precision filter infusion sets, light resistant infusion sets and non-PVC-based infusion sets. The following charts illustrate the classification of infusion sets.



(1) ASP refers to end user average selling price.

Conventional infusion sets use PVC tubing and provide the most basic functionalities, and are currently widely used in China. With the increasing health consciousness and focus on infusion safety, higher quality infusion set products, advanced infusion sets are becoming increasingly more common.

INDUSTRY OVERVIEW

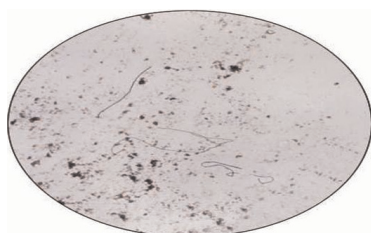
Precision Filter Infusion Sets

Intravenous solutions contain insoluble particles. Precision filter infusion sets include precision filters which prevent insoluble particles in intravenous solutions from entering the blood vessels of patients thereby increasing the safety of intravenous infusion therapy. In China, intravenous solutions are manufactured according to a standard which permits insoluble particles with sizes up to 10 microns, allowing insoluble particles with diameter less than 10 microns to enter infusion fluid and subsequently patients’ blood vessels. Since human blood vessels have diameters as small as five microns, insoluble particles can block blood vessels, potentially causing pain, inflammation of these blood vessels and long-term damage to organs which receive blood supply from the blocked blood vessels. Precision filter infusion sets can significantly reduce the amount of insoluble particles and improve infusion safety.

The following pictures illustrate typical types of insoluble particles in intravenous solutions.

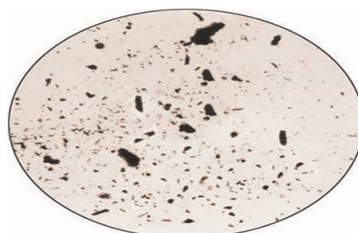
Insoluble particles

Environmental sources



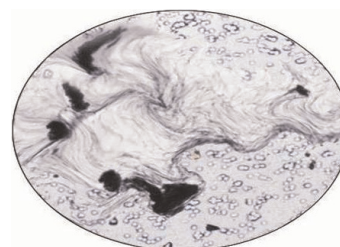
Dust and smog

Infusion medicine sources



Insoluble gel from traditional Chinese medicine injection

Infusion handling sources



Rubber debris from rubber cap pierced by syringe

Generally, there are three different types of materials being used for precision filters, including PES membranes, nuclepore membranes and fibrous membranes. Fibrous membranes are the most cost-effective solution, but have irregular pore size, poor chemical incompatibility and high drug absorption. PES materials are usually imported and expensive, and have precisely controlled pore size and low drug absorption. Nuclepore membranes have relatively lower cost compared with PES, and also have precisely controlled pore size and low drug absorption. There are currently about 30 manufacturers in China that produce precision filter infusion sets, among which about four use PES membranes, three use nuclepore membranes, and the others mainly use fibrous membranes.

INDUSTRY OVERVIEW

In many developed countries, precision filtered infusion is required and widely adopted. In the United States, the *Infusion Nursing Standards of Practice*, which are followed by nurses during clinical practice, recommend the use of 0.2 micron filter for non-lipid solutions and 1.2 micron filter for lipid solutions or total nutrient admixtures when necessary. There is still a gap in infusion standard setting between China and developed countries. In 2012, precision filter infusion sets constituted 36.7%, 10.2% and 9.8% of the infusion sets used in Beijing, Guangdong province and Jiangsu province, respectively. In comparison, such infusion sets accounted for only 5.1% of the infusion sets used nationwide in China that year. Although conventional infusion sets currently occupy substantially all of the market in China, as the awareness for infusion safety increases, adoption of precision filter infusion sets is expected to significantly increase.

Light Resistant Infusion Sets

Light sensitive drugs are frequently used in the clinic field, which include the following major categories: sodium nitroprusside, dihydropyridines, vitamins, thiazide, and quinolones. Light sensitive drugs will decompose when exposed to light, and cause serious safety problems. Therefore, when light sensitive drugs are used for intravenous therapy, specially designed infusion containers and infusion sets become necessary. Currently in China, due to relatively high cost, light resistant infusion sets are not widely used in many low tier cities and county areas. In these areas, physicians sometimes use alternative methods, such as administering intravenous therapy in dark rooms or using black curtain to cover infusion sets, but all these methods have potential risks. With the increasing safety awareness, it is expected that the light resistant infusion set market will continue to grow in the next few years.

Non-PVC-based Infusion Sets

PVC is a plastic polymer that is used in a wide array of products. Unplasticized PVC is hard and brittle at room temperature. A plasticizer (softener) is typically added to increase the flexibility of the polymer. DEHP (di(2-ethylhexyl)phthalate) is the plasticizer for most PVC medical devices, including infusion bags and infusion sets.

DEHP can leach out of plastic infusion bags and infusion sets to enter solutions that come in contact with the plastic. The amount of DEHP that will leach out depends on the temperature, the lipid content of the liquid, and the duration of contact with the plastic. Seriously ill individuals often require more intravenous therapy, thus exposing themselves to even higher levels of DEHP.

Exposure to DEHP has produced a range of adverse effects in laboratory animals, of which the greatest concern is the harmful effects on the development of the male reproductive system and production of normal sperm in young animals. In view of the animal data available, precautions should be taken to limit the exposure of the developing male to DEHP. PVC

INDUSTRY OVERVIEW

materials also have other disadvantages. For example, PVC infusion tubing absorbs active substances (such as nitroglycerin) in infusion fluids to varying degrees, reducing the amount of medicine that actually reaches the human body.

Since the U.S. FDA released the *Safety Assessment of DEHP Released from PVC Medical Devices*, companies began seeking alternative materials. In recent years, TPE (thermoplastic elastomers) materials gradually became the alternative materials for PVC.

TPE materials, also referred to as thermoplastic rubbers, are a class of copolymers consisting of materials with both thermoplastic and elastomeric. There are mainly six generic types of commercial TPEs, namely, styrenic block copolymers (TPE-s), polyolefin blends (TPE-o), elastomeric alloys (TPE-v or TPV), thermoplastic polyurethanes (TPU), thermoplastic copolyester (TPC) and thermoplastic polyamides. Among these commercially available TPE materials, some medical-grade TPU materials have been customized for the medical market and meet the requirements of the U.S. FDA-modified ISO 10993 Part 1 “Biological Evaluation of Medical Devices” tests for 30-day indirect blood contact applications, suitable for use in infusion sets. ISO 10993 is also the same standard that the U.S. FDA used to evaluate the health hazards of DEHP released from PVC-based medical devices.

Currently in China, due to their relatively high cost, TPE materials are not widely used in infusion sets, and as of the Latest Practicable Date, only three companies were approved by the CFDA to manufacture TPE-based infusion sets (namely, Shandong Weigao, PW Medtech and Shandong Shinva), and among them, only PW Medtech used medical-grade TPU materials that meet the abovementioned U.S. FDA test, which provides PW Medtech greater competitive advantage in China and the global market.

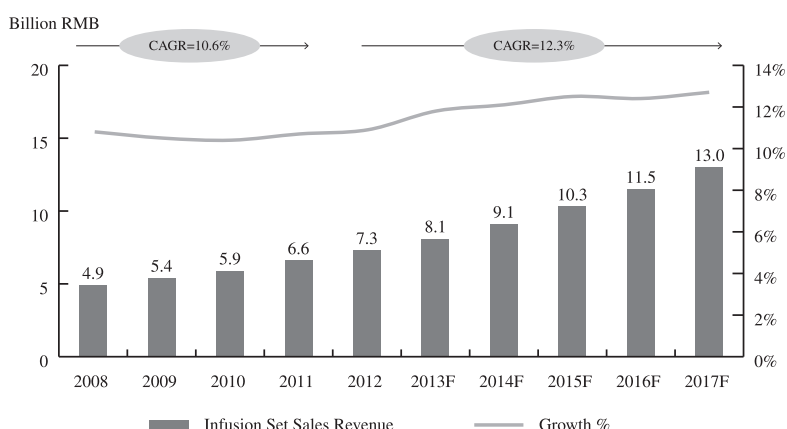
Market Size and Growth

China is the largest market for infusion sets in the world. There is a wide belief among physicians and patients in China that intravenous therapy is more effective and quicker than oral ingestion.

Infusion set consumption is expected to maintain a CAGR of 8.9% in the next five years. In 2012, the total infusion set consumption was 7.9 billion units, and it is expected to reach 12.2 billion units by the end of 2017. Sales of infusion sets grew at a double-digit rate in the past years, and is expected to continue to grow at a similar rate in the next several years because an increasing number of low-end products will gradually be replaced by advanced infusion products. In 2012, the total sales revenue was RMB7.3 billion, and it is expected to

INDUSTRY OVERVIEW

reach RMB13.0 billion by the end of 2017. The following chart illustrates the sales revenue of infusion sets in China from 2008 to 2012 and the forecast from 2013 to 2017.

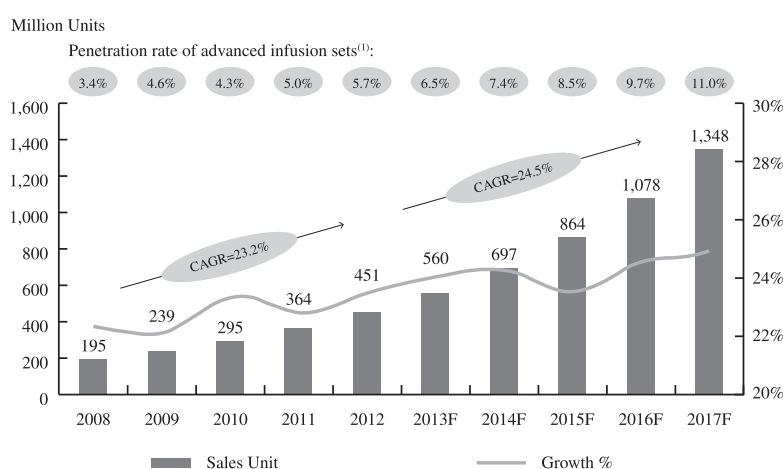


Source: Frost & Sullivan estimates

Advanced Infusion Set Market in China

Market Size and Growth

China’s advanced infusion set market has grown at a double-digit rate from 2008 to 2012, and is expected to continue to grow in the next several years due to a number of positive factors. In 2008, the total size of China’s advanced infusion set market was 195 million units, which increased to 451 million units in 2012, representing a CAGR of 23.2%. The market is expected to grow at a CAGR of 24.5% in the next five years and reach 1,348 million units in 2017. The following chart illustrates the sales volume, growth and penetration rate of the advanced infusion set industry in China from 2008 to 2012 and the forecast from 2013 to 2017.



Source: Frost & Sullivan estimates

- (1) Penetration rate of advanced infusion sets is calculated by dividing the sales volume of advanced infusion sets by the overall sales volume of infusion sets in China for the corresponding years.

INDUSTRY OVERVIEW

In 2012, advanced infusion sets had approximately 5.7% of sales volume in the overall infusion set market, compared to 38.2% in tier I cities of China, which have historically been leaders in China in adopting new medical technologies. As a result, China’s advanced infusion set market is expected to grow at a CAGR of 24.5% in the next five years. Frost & Sullivan estimates that the advanced infusion sets will have approximately 11.0% market share in the overall infusion set market by 2017.

As the average gross margin of major domestic manufacturers of advanced infusion sets was estimated at 64% in 2012, the advanced infusion set business can be categorized as high margin business.

Similar to the orthopedic implant industry, the entry barrier for advanced infusion sets mainly consists of technical and regulatory aspects. The production of advanced infusion sets requires deep understanding of polymer materials, mechanical design, as well as know-how such as temperature control, plastic formula and co-extrusion molding skills. Advanced infusion sets are also Class III devices and directly regulated by the CFDA, and therefore, strict technical evaluation and clinical trials are required and product registrations are difficult to obtain and sometimes may take years.

Key Growth Drivers

The following is a summary of key growth drivers in China’s advanced infusion set market.

- *Increasing health awareness about infusion safety.* Efforts on educating the patients and doctors about the medical hazards associated with intravenous therapy due to insoluble particles in intravenous solutions support the usage of precision filter infusion sets. According to Frost & Sullivan, patients pay increasingly more attention to infusion safety.
- *Rising income.* Per capita annual disposable income in urban households rose from RMB15,781 in 2008 to RMB24,565 in 2012, and is expected to reach RMB46,815 in 2017.
- *Increasing government focus on PVC risks.* The PRC government has increasingly focused on safety issues relating to PVC-based infusion bags. The CFDA has listed PVC infusion bags as obsolete products. Although the PVC-based infusion bags will not be phased out immediately, they are expected to account for an increasingly small proportion in infusion bags in the future. The phasing-out of PVC-based infusion bags represents a significant precursor to the potential phasing-out of PVC-based infusion sets.

INDUSTRY OVERVIEW

- *Product innovation.* The infusion set industry is experiencing a period of significant product innovation. To meet the increasing needs of Chinese patients for safe medical products, industry participants are broadening their product lines to include new features and products such as light resistance, auto air venting and non-PVC-based infusion sets. The expanded infusion set product portfolio available on the market is expected to further drive demand.

Competitive Landscape

In addition to PW Medtech, leading market players in China’s infusion set industry include the following:

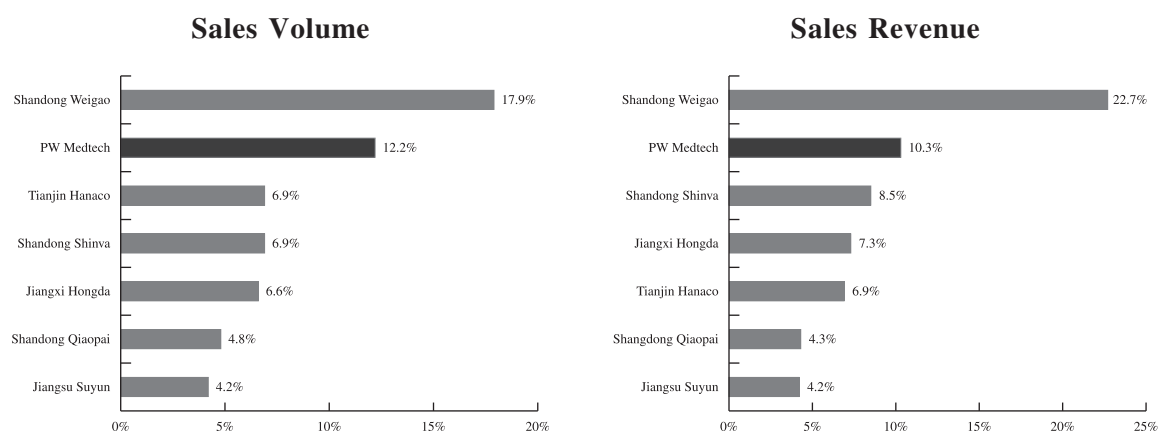
- *Shandong Weigao* is a large medical device manufacturer and a public company listed on the Stock Exchange, which produces infusion sets, syringes and needles, orthopedic products and disinfection products. In 2012, its total sales revenue for infusion sets reached RMB530.8 million.
- *Shandong Shinva*, which mainly produces infusion sets and other medical plastic products, is a subsidiary of Shandong Shinva Group. Shandong Shinva has good brand awareness in the north China region. It is also one of the three companies with the capability of producing all of the precision filter, light resistant and non-PVC-based infusion sets.
- *Jiangxi Hongda* is one of the largest manufacturers of conventional infusion sets products. It commenced the production of advanced infusion products several years ago.
- *Shandong Qiaopai* is also one of the largest manufacturers of conventional infusion sets products. A significant portion of its products are made for international markets, but it also has significant market share in the domestic market. Shandong Qiaopai produces both precision filter and light resistant infusion sets.
- *Jiangsu Suyun* is a large infusion sets manufacturer located in southeast China, and its products mainly supply east China and south China provinces. Jiangsu Suyun can produce both precision filter and light resistant infusion sets, and similar to Shandong Qiaopai, about 30% of its products are made for international markets.

Shandong Weigao led China’s advanced infusion set market with a market share of 17.9% in terms of sales volume and 22.7 % in terms of sales revenue in 2012. PW Medtech ranked the second with a market share of 12.2% in terms of sales volume and 10.3% in terms of sales revenue in 2012, which was also significantly greater than the market shares of other domestic brands. Shandong Weigao has generated a higher portion of revenue from direct sales to hospitals, which contributed to a higher market share in terms of revenue than its market share in terms of sales volume. In Beijing, a leading city in adopting new medical technology and a

INDUSTRY OVERVIEW

bellwether for the national market trend, PW Medtech ranked first with a market share of 49.5% in terms of sales revenue in 2012. Other top five players in the Beijing market include Shandong Weigao, Tianjin Hanaco, Shandong Shinva and Jiangxi Hongda, with market shares of 19.3%, 9.6%, 7.5% and 4.6%, respectively, in 2012. There are a total of approximately 40 players in the advanced infusion set market.

The following charts illustrate the ranking of major players in China’s advanced infusion set market in terms of sales volume and sales revenue, respectively, in 2012.



Source: Frost & Sullivan analysis based on public data and interviews

Precision Filter Infusion Set Market

Precision filter infusion sets had significant market share in China’s advanced infusion set market, with total sales reaching 360 million units in 2012 and a CAGR of 22.8% from 2008 to 2012. The market size of precision filter infusion sets is expected to reach 1,061 million units in 2017, representing a CAGR of 24.2% for the period from 2013 to 2017, which is much higher than the growth rate of the overall infusion set market.

The ranking of key players in the precision filter infusion set market is the same as that in the advanced infusion set market. Shandong Weigao is still the market leader, with a market share of 17.6% in terms of sales volume in 2012. PW Medtech ranked the second with a market share of 14.1% in 2012, followed by Tianjin Hanaco, Shandong Shinva and Jiangxi Hongda.

Light Resistant Infusion Set Market

The market size for light resistant infusion sets in China increased from 15.7 million units in 2008 to 37.8 million units in 2012, and is expected to reach 114.4 million units in 2017, representing a CAGR of 24.7% during this ten-year period. Key players in this market include Shandong Weigao, Jiangxi Hongda, Tianjin Hanaco and Shandong Qiaopai.

INDUSTRY OVERVIEW

Non-PVC-based Infusion Set Market

Sales of non-PVC-based infusion sets in China reached 53.3 million units in 2012 after growing at a CAGR of 25.9% from 2008 to 2012. There remains considerable room for growth opportunity as the penetration rate for the consumption of non-PVC-based infusion sets (as calculated by dividing the consumption volume of non-PVC-based infusion sets by the overall consumption volume of infusion sets) was merely 0.7% in China in 2012, compared to 80.0% in the United States. The market size of non-PVC-based infusion sets is expected to reach 172.5 million units in 2017, representing a CAGR of 26.5% for the period from 2013 to 2017. The ranking of key players in the non-PVC-based infusion set market is the same as that in the overall advanced infusion set market, with Shandong Weigao as the market leader and PW Medtech ranking the second in terms of sales volume in 2012.

Globally, the principal growth driver for non-PVC-based infusion sets is the increasing government endorsement. For instance, in the United States, the Center for Drug Evaluation and Research (CDER) is aware of the potential human health risks associated with exposure to dibutyl phthalate (DBP) and DEHP. Therefore, the latest industry guidance published by the U.S. FDA recommends that companies in pharmaceutical industry avoid the use of these two special phthalates as excipients in CDER-regulated drug and biological products, including prescription and non-prescription products. Although this guidance does not impose any legally enforceable obligations, it nonetheless has significant impact on the practice of all pharmaceutical companies.

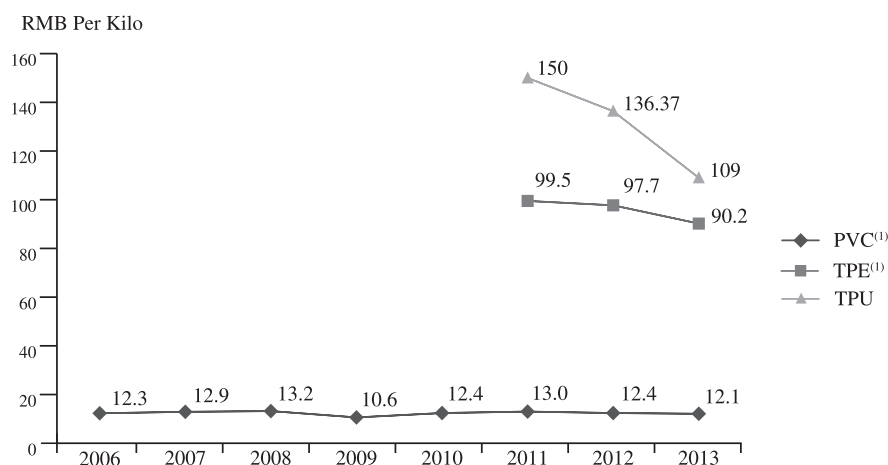
In addition, a number of international regulatory authorities have begun taking steps to more closely regulate certain phthalates. For example, the United States prohibits the use of DBP, DEHP and BBP (another phthalate) in children’s toys with concentrations higher than 0.1% under Consumer Product Safety Improvement Act of 2008. The U.S. FDA’s Center for Device and Radiological Health issued recommendations regarding minimizing exposure to PVC-based devices containing DEHP. The European Commission identifies DBP, DEHP and BBP as reproductive toxicants (Directive 2005/84/EC), and the European Union prohibits their use as ingredients in cosmetics (Directive 2005/90/EC).

Guidance promulgated by the CFDA in 2000 recommended against the use of PVC material for infusion bags in China. Although this guidance imposed no legally enforceable obligations, according to Frost & Sullivan’s interviews, no new PVC-based infusion bag production lines have been approved since 2000, and many domestic companies have shifted to introduce non-PVC-based infusion bag production lines after that. Currently in the United States, more than 80% of infusion sets use DEHP-free plastic materials (non-PVC materials), while in China, less than 5% of infusion sets are made of DEHP-free materials. Relatively lower public awareness of the harmful effects of DEHP material compared to developed countries, product affordability and limited reimbursement coverage are the major restraints of the wide acceptance of DEHP-free materials in China.

INDUSTRY OVERVIEW

Historical Prices for Major Raw Materials

Infusion sets are made of plastic, and the major raw materials include PVC, TPE and TPU. Infusion set companies’ historical purchasing price of PVC was stable during the Track Record Period, while the historical purchasing price of TPE and TPU was on the decline. The following chart illustrates the historical prices for infusion set companies’ major raw materials from 2006 to 2013.



Source: Fert Technology’s historical purchasing data, TPE open market trading data, PVC open market trading data

(1) As PVC and TPE each contains several hundreds of types, the selling price of Dupont TPE and the average selling price of domestic manufactured medical-grade PVC are used as a benchmark, respectively.

ABOUT THIS SECTION

This “Industry Overview” section contains information extracted from a commissioned report, or the F&S Report, prepared by Frost & Sullivan for purposes of this document. We expect to pay a total of RMB700,000 to Frost & Sullivan for the preparation and use of the F&S Report.

Research Methodology

Frost & Sullivan has refined its research methodology over years of experience, having researched diverse markets in different life cycles, from the embryonic to mature. Frost & Sullivan’s market engineering system focuses on “T.E.A.M.”: Technical, Econometric, Applications and Market. Frost & Sullivan collects market information through bottom-up and top-down method and use different information sources to cross check with each other to increase reliability of market data. Frost & Sullivan uses desk research, primary interview to different stake holders and their internal database as major data source of its industry report.

INDUSTRY OVERVIEW

Market Engineering Forecasting Methodology

This methodology integrates several forecasting techniques with the market engineering measurement-based system. It relies on the expertise of the analyst team in integrating the critical market elements investigated during the research phase of the project. These elements include (i) expert-opinion forecasting methodology, (ii) integration of market drivers and restraints, (iii) integration with the market challenges, (iv) integration of the market engineering measurement trends, and (v) integration of econometric variables.

Based on its forecasting methodology, Frost & Sullivan forecasted the medical device market and various segment markets from 2013 to 2017 based on the following five steps:

- (i) Conduct analysis of the medical device market and various segment markets with respect to production capacity and trade;
- (ii) Conduct interviews and analysis of downstream industries with respect to technology, customers’ affordability and production capacity;
- (iii) Conduct interviews and analysis of government regulations and industry policies;
- (iv) Forecast the demand of downstream industries in key applications according to the interviews and database of Frost & Sullivan; and
- (v) Combine step (i), step (ii), step (iii) and step (iv), and work out market forecast for the medical device market and various segment markets.

About Frost & Sullivan

Frost & Sullivan is an independent industry consultant founded in 1961 which has over 35 global offices and employs over 1,800 analysts and experts worldwide. The firm covers a number of industries, including aerospace, defense, automotive, transportation, chemicals, energy and power systems, environmental technologies, electronics, information and communication technologies and healthcare.

HISTORY AND CORPORATE DEVELOPMENT

OVERVIEW

PW Medtech is a medical device company focused on fast-growing and high-margin segments of China’s medical device industry. We are a leader in our current business segments of orthopedic implants and advanced infusion sets. We have built our business today on a strategy of making acquisitions in attractive sectors of China’s medical device industry and executing successful growth. The following table outlines the key milestones in our history.

- *August 2008.* Acquisition of control in Tianjin Walkman Biomaterial Co., Ltd. (天津市威曼生物材料有限公司), or Walkman Biomaterial
- *September 2010.* Investment by WP X in Walkman Biomaterial
- *April 2011.* Acquisition of control in Beijing Fert Technology Co., Ltd. (北京伏爾特技術有限公司), or Fert Technology
- *May 2011.* Establishment of PW Medtech Group Limited (普华和顺集团公司), formerly known as Pyholding Limited, our Company and offshore [●] vehicle
- *January 2013.* Acquisition of control in Shenzhen Bone Medical Device Co., Ltd. (深圳市博恩醫療器材有限公司), or Bone Medical
- *July 2013.* Completion of the consolidation of our Group as part of the Reorganization

HISTORY AND DEVELOPMENT

PW Medtech Group Limited, formerly known as Pyholding Limited, or our Company, was incorporated as an exempted company with limited liability under the laws of the Cayman Islands on May 13, 2011, and became the offshore holding company of our Group through acquisitions and as a result of the Reorganization. See “— Reorganization.” Our early history primarily consisted of our acquisitions of Walkman Biomaterial (our orthopedic implant business) in 2008 and Fert Technology (our infusion set business) in 2011.

History of Our Orthopedic Implant Business

Establishment and Interim Development

We conduct our orthopedic implant business primarily through our PRC subsidiary, Walkman Biomaterial. Walkman Biomaterial was established in Tianjin, China, in November 2001, with a registered capital of RMB12 million. At the time of its establishment, Tianjin Datong Electromechanical Development Co., Ltd. (天津大通機電發展有限公司), or Datong Electromechanical, an Independent Third Party, owned a 60% equity interest in Walkman

HISTORY AND CORPORATE DEVELOPMENT

Biomaterial. Ms. WAN Li (萬力) and Mr. BI Hongwei (畢宏偉), then Independent Third Parties, owned the remaining 32.2% and 7.8% equity interests in Walkman Biomaterial, respectively.

In August 2003, Datong Electromechanical sold its equity interest in Walkman Biomaterial to Ms. WAN Li and Mr. BI Hongwei, and as a result, Mr. BI Hongwei and Ms. WAN Li owned 51.02% and 48.98% equity interests in Walkman Biomaterial, respectively.

In May 2008, Ms. WAN Li and Mr. BI Hongwei sold 48.98% and 6.02% equity interests, respectively, in Walkman Biomaterial to Tianjin Sannie Bioengineering Technology Co., Ltd. (天津市賽寧生物工程技術有限公司), or Sannie Bioengineering, an Independent Third Party. After such transfers, Sannie Bioengineering and Mr. BI Hongwei owned 55% and 45% equity interests in Walkman Biomaterial, respectively.

Acquisition of Walkman Biomaterial

Acquisitions by Mr. ZHANG Wendong and Cross Mark

In August 2008, Sannie Bioengineering sold its 55% equity interest in Walkman Biomaterial to Mr. ZHANG Wendong (張文東) for a consideration of RMB6.6 million, representing the corresponding contribution amount in the registered capital. Mr. ZHANG Wendong conducted such acquisition on behalf of Ms. Yufeng LIU, his mother. In July 2009, Cross Mark, a BVI business company wholly owned by Ms. Yufeng LIU acquired a 35% equity interest in Walkman Biomaterial from Mr. ZHANG Wendong for a consideration of RMB4.2 million, representing the corresponding contribution amount in the registered capital. Ms. Yufeng LIU is a private investor and our ultimate Controlling Shareholder, who indirectly holds her shares in our Company through Cross Mark, a company wholly owned by her. Ms. Yue’e ZHANG (張月娥), who is Ms. Yufeng LIU’s daughter, an executive director of Cross Mark and a non-executive Director of our Company, manages Cross Mark’s investments, including its investment in our Group. Ms. Yue’e ZHANG has considerable experience in investing in the medical field. For details of her relevant experience, see “Directors and Senior Management — Directors.” Ms. Yufeng LIU and her family members (including Mr. ZHANG Wendong) provided the funding for the initial investment in Walkman Biomaterial.

In addition, Mr. BI Hongwei transferred his 45% equity interest in Walkman Biomaterial to Ms. WAN Li for a consideration of RMB5.4 million, representing the corresponding contribution amount in the registered capital. As a result of such transactions, Walkman Biomaterial was restructured into a Sino-foreign joint venture. Ms. WAN Li, Cross Mark and Mr. ZHANG Wendong owned 45%, 35% and 20% equity interests in Walkman Biomaterial, respectively.

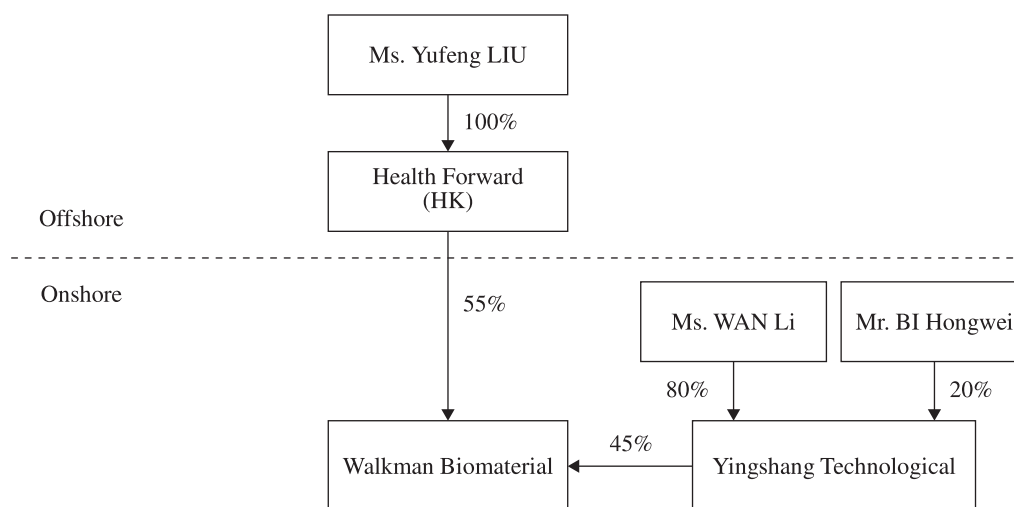
HISTORY AND CORPORATE DEVELOPMENT

In January 2010, Ms. WAN Li transferred her 45% equity interest in Walkman Biomaterial to Yingshang Technological, an investment holding company beneficially owned by Ms. WAN Li and Mr. BI Hongwei, for a consideration of RMB5.4 million, representing the corresponding contribution amount in the registered capital.

Acquisition by Health Forward

In April 2010, Health Forward, a Hong Kong company with limited liability then wholly owned by Ms. Yufeng LIU, acquired 35% and 20% equity interests in Walkman Biomaterial from Cross Mark and Mr. ZHANG Wendong for RMB5.33 million and RMB3.04 million, respectively. The consideration was determined with reference to an independent valuation of the net asset value of Walkman Biomaterial as of September 30, 2009. As a result of such transactions, Health Forward and Yingshang Technological owned 55% and 45% equity interests in Walkman Biomaterial, respectively. Health Forward subsequently became a wholly-owned subsidiary of our Company as a result of the Reorganization. See “— Reorganization — Consolidation of PWM Investment into Our Group.”

Set forth below is the shareholding structure of Walkman Biomaterial immediately after the acquisition by Health Forward.

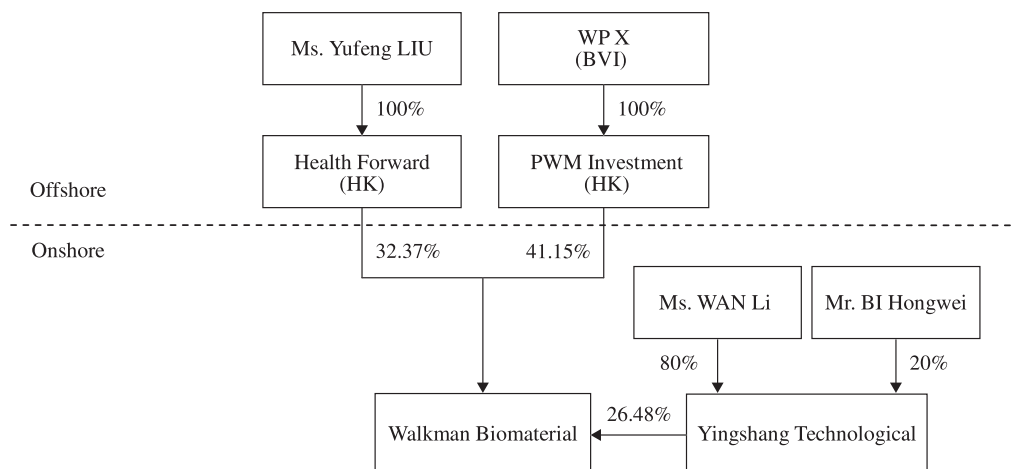


HISTORY AND CORPORATE DEVELOPMENT

Investment by PWM Investment

Initial Investment by PWM Investment

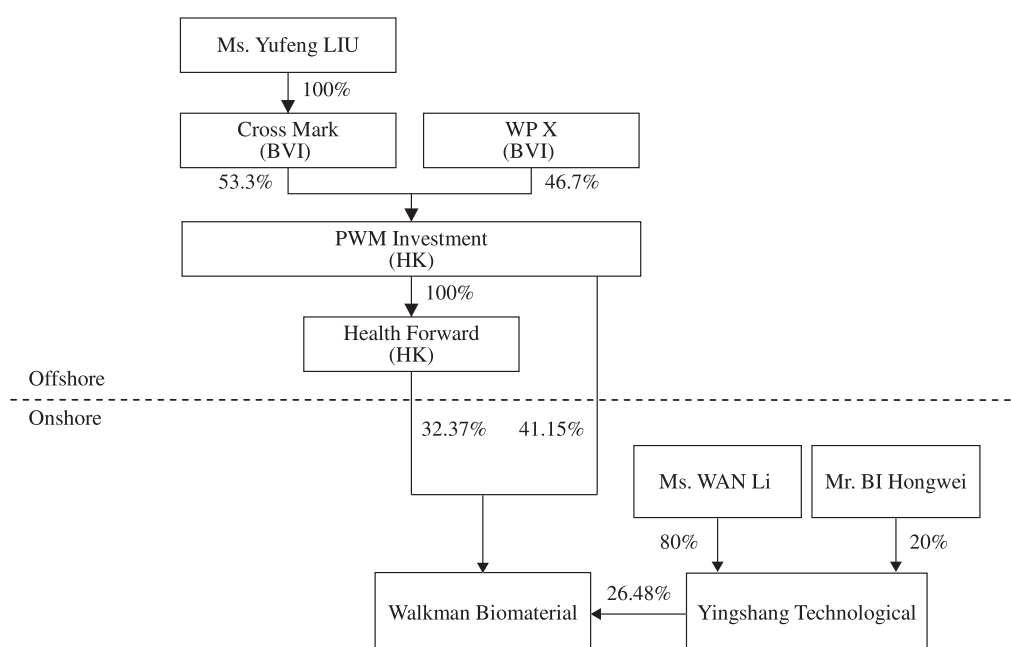
As our business at Walkman Biomaterial continued to grow, we began seeking alliance with strategic investors for additional capital access and market experience. In September 2010, PWM Investment, a Hong Kong company with limited liability then wholly owned by WP X, made a cash contribution of US\$10.33 million (RMB70 million) to Walkman Biomaterial. As a result of such capital contribution, the registered capital of Walkman Biomaterial increased to RMB20.39 million. PWM Investment, Health Forward and Yingshang Technological owned 41.15%, 32.37% and 26.48% equity interests in Walkman Biomaterial, respectively. Terms of the investment by WP X were based on arm’s length negotiations between the parties with reference to the profitability and business prospects of Walkman Biomaterial. In December 2010, WP X made a capital contribution of US\$14.0 million to PWM Investment to finance the subsequent equity investments in Walkman Biomaterial. For backgrounds of WP X, see “Investments — About WP X.” Set forth below is the shareholding structure of Walkman Biomaterial immediately after the initial investment by WP X.



HISTORY AND CORPORATE DEVELOPMENT

Share Swap among Cross Mark, Health Forward and PWM Investment

In December 2010, Ms. Yufeng LIU, Cross Mark, PWM Investment, WP X, and Health Forward entered into a share purchase agreement, pursuant to which Cross Mark subscribed for a 53.3% equity interest in PWM Investment in consideration of (i) the entire equity interest in Health Forward and (ii) Cross Mark’s assignment of its rights under certain loans that Health Forward borrowed from Cross Mark in the aggregate amount of US\$1,234,000 to PWM Investment. As a result of this share swap, Cross Mark and WP X owned 53.3% and 46.7% equity interests in PWM Investment, respectively, and Health Forward became a wholly-owned subsidiary of PWM Investment. Set forth below is the shareholding structure of Walkman Biomaterial immediately following the share swap.



Introduction of Additional Financial Investor and Capital Contributions to PWM Investment

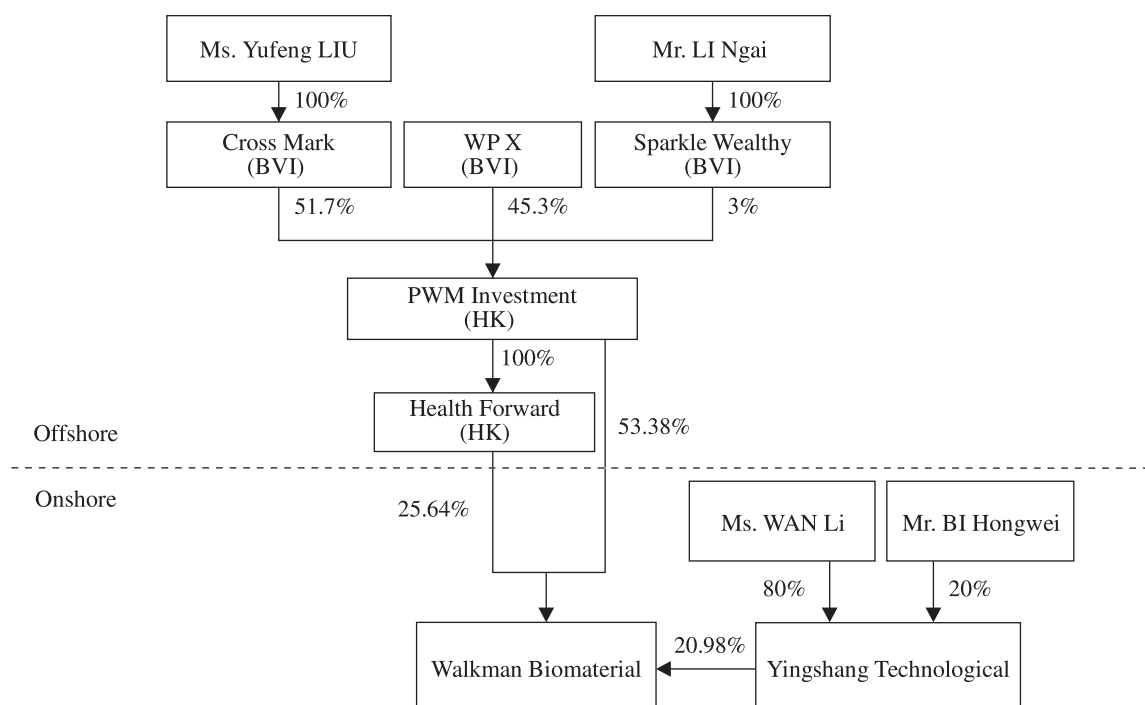
In September 2012, Sparkle Wealthy, a BVI business company wholly owned by Mr. LI Ngai, subscribed for 3% of the enlarged share capital of PWM Investment for US\$0.96 million. As a result, Cross Mark, WP X and Sparkle Wealthy owned 51.7%, 45.3% and 3% equity interests in PWM Investment, respectively.

In September and December 2012, the then-existing shareholders of PWM Investment, namely, Cross Mark, WP X and Sparkle Wealthy, made capital contributions to PWM Investment pro rata to their then shareholding percentages with an aggregate amount of US\$16.55 million.

HISTORY AND CORPORATE DEVELOPMENT

Follow-on Investment by PWM Investment

In October 2012, PWM Investment made a follow-on investment in Walkman Biomaterial with a capital contribution in U.S. dollars equivalent to RMB105 million. As a result of such capital contribution, the registered capital of Walkman Biomaterial increased to RMB25.74 million. PWM Investment, Health Forward and Yingshang Technological owned 53.38%, 25.64% and 20.98% equity interest in Walkman Biomaterial, respectively. Set forth below is the shareholding structure of Walkman Biomaterial immediately after the follow-on investment by WP X.



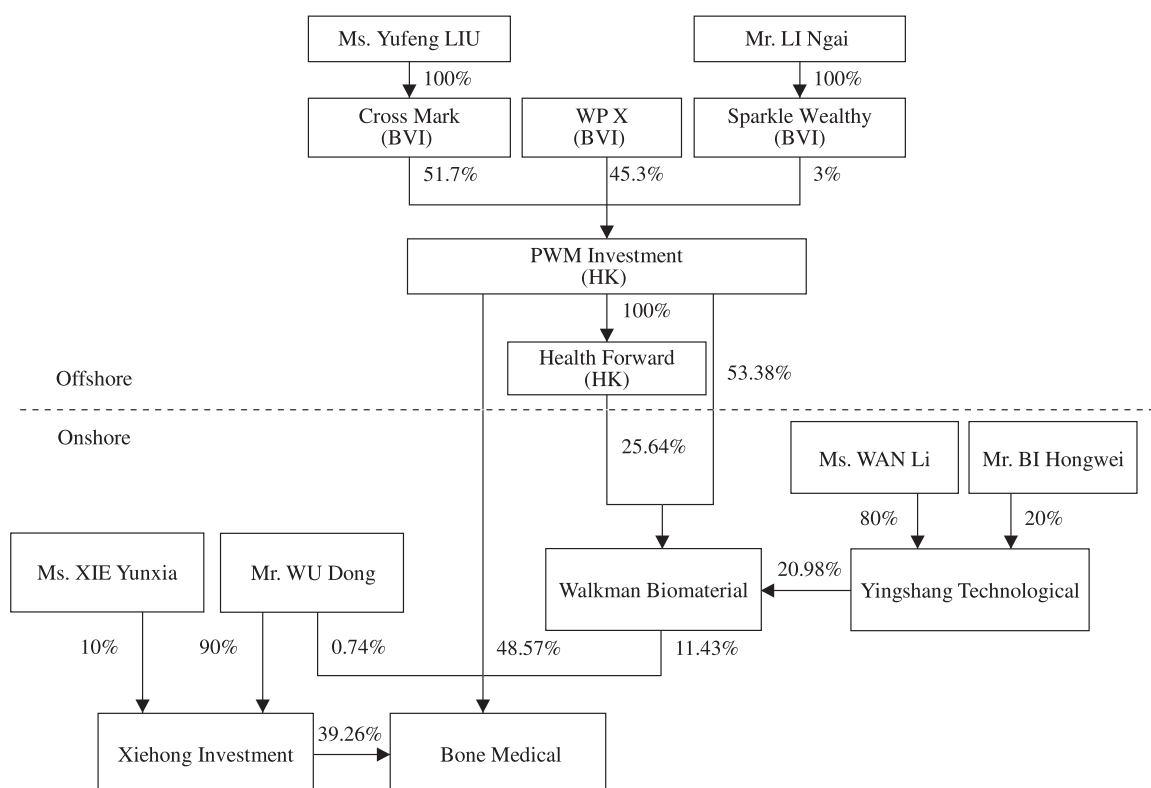
Acquisition of Bone Medical

We further expanded our orthopedic implant product portfolio by acquiring Bone Medical, a Shenzhen-based manufacturer of joint products. Mr. WU Dong (吳棟) and Ms. XIE Yunxia (謝雲霞), husband and wife and then Independent Third Parties, beneficially owned Bone Medical immediately before our investment. Bone Medical was established in Shenzhen, Guangdong province, in November 2002, with a registered capital of RMB1 million. At the time of its establishment, Mr. WU Dong and Ms. QIAO Youlian (喬有蓮), mother of Ms. XIE Yunxia and then an Independent Third Party, owned 90% and 10% equity interests in Bone Medical, respectively. In September 2012, Mr. WU Dong and Ms. QIAO Youlian transferred 89% and 10% equity interests in Bone Medical, respectively, to Lhasa Development Zone Xiehong Investment Management L.P. (拉薩開發區協宏投資管理合夥企業 (有限合夥)), or Xiehong Investment, an investment holding entity beneficially owned by Mr. WU Dong and

HISTORY AND CORPORATE DEVELOPMENT

Ms. XIE Yunxia, for RMB0.89 million and RMB0.11 million, respectively. As a result, Xiehong Investment and Mr. WU Dong owned 99% and 1% equity interests in Bone Medical, respectively.

Pursuant to an investment agreement dated July 2012, PWM Investment and Walkman Biomaterial acquired an aggregate of 60% equity interest in Bone Medical for a total consideration of RMB105 million through a combination of capital contribution and equity transfer in January 2013. PWM Investment and Walkman Biomaterial first acquired 30.77% and 15.38% equity interests in Bone Medical from Xiehong Investment for RMB40 million and RMB20 million, respectively. PWM Investment also made a capital contribution of US\$7.17 million (approximately RMB45 million) to Bone Medical. As a result, the registered capital of Bone Medical increased to RMB1.35 million. The consideration for the above transfers and capital contribution was determined with reference to an independent valuation of the total shareholders’ equity in Bone Medical as of July 31, 2012. Immediately after these steps, PWM Investment, Xiehong Investment, Walkman Biomaterial and Mr. WU Dong owned 48.57%, 39.26%, 11.43% and 0.74% equity interests in Bone Medical, respectively. Set forth below is the shareholding structure of Walkman Biomaterial and Bone Medical immediately after these steps.



We acquired Bone Medical primarily to expand our orthopedic implant product portfolio and enhance our competitiveness in China’s orthopedic implant market. As of the Latest Practicable Date, Bone Medical had the second largest number of registration certificates

HISTORY AND CORPORATE DEVELOPMENT

among major domestic companies in terms of hip and knee implants, the major areas of joint implants, with five for hip implants and one for knee implants. With the addition of Bone Medical’s products, we now offer the most complete product portfolio among major domestic companies, covering all major applications in each category of trauma, spine and joint. We expect joint products to be a key driver for our future revenue growth.

Acquisition and Disposition of Certain Other Subsidiaries

With a view to further expanding our operations, Walkman Biomaterial and Yinger Biotechnology acquired 35% and 25% equity interests, respectively, in Renli Orthopedic in April 2012, and Walkman Biomaterial acquired the entire equity interest in Yinger Biotechnology in July 2012.

In September 2013, Walkman Biomaterial sold the entire equity interest in Yinger Biotechnology, which in turn held 25% equity interest in Renli Orthopedic, and the 35% equity interest in Renli Orthopedic directly held by it to an Independent Third Party for a consideration of RMB8.6 million and RMB10.8 million, respectively. The consideration was determined based on arm’s length negotiation between the parties. We acquired Renli Orthopedic primarily for its pipeline of joint products under development. As a result of our acquisition of Bone Medical in January 2013, which has five registration certificates for joint implants, Renli Orthopedic, which was not expected to obtain registration certificates for any products in the near future, became less important to our orthopedic business. Consequently, we decided to dispose of Renli Orthopedic. Renli Orthopedic contributed RMB2.5 million and RMB2.4 million to our revenue in 2012 and the six months ended June 30, 2013, respectively. Renli Orthopedic contributed a net loss of RMB1.3 million and RMB3.3 million in the same periods, respectively.

History of Our Infusion Set Business

Establishment and Interim Development

We conduct our infusion set business through our PRC subsidiary, Fert Technology. Fert Technology was established in Beijing, China, in September 1997, with a registered capital of RMB3.8 million. At the time of its establishment, Fert Technology was owned by a group of corporate and individual shareholders, all Independent Third Parties, among which Beijing Manborui Technology Co., Ltd. (北京曼博瑞技術有限責任公司), or Manborui Technology, was the largest shareholder with a 40% equity interest in Fert Technology. Manborui Technology subscribed for the registered capital of Fert Technology with a combination of cash and contribution-in-kind in the form of technology patents.

Fert Technology had undergone a series of changes in its registered capital and shareholding structure during the interim period leading up to our acquisition. Immediately before the acquisition by Mr. ZHANG Wendong of PW Medtech (Beijing) in January 2011, Mr. GAN Ning (甘寧), PW Medtech (Beijing) and Mr. HUANG Tongwei (黃童維) owned

HISTORY AND CORPORATE DEVELOPMENT

59.37%, 25.63% and 15% equity interests in Fert Technology, respectively. PW Medtech (Beijing) was established by Mr. GAN Ning and Mr. HUANG Tongwei, both Independent Third Parties, as Beijing Bright Westward Investment Consultancy Co., Ltd. (北京光明西進投資諮詢有限公司) in August 2000, and changed to its current name in April 2013.

Acquisition of Fert Technology

Acquisition by Mr. ZHANG Wendong

In January 2011, Mr. ZHANG Wendong acquired the entire equity interest in PW Medtech (Beijing) from Mr. GAN Ning and Mr. HUANG Tongwei for a total consideration of RMB120 million and became indirectly interested in 25.63% equity interest of Fert Technology. The consideration was based on arm’s length negotiations among the parties. Mr. ZHANG Wendong conducted such acquisition on behalf of Ms. Yufeng LIU.

In March 2011, Mr. GAN Ning transferred a 44.37% equity interest in Fert Technology to Beijing Langjing Technology Co., Ltd. (北京朗淨科技有限公司), or Langjing Technology, an Independent Third Party. As a result of this transfer, Langjing Technology, PW Medtech (Beijing), Mr. GAN Ning and Mr. HUANG Tongwei owned 44.37%, 25.63%, 15% and 15% equity interests in Fert Technology, respectively.

In April 2011, PW Medtech (Beijing) acquired a 15% equity interest in Fert Technology from each of Mr. GAN Ning and Mr. HUANG Tongwei for a total consideration of RMB100 million. The consideration was based on arm’s length negotiations among the parties. As a result, PW Medtech (Beijing) owned a 55.63% equity interest in Fert Technology. At the time of the acquisition, Fert Technology and PW Medtech (Beijing) owned 50% and 10% equity interests in Fert Device, respectively, which were subsequently disposed of. For details, see “— Disposal of Fert Device” below.

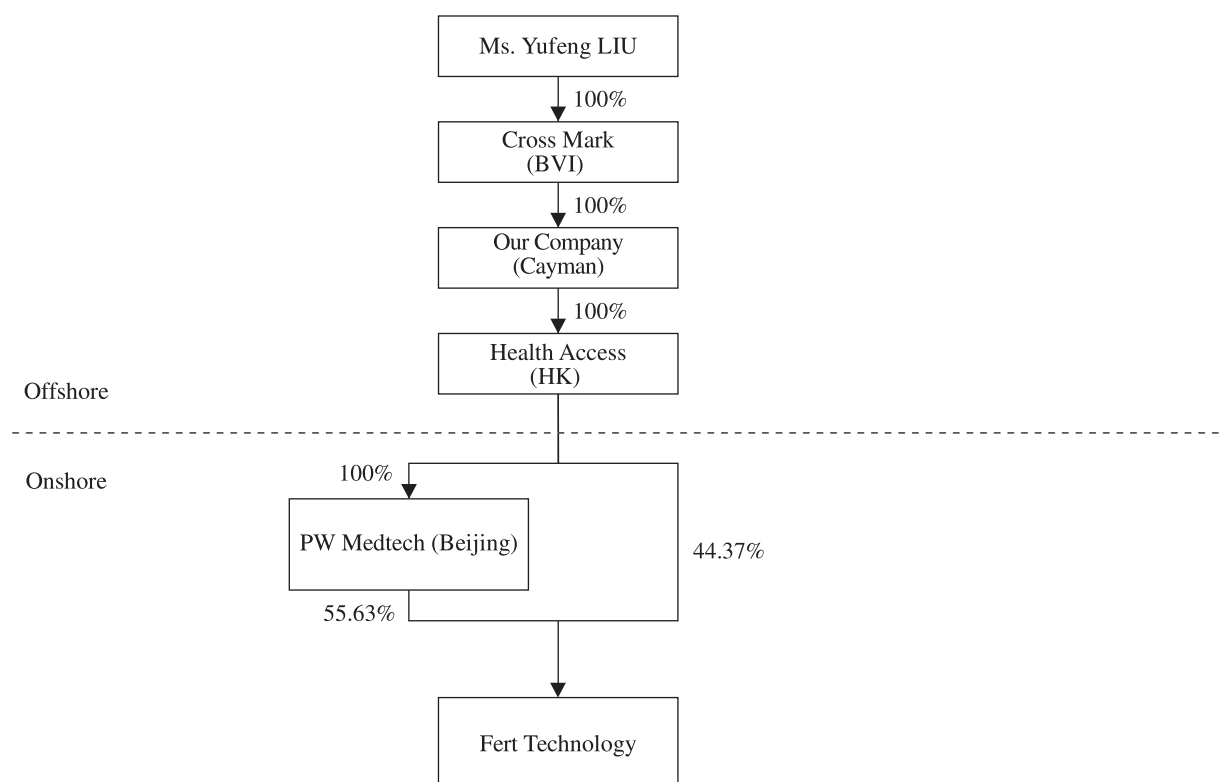
Acquisition by Health Access

In September 2011, Health Access, our wholly-owned Hong Kong subsidiary, acquired control in Fert Technology through the acquisition of the entire equity interest in PW Medtech (Beijing) from Mr. ZHANG Wendong for a consideration of RMB120 million, representing the consideration paid by Mr. ZHANG Wendong in acquiring such equity interest in PW Medtech (Beijing) in January 2011.

In December 2012, Langjing Technology sold its 44.37% equity interest in Fert Technology to Health Access for a consideration of RMB180 million, which was determined with reference to an independent valuation of the equity value of Fert Technology as of December 31, 2011. The funds for acquiring the 100% equity interest in Fert Technology were primarily from a convertible loan extended by WP X. See “— Investment by WP X and Other Financial Investors.” Upon completion of the foregoing transactions, Fert Technology was restructured into a Sino-foreign joint venture. PW Medtech (Beijing) and Health Access owned

HISTORY AND CORPORATE DEVELOPMENT

55.63% and 44.37% equity interests in Fert Technology, respectively. Ms. Yufeng LIU became the sole ultimate owner of Fert Technology. Set forth below is the shareholding structure of Fert Technology immediately following our acquisition of the 100% equity interest in Fert Technology.



We acquired Fert Technology primarily because we believed that advanced infusion sets were a high growth, high margin segment of the PRC medical device sector and Fert Technology in particular had significant potentials to become a market leader in this segment, including its technology in producing precision filter infusion sets and development of non-PVC-based infusion tubing. In evaluating the investment in Fert Technology, we also took into account favorable industry trends, including increasing awareness about infusion safety. Under our management, Fert Technology generated revenue of RMB99.8 million, RMB234.0 million and RMB147.1 million in Successor Period 2011, 2012 and the six months ended June 30, 2013, respectively, and segment operating profit of RMB90.9 million, RMB90.9 million and RMB56.6 million during the same periods, respectively.

Investment by WP X and Other Financial Investors

In October 2010, Mr. Marc CHAN (陳國泰) and Mr. LI Ngai (李毅) extended two loans to Cross Mark for its equity investment in Fert Technology. These loans had principal amounts of US\$15.5 million and US\$4.5 million, respectively, and the repayment obligations would be discharged upon the allocation of 19.38% and 5.62% equity interests, directly or indirectly, in Fert Technology to Mr. Marc CHAN’s investment holding company and Mr. LI Ngai’s

HISTORY AND CORPORATE DEVELOPMENT

investment holding company, respectively. For backgrounds of Mr. Marc CHAN and Mr. LI Ngai, see “Investments — About Mr. Marc CHAN and Mr. Li Ngai.” See “— Reorganization” for the details of the debt-for-equity conversion.

Pursuant to an investment loan agreement dated June 2011, WP X extended a loan of US\$46.27 million (RMB300 million) to Ms. Yue’e ZHANG. Cross Mark was the guarantor for this loan. This fund was used for the acquisition of the entire equity interest in PW Medtech (Beijing), which then owned a 55.63% equity interest in Fert Technology, and the purchase of the remaining 44.37% equity interest in Fert Technology from Langjing Technology. The repayment obligations would be discharged upon the allocation of a 25% equity interest in our Company to WP X. See “— Reorganization” for the details of the debt-for-equity conversion.

Acquisitions of Zhong Jie Tian Gong and Yijia Medical

With a view to further expanding our operations, in February 2012, Fert Technology acquired the entire equity interest in Zhong Jie Tian Gong, which holds the Pinggu facility, currently under construction. See “Business — Production Facilities — Infusion Sets.”

In May 2013, Fert Technology acquired the entire equity interest in Yijia Medical for a total consideration of RMB20 million from Independent Third Parties, based on arm’s length negotiations among the parties. We acquired Yijia Medical primarily to expand our production capacity of infusion sets. Due to the defective titles of certain properties held by Yijia Medical, the parties have agreed that Fert Technology will pay the purchase consideration in installments, which are conditioned upon certain milestones in the receipt of such title certificates. As of the Latest Practicable Date, it only made initial payments totaling RMB7.6 million under the equity transfer agreement. For details of such property defects, see “Business — Property — Owned Property.” Fert Technology made the initial payments with its own cash.

Disposal of Fert Device

Prior to our acquisition of control in Fert Technology in April 2011, Fert Technology and PW Medtech (Beijing) owned 60% equity interests in Fert Device, which served as Fert Technology’s general distributor. Langjing Technology, a 44.37% shareholder of Fert Technology from March 2011 through December 2012, acquired the remaining 40% equity interest in Fert Device from Mr. GAN Ning. From the early stages of identifying Fert Technology as a potential investment, we had intended to acquire Fert Technology (with its products, product registration permits, technology and brand name as its principal value) without acquiring Fert Device, a medical device distribution company. With the growth of Walkman Biomaterial, we had successfully built an extensive nationwide distribution network of independent distributors. We planned to replicate the same strategy for Fert Technology by developing a nationwide sales network of independent distributors. In contrast, Mr. RAN

HISTORY AND CORPORATE DEVELOPMENT

Nianmo (冉年模), an Independent Third Party and the controlling shareholder of Langjing Technology, saw the value in Fert Device’s distribution license and market position in Beijing and was interested in acquiring Fert Device without Fert Technology.

However, Mr. GAN Ning and Mr. HUANG Tongwei requested that all of their interests in Fert Technology and Fert Device be purchased together. In the interest of completing the acquisition, our Company (through Mr. ZHANG Wendong) and Mr. RAN Nianmo agreed to purchase Mr. GAN Ning’s and Mr. HUANG Tongwei’s respective interests in Fert Technology and Fert Device first, with the understanding that we would acquire the entire equity interests in Fert Technology while Mr. RAN Nianmo would acquire the entire equity interests in Fert Device thereafter.

As a result, shortly after completing the acquisition of Fert Technology in April 2011, Mr. RAN Nianmo and we completed negotiations on the sale of the aggregate 60% equity interests in Fert Device held by Fert Technology and PW Medtech (Beijing). We agreed to sell such equity interests to Mr. RAN Nianmo for an aggregate consideration of RMB4.6 million, which was based on arm’s length negotiation between us and Mr. RAN Nianmo with a reference to Fert Device’s net book value. The prices, at which we sold our equity interests in Fert Device, were substantially identical to its fair value for the purpose of acquisition accounting under [●] as of the acquisition date of Fert Technology less the dividends received from Fert Device subsequently to acquisition date and before disposal date, and hence no gain or loss was recognized for the sale of the equity interests. In July 2011 and August 2012, Fert Technology and PW Medtech (Beijing) completed the transfer of their 50% and 10% equity interests in Fert Device to Langjing Technology and Mr. RAN Nianmo, respectively. Subsequently in December 2012, Langjing Technology completed the transfer of its 44.37% equity interest in Fert Technology to Health Access for RMB180 million pursuant to an equity transfer agreement between the parties dated June 6, 2012.

Establishment and Development of Our Company

On May 13, 2011, our Company was incorporated in the Cayman Islands as Pyholding Limited under the Companies Law as an exempted company with an authorized share capital of US\$50,000, divided into 50,000 shares with a par value of US\$1.00 each. Stockton Nominees Limited subscribed for one share of par value US\$1.00 each. On the same day, the said one share was transferred to Ms. Yufeng LIU, and 99 new shares of par value US\$1.00 each was allotted to Ms. Yufeng LIU. Our Company was then wholly owned by Ms. Yufeng LIU. In September 2012, Ms. Yufeng LIU transferred 100 shares of par value US\$1.00 each in the share capital of our Company, being all the issued shares of our Company at that time, to Cross Mark for a nominal consideration, and remained the sole beneficial owner of our Company. In January 2013, the share capital of our Company was sub-divided into 500,000,000 Shares with a par value of US\$0.0001 each, such that every one share of par value US\$1.00 each would be sub-divided into 10,000 Shares of par value US\$0.0001 each, and as a result of the sub-division, the authorized share capital of our Company became

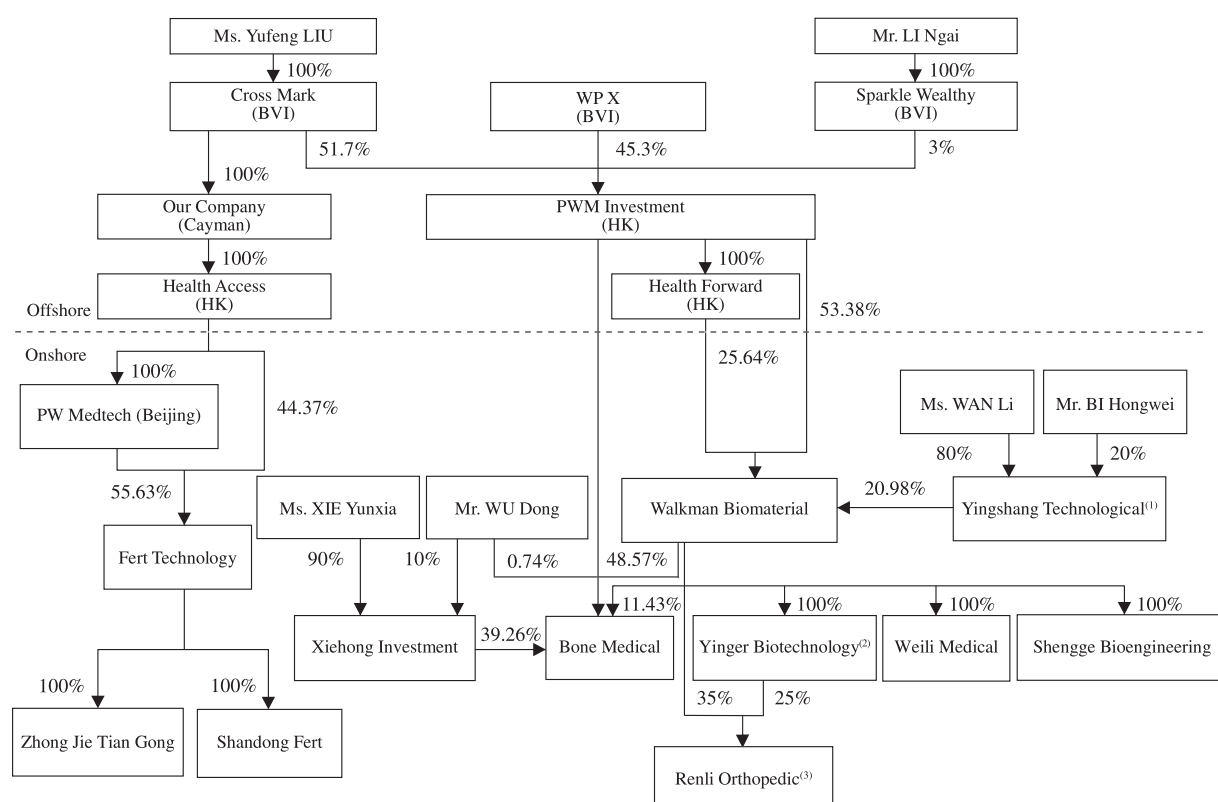
HISTORY AND CORPORATE DEVELOPMENT

US\$50,000 divided into 500,000,000 par value US\$0.0001 each. In October 2013, the authorized share capital of our Company was further increased to US\$500,000, divided into 5,000,000,000 Shares of par value US\$0.0001 each.

Cross Mark subscribed for a total of 62,560,163 Shares of par value US\$0.0001 each of our Company for a total amount of US\$62.56 million, equivalent to US\$1.00 per Share, of which US\$37 million had been paid as of December 2012. The funds for such subscription were from convertible loans from WP X and other financial investors. This capital contribution was further injected into Health Access to finance the acquisition of Fert Technology. The balance was contributed in subsequent closings as part of the Reorganization.

In June 2013, we changed the name of our Company to PW Medtech Group Limited (普华和顺集团公司) as part of the Reorganization.

Set forth below is the shareholding structure of our Group and PWM Investment immediately prior to the Reorganization.



(1) In April 2013, Ms. WAN Li and Mr. BI Hongwei transferred their respective equity interests in Yingshang Technological to Tianqiong Investment, an investment holding company wholly owned by them.

(2) We sold the entire equity interest in Yinger Biotechnology to an Independent Third Party in September 2013.

HISTORY AND CORPORATE DEVELOPMENT

- (3) The remaining 40% equity interest in Renli Orthopedic is owned by Zhong Jian Kang Da. We sold the 60% equity interests directly and indirectly held in Renli Orthopedic to an Independent Third Party in September 2013.

REORGANIZATION

Beginning in February 2013, we have undertaken the Reorganization. The Reorganization, which was primarily designed to combine the offshore holding companies and streamline the corporate and shareholding structure of our Group, consisted of the following principal steps.

Reorganization of PRC Subsidiaries

Walkman Biomaterial — Cash Buyout of Minority Shareholders

In May 2013, PWM Investment acquired the entire equity interest in Tianqiong Investment from Ms. WAN Li and Mr. BI Hongwei for a total consideration of RMB120 million, and Walkman Biomaterial became a wholly-owned subsidiary of PWM Investment. The consideration was based on arm’s length negotiations among the parties with reference to an independent valuation of the net asset value of Tianqiong Investment.

Fert Technology — Capital Contribution

In June 2013, Health Access made a capital contribution of RMB50 million in Fert Technology. As a result, Health Access and PW Medtech (Beijing) owned 86.52% and 13.48% equity interests in Fert Technology, respectively.

Bone Medical — Cash Buyout of Minority Shareholders

In June 2013, PWM Investment acquired the remaining 40% equity interests in Bone Medical beneficially owned by Mr. WU Dong and Ms. XIE Yunxia for a total consideration of RMB58.44 million. The consideration was based on arm’s length negotiations among the parties with reference to an independent valuation of the net asset value of Bone Medical. Bone Medical became a wholly-owned subsidiary of PWM Investment.

Reorganization of Offshore [●] Structure

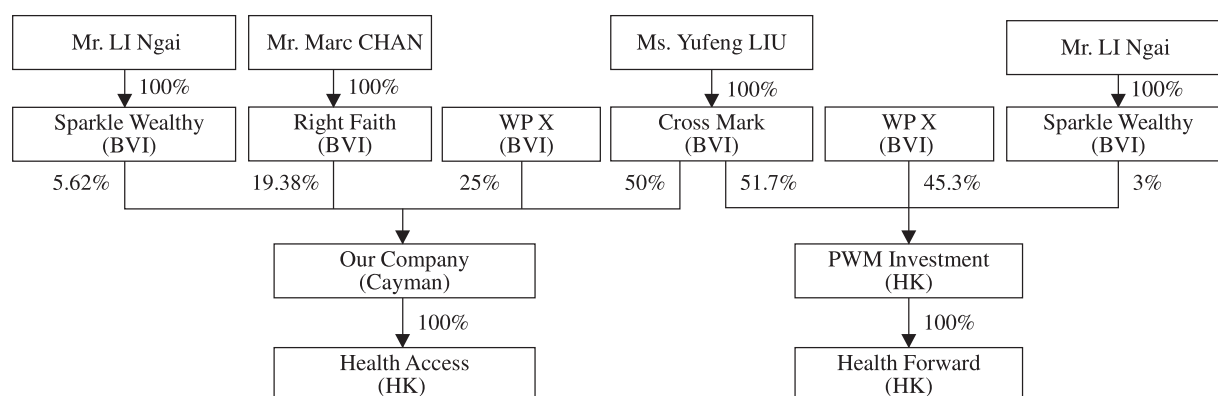
Debt-for-Equity Conversion by WP X and Other Financial Investors

In February 2013, Cross Mark transferred 12,317,324 Shares of par value US\$0.0001 each and 3,572,081 Shares of par value US\$0.0001 each, being 19.38% and 5.62% equity interests in our Company at that time, to Right Faith, a BVI business company wholly owned by Mr. Marc CHAN, and Sparkle Wealthy, respectively, to settle the loans that Mr. Marc CHAN and Mr. LI Ngai extended to Cross Mark in October 2010 in connection with its equity investment in Fert Technology.

HISTORY AND CORPORATE DEVELOPMENT

In January 2013, Ms. Yue’e ZHANG assigned her rights and obligations under the June 2011 loan agreement with WP X to Cross Mark. In March 2013, Cross Mark transferred 15,890,041 Shares of par value US\$0.0001 each, being a 25% equity interest in our Company at that time, to WP X in settlement of such loan.

As a result of the foregoing transactions, Cross Mark, WP X, Right Faith and Sparkle Wealthy owned 50%, 25%, 19.38% and 5.62% equity interests in our Company, respectively. Set forth below is the offshore shareholding structure of our Group and PWM Investment immediately after the foregoing transactions.



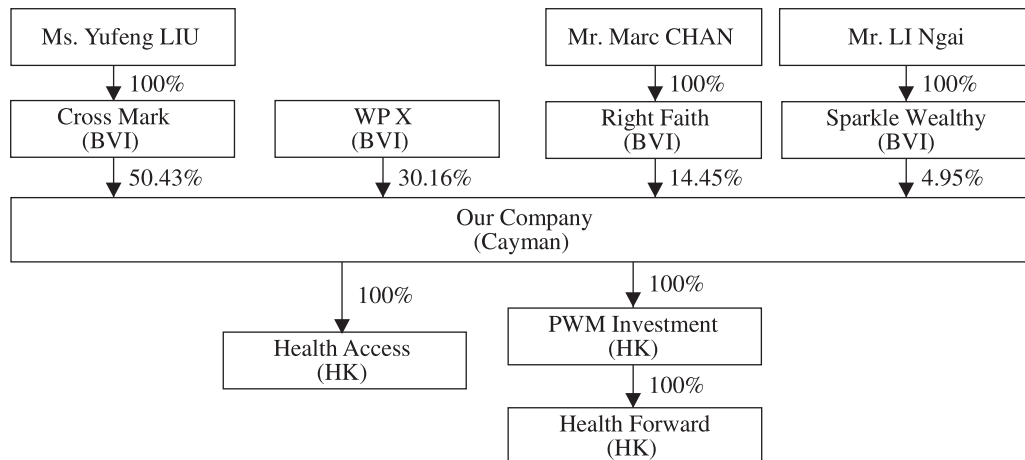
Consolidation of PWM Investment into Our Group

Pursuant to a share subscription agreement dated May 8, 2013, our Company acquired the entire equity interest in PWM Investment from its then-existing shareholders, namely, Cross Mark, WP X and Sparkle Wealthy, in exchange for our ordinary shares. Our Company allotted and issued a total of 21,658,670 Shares to the then-existing shareholders of PWM Investment, as consideration for the ordinary shares of PWM Investment acquired by us. As a result of this share swap, Cross Mark, WP X, Right Faith and Sparkle Wealthy owned 50.43%, 30.16%, 14.45% and 4.95% equity interests in our Company, respectively. Our orthopedic implant and infusion businesses have thus been combined and consolidated into our Group.

As part of the consolidation, our Company entered into an amended and restated shareholders agreement on May 27, 2013 and an amendment thereto on August 26, 2013 with each of Cross Mark, WP X, Right Faith and Sparkle Wealthy. Pursuant to this shareholders agreement, each of Cross Mark and WP X has a right of first offer with respect to any proposed transfer of ordinary Shares (other than a transfer to an affiliate) by another Shareholder (including Right Faith and Sparkle Wealthy). If Cross Mark or WP X, as applicable, does not elect to exercise such right of first offer, it will have a tag along right to participate in such proposed transfer of ordinary Shares. The right of first offer and tag along right are among Cross Mark, WP X, Right Faith and Sparkle Wealthy only and do not affect other Shareholders, and will terminate upon the completion of the [●]. Right Faith and Sparkle Wealthy are not entitled to such right of first offer or tag along right.

HISTORY AND CORPORATE DEVELOPMENT

Set forth below is the offshore shareholding structure of our Group immediately after the consolidation of PWM Investment into our Group.



Capital Contribution by Minority Shareholders

Pursuant to a share subscription agreement dated May 24, 2013, Right Faith and Sparkle Wealthy subscribed for 5,929,204 Shares and 3,126,308 Shares of par value US\$0.0001 each of our Company for a consideration of US\$17.79 million and US\$9.38 million, respectively, equivalent to US\$3.00 per share based on arm’s length negotiations among the parties. Upon completion of this capital contribution, Cross Mark, WP X, Right Faith and Sparkle Wealthy owned 45.59%, 27.26%, 19.35% and 7.79% equity interests in our Company, respectively. The proceeds from this capital contribution were used to finance the cash buyout of minority interests in Walkman Biomaterial and Bone Medical, respectively, as part of the Reorganization.

HISTORY AND CORPORATE DEVELOPMENT

INVESTMENTS

The table below summarizes the details of the investments in our Group. For further information, see “— History and Development” and “— Reorganization” above.

Name of investor	Brief description of investment	Date of investment/ agreement	Consideration paid (US\$)	Payment date of consideration	No. of shares subscribed or transferred	Cost per Share paid by each investor (US\$)	Approximate percentage of shareholding interests held by investor in our Company ⁽²⁾
WP X	Loan to Ms. Yue'e ZHANG for the acquisition of Fert Technology, which was assigned to Cross Mark and converted to equity interest in our Company on March 7, 2013	June 9, 2011	46,274,873	March 7, 2013	15,890,041	N/A	N/A
	Capital contribution by PWM Investment, then a wholly-owned subsidiary of WP X, in Walkman Biomaterial, which was exchanged into equity interest in our Company through a share swap on May 27, 2013	September 9, 2010	10,325,000	May 27, 2013	N/A ⁽³⁾	N/A	N/A
	Initial share subscription in PWM Investment for equity investment in Walkman Biomaterial, which was exchanged into equity interest in our Company through a share swap on May 27, 2013	December 3, 2010	13,999,871	May 27, 2013	N/A ⁽⁴⁾	N/A	N/A
	Follow-on share subscription in PWM Investment for equity investment in Walkman Biomaterial and Bone Medical, which was exchanged into equity interest in our Company through a share swap on May 27, 2013	September 27, 2012	7,805,519	May 27, 2013	9,811,378 ⁽⁵⁾	N/A	N/A
	Total					<u>0.208⁽⁶⁾</u>	<u>20.45%</u>
Right Faith	Loan to Cross Mark for its equity investment in Fert Technology, which was converted to equity interest in our Company on February 22, 2013	October 15, 2010	15,500,000	February 22, 2013	12,317,324	N/A	N/A
	Share subscription in our Company for cash buyout of minority interests in Walkman Biomaterial	May 24, 2013	17,794,170	May 29, 2013	5,929,204	N/A	N/A
	Total					<u>0.143⁽⁷⁾</u>	<u>14.52%</u>

HISTORY AND CORPORATE DEVELOPMENT

Name of investor	Brief description of investment	Date of investment/ agreement	Consideration paid (US\$)	Payment date of consideration	No. of shares subscribed or transferred	Cost per Share paid by each investor (US\$)	Approximate percentage of shareholding interests held by investor in our Company ⁽²⁾
Sparkle Wealthy	Loan to Cross Mark for its equity investment in Fert Technology, which was converted to equity interest in our Company on February 22, 2013	October 15, 2010	4,500,000	February 22, 2013	3,572,081	N/A	N/A
	Initial share subscription in PWM Investment for equity investment in Walkman Biomaterial and Bone Medical, which was exchanged into equity interest in our Company through a share swap on May 27, 2013	September 17, 2012	956,235	May 27, 2013	N/A ⁽⁸⁾	N/A	N/A
	Follow-on share subscription in PWM Investment for equity investment in Walkman Biomaterial and Bone Medical, which was exchanged into equity interest in our Company through a share swap on May 27, 2013	September 27, 2012	515,922	May 27, 2013	649,760 ⁽⁹⁾	N/A	N/A
	Share subscription in our Company for cash buyout of minority interests in Bone Medical	May 24, 2013	9,382,381	May 29, 2013	3,126,308	N/A	N/A
Total						<u>0.164⁽¹⁰⁾</u>	<u>5.84%</u>

(1) [Reserved]

(2) [Reserved]

(3) WP X became 41.15% indirectly interested in Walkman Biomaterial through PWM Investment, which was then wholly owned by WP X.

(4) WP X subscribed for 3,670 shares in PWM Investment.

(5) WP X subscribed for additional 1,755 shares in PWM Investment. Our Company subsequently issued 9,811,378 Shares to WP X in exchange for 6,425 shares held by it in PWM Investment, including 1,000 shares which WP X initially acquired in PWM Investment for nominal consideration.

(6) The cost per Share paid by WP X is calculated as its net investment in our Group, directly and indirectly through PWM Investment, in the amount of US\$68.08 million, divided by the Shares to be held by WP X immediately upon the completion of the [●].

(7) The cost per Share paid by Right Faith is calculated as its net investment in our Group in the amount of US\$33.30 million, divided by the Shares to be held by Right Faith immediately upon the completion of the [●].

(8) Sparkle Wealthy subscribed for 309 shares in PWM Investment.

HISTORY AND CORPORATE DEVELOPMENT

- (9) Sparkle Wealthy subscribed for additional 116 shares in PWM Investment. Our Company subsequently issued 649,760 Shares to Sparkle Wealthy in exchange for 425 shares held by it in PWM Investment.
- (10) The cost per Share paid by Sparkle Wealthy is calculated as its net investment in our Group in the amount of US\$15.35 million, divided by the Shares to be held by Sparkle Wealthy immediately upon the completion of the [●].

The Shares associated with the investments in our Group, namely, the Shares held by WP X, Right Faith and Sparkle Wealthy, are subject to [●].

About WP X

WP X is a company incorporated in the BVI, wholly owned by Warburg Pincus Private Equity X, L.P. and Warburg Pincus X Partners, L.P., private equity funds managed by Warburg Pincus LLC, a New York limited liability company.

About Mr. Marc CHAN and Mr. LI Ngai

Mr. Marc CHAN and Mr. LI Ngai are both private investors, and were Independent Third Parties prior to investing in our Group. The funds for Mr. Marc CHAN’s investment in our Group were from his private business and investments. Mr. LI Ngai is a private investor with a focus on the stock market, and the funds for his investment in our Group were from his family business and investments. The Shares held by Mr. Marc CHAN and Mr. LI Ngai through Right Faith and Sparkle Wealthy, respectively, are subject to [●].

To the best knowledge of our Directors, each of the above investors is independent from each other and did not act in concert with respect to their investments in our Group.

COMPLIANCE WITH LAWS

Circular 75

According to SAFE’s Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Roundtrip Investment via Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), or Circular 75, promulgated on October 21, 2005 and effective on November 1, 2005, PRC residents who establish or control offshore special purpose vehicles, or SPVs, shall apply to the local branch of SAFE to register their overseas investments. Additionally, where a PRC resident contributes her assets or shareholding in a PRC enterprise into an offshore SPV, or engages in the shareholding alteration of an offshore SPV, with regard to the net interests she holds in such offshore SPV, she shall properly register or update her registration with the local branch of SAFE. Our PRC legal adviser is of the opinion that since Ms. Yufeng LIU is a citizen of New Zealand and both Mr. Marc CHAN and Mr. LI Ngai are

HISTORY AND CORPORATE DEVELOPMENT

citizens of Hong Kong, they are not PRC residents within the meaning of Circular 75. Accordingly, they are not subject to Circular 75 or required to go through registration procedures with respect to their overseas investments.

M&A Regulation

Pursuant to Article 40 of the Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), or the M&A Regulation, promulgated on August 8, 2006 by six PRC governmental agencies and effective on September 8, 2006, any offshore SPV established for capital financing purposes and controlled directly or indirectly by PRC persons, shall obtain MOFCOM approval prior to such offshore SPV acquiring any related entities or assets in the PRC, as well as CSRC approval prior to the [●] and trading of the securities of such offshore SPV on an overseas [●]. Consequently, our PRC legal adviser is of the opinion that, with regard to the consolidation of PWM Investment into our Group as a Reorganization step, given that Ms. Yufeng LIU, Mr. Marc CHAN and Mr. LI Ngai, as beneficial owners of our Company immediately prior to the [●], are not PRC persons as defined under the M&A Regulation, the acquirer, our Company and its beneficial owners, including WP X and three SPVs controlled by Ms. Yufeng LIU, Mr. Marc CHAN and Mr. LI Ngai, respectively, do not constitute offshore SPVs under the M&A Regulation. Accordingly, such consolidation is not governed by the M&A Regulation. Therefore, the Reorganization and the [●] do not require the approval of MOFCOM or CSRC or any other PRC governmental authorities.

Our PRC legal adviser has also confirmed that we have obtained all material approvals and permits required under PRC laws and regulations in connection with each stage of the acquisitions of our PRC subsidiaries, the Reorganization and the [●].

BUSINESS

OVERVIEW

PW Medtech is a medical device company focused on fast-growing and high-margin segments of China’s medical device industry. We are a leader in our current business segments of orthopedic implants and advanced infusion sets. We intend to further grow and consolidate our market position in the orthopedic implant and advanced infusion set markets, and potentially expand into other attractive sectors of China’s medical device industry.

In the orthopedic implant segment, as of the Latest Practicable Date, we were one of only two major domestic companies with a full product portfolio including trauma, spine, as well as hip and knee implants. Our trauma and spine products are sold under the “Walkman” brand and our joint products under the “Bone (博恩)” brand. In the fast-growing segment of hip and knee implants, the major areas of joint implants, we had the second largest number of registration certificates among major domestic companies as of the Latest Practicable Date, with five for hip implants and one for knee implants. The breadth and depth of our product portfolio in orthopedic implants enhance our ability to provide total solutions to hospitals to meet the needs of a broad range of patients. Since 2010, we have commercially launched 25 orthopedic implant products, including our bridge-link combined fixation system, which provides superior fixation stability and can be used in a significantly wider range of bone fractures than many competing products currently available on the market.

China is the largest infusion set market in the world. In the infusion set segment, we offer two principal types of advanced infusion sets under our “Fert (伏尔特)” brand through our subsidiary Fert Technology: (i) precision filter infusion sets, which improve the safety of intravenous infusions by preventing insoluble particles in intravenous solutions from entering the blood vessels of patients; and (ii) non-PVC-based infusion sets with double-layer tubing (with TPU as inner tubing and PVC as outer tubing), which eliminate the harmful effects of PVC additives and reduce drug absorption by the infusion set. Fert Technology is a pioneer in developing advanced infusion sets as one of the first manufacturers in China to receive CFDA approval in 1997. As of the Latest Practicable Date, we were one of only three PRC manufacturers to receive CFDA approval for non-PVC-based infusion sets. We are committed to offering the highest quality infusion set products to Chinese consumers by using cutting-edge materials and technologies to enhance infusion safety.

We sell our products primarily through distributors. Our extensive and fast-growing nationwide distribution network is located across 30 provinces, municipalities and autonomous regions in China. Our distribution network for orthopedic implants primarily covers Class 2 hospitals in tiers II and III cities. In contrast, our distribution network for infusion sets

BUSINESS

primarily covers Class 3 hospitals in tiers I and II cities in China. The following table sets forth the number of our distributors and hospitals covered by our distribution network as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
<i>Orthopedic implants (trauma and spine)</i>				
Distributors	182	207	214	244
Hospitals	1,257	1,300	1,397	1,444
<i>Infusion sets</i>				
Distributors	33	28	182	211
Hospitals	602	765	995	1,113

We currently have a total of six production facilities, including three for orthopedic implant products in Tianjin, Anyang (Henan province) and Shenzhen (Guangdong province), and three for infusion sets in Fengtai (Beijing), Shijingshan (Beijing) and Xuzhou (Jiangsu province). As of June 30, 2013, we had an annual production capacity of 1,960,000 units of trauma implants, 230,000 units of spine implants, 8,000 sets of joint implants and 55 million infusion sets. In the six months ended June 30, 2013, the utilization rates of our trauma implant production facilities, spine implant production facilities, joint implant production facilities and infusion set production facilities were 79.6%, 74.0%, 44.4% and 81.5%, respectively. We also have three additional facilities under construction, including two in Linyi (Shandong province) and Pinggu (Beijing) to produce infusion sets and one in Shenzhen (Guangdong province) to produce joint products.

Our business has expanded substantially as both of our orthopedic implant business and infusion set business grew during the Track Record Period. In 2010, 2011 and 2012, our revenue totaled RMB60.8 million, RMB175.3 million and RMB331.5 million, respectively, representing a CAGR of 133.5% over the three years. Our revenue increased by 50.1% from RMB145.8 million in the six months ended June 30, 2012 to RMB218.8 million in the same period in 2013. In 2010, 2011 and 2012, our net profit totaled RMB14.3 million, RMB49.3 million and RMB100.2 million, respectively, representing a CAGR of 164.4% over the three years. Our net profit increased by 35.2% from RMB44.6 million in the six months ended June 30, 2012 to RMB60.2 million in the same period in 2013.

Revenue of our orthopedic implant segment grew from RMB60.8 million in 2010 to RMB97.6 million in 2012, representing a CAGR of 26.7% over the three years. Revenue for this segment increased by 57.3% from RMB45.6 million in the six months ended June 30, 2012 to RMB71.7 million in the same period in 2013. Operating profit of our orthopedic implant segment increased from RMB19.4 million in 2010 to RMB37.6 million in 2012,

BUSINESS

representing a CAGR of 39.3% over the three years. Operating profit for this segment increased by 29.3% from RMB17.5 million in the six months ended June 30, 2012 to RMB22.6 million in the same period in 2013.

Fert Technology’s revenue increased from RMB88.8 million in 2010 to RMB234.0 million in 2012, representing a CAGR of 62.3% over the three years. Fert Technology’s revenue increased by 46.8% from RMB100.2 million in the six months ended June 30, 2012 to RMB147.1 million in the same period in 2013. Fert Technology’s operating profit increased from RMB27.3 million in 2010 to RMB90.9 million in 2012, representing a CAGR of 82.5% over the three years. Fert Technology’s operating profit increased by 48.0% from RMB38.2 million in the six months ended June 30, 2012 to RMB56.6 million in the same period in 2013.

COMPETITIVE STRENGTHS

We believe that the following strengths of our Company differentiate us from our competitors and help us compete effectively in the industry.

Market leadership in two fast-growing and high-margin segments of China’s medical device industry

We are a leading developer, manufacturer and marketer of orthopedic implants and advanced infusion sets in China.

Orthopedic Implants

China’s market for orthopedic implants grew at a CAGR of 18.2% from 2008 to 2012, and is expected to grow at a CAGR of 18.1% from 2012 to 2017, according to the F&S Report. Average gross margin of major domestic orthopedic implant manufacturers was estimated at 69% in 2012, according to the same source.

As of the Latest Practicable Date, we were one of only two major domestic companies with a full product portfolio including trauma, spine, as well as hip and knee implants. We have the third largest market share among domestic companies in China (excluding Kanghui and Trauson⁽¹⁾), with a 1.3% market share in terms of sales revenue for the 12 months ended June 30, 2013, according to the F&S Report. Our market leadership extends to both our principal product categories, with the second and fourth largest market share among domestic companies (excluding Kanghui and Trauson) in trauma and spine products, respectively.

In the fast growing segment of hip and knee implants, the major areas of joint implants, we had the second largest number of registration certificates among major domestic companies as of the Latest Practicable Date, with five for hip implants and one for knee implants, which enables us to address the needs of substantially all of the joint implant market, according to the F&S Report.

⁽¹⁾ Kanghui and Trauson were acquired by MNCs in 2012 and 2013, respectively.

BUSINESS

The breadth and depth of our product portfolio in orthopedic implants enhance our ability to provide total solutions to hospitals to meet the needs of a broad range of patients, which we believe in turn (i) increases the recognition and acceptance of our products among surgeons and hospitals; (ii) allows us to compete more effectively in the tendering processes run by government agencies and hospitals; and (iii) positions us well for growth in the relatively under-penetrated market for joint products and facilitates our cross-selling efforts among product categories.

Infusion Sets

China’s market for advanced infusion products, which primarily consists of the precision filter infusion set market, grew at a CAGR of 23.2% from 2008 to 2012, reaching 451 million sets in 2012, and is expected to grow at a CAGR of 24.5% from 2012 to 2017, according to the F&S Report. Average gross margin of major domestic manufacturers of advanced infusion products was estimated at 64% in 2012, according to the same source.

We are the second largest manufacturer of advanced infusion sets in China, with a 12.2% market share in terms of 2012 sales volume and a 10.3% market share in terms of 2012 sales, according to the F&S Report. Our market share in Beijing, which is a leader in adopting new medical technology and a bellwether for the national market, was 49.5% in 2012 in terms of sales volume, according to the same source. Fert Technology, which has been a member of our Group since 2011, is one of the only two companies selected by the CFDA to assist in developing national standards for precision filter infusion sets, which is a further testament to our market leadership and development capabilities.

Fert Technology is a pioneer in developing advanced infusion sets as one of the first manufacturers in China to receive CFDA approval to manufacture and market precision filter infusion sets in 1997. We are committed to using cutting-edge materials and technology for our products. For instance, our precision filter infusion sets use filters made from nuclepore membranes, which have been shown to be significantly more effective in blocking insoluble particles than fibrous membranes, which are the leading alternative filtering material on the market.

We have maintained our market leadership by continuing to expand our product portfolio into new frontiers of infusion safety and improving existing products with features and applications such as light resistance and auto air venting. As of the Latest Practicable Date, we were one of the only three PRC manufacturers to receive CFDA approval for non-PVC-based infusion sets. Non-PVC-based infusion sets are expected to progressively replace PVC infusion sets in China, which in 2012 was a 7.9 billion-set market, according to the F&S Report. For our non-PVC-based infusion sets, we have developed a patented double-layer tubing design, with TPU as the inner tubing and PVC as the outer tubing. Our TPU inner tubing has been shown to effectively eliminate the harmful effects of plasticizers, such as DEHP/DOP, stabilizers and other additives in PVC, and reduces drug absorption.

BUSINESS

Product portfolio well-positioned to capture growth from market opportunities

We believe China’s markets for our orthopedic implants and infusion sets will continue to experience significant growth, and that we are well positioned to benefit from the following industry trends:

Orthopedic Implants

- *Import substitution.* China’s market for orthopedic implants has been traditionally dominated by MNCs, but Chinese domestic companies have successfully taken market share away from MNCs with improved product quality, lower prices and stronger local market access. Benefiting from our full product portfolio, we believe that we are well positioned to capitalize on the import substitution opportunities, particularly in the joint and spine product categories.
- *Higher growth in tiers II and III cities.* According to the F&S Report, the growth rate in tiers II, III and county level cities, with a CAGR of 20.3% from 2008 to 2012, was much higher than that of tier I cities, driven by factors such as larger populations and historical lower penetration rates in these regions than tier I cities, rising income, increasing insurance coverage, and restrictions of social health insurance programs that limit reimbursement to surgeries performed at local hospitals. According to the same source, the market size for tiers II, III and county level cities is estimated to grow from RMB5.71 billion in 2012 to RMB14.67 billion in 2017. We primarily target tiers II and III cities and believe that we are well positioned to capture the growth opportunities in these regions due to our good product quality, competitive prices and extensive distribution network.
- *High growth of spine and joint implant markets.* According to the F&S report, China’s spine implant market is expected to grow from RMB2.05 billion in 2012 to RMB5.06 billion in 2017, representing a CAGR of 19.8% and China’s joint implant market is expected to grow from RMB2.99 billion in 2012 to RMB8.11 billion in 2017, representing a CAGR of 22.1%. Benefiting from our full portfolio of quality products, competitive prices and extensive distribution network, we believe that we are well-positioned to capitalize on the high growth of the joint and spine implant markets.

Advanced Infusion Sets

- *Growing adoption and product upgrade.* With the increasing health consciousness and focus on infusion safety, advanced infusion sets, including primarily precision filter infusion sets and non-PVC-based infusion sets, are increasingly used to reduce or eliminate the common risks associated with conventional PVC infusion sets, including insoluble particles and toxicity of PVC additives. In 2012, precision filter infusion sets comprised 36.7%, 10.2% and 9.8% of the infusion sets used in Beijing,

BUSINESS

Guangdong province and Jiangsu province, respectively, according to the F&S Report. In comparison, such infusion sets accounted for only 5.1% of the infusion sets used nationally that year. As hospitals and patients in China increasingly recognize the potential health risks caused by insoluble particles in infusion fluids and focus on improving intravenous infusion safety, we believe that precision filter infusion sets will be increasingly used nationally. As the pioneer in this product segment, we believe that we are well positioned to capture the growth driven by this increasing adoption trend. In 2000, the CFDA released a regulation recommending against using PVC to produce infusion bags, and no new production lines of PVC-based infusion bags have been approved by the PRC government since. We believe this is a significant development that is a potential precursor to a phasing-out of PVC-based infusion set products. As one of the only three PRC manufacturers to receive CFDA approval for non-PVC-based infusion sets as of the Latest Practicable Date, we will be well positioned to capture opportunities as China’s market upgrades from PVC-based to non-PVC-based infusion sets.

Robust near-term product pipeline from strong research and development capabilities

We have been a pioneer in developing innovative products and have been able to continuously develop and launch new products. Since 2010, we have commercially launched 25 orthopedic implant products, including our bridge-link combined fixation system. According to papers published in several PRC medical journals, the bridge-link combined fixation system provides superior fixation stability, is more conducive to bone healing, easier to implant, and can be used in a significantly wider range of bone fractures than many competing products currently available on the market. We have five new trauma products and seven new spine products, all of which are expected to be commercially launched by the first half of 2014. For our infusion sets, we have developed and launched our non-PVC-based infusion sets and developed additional advanced features, including auto-air-venting and dosage burette, since 2010. We currently have one new product in the registration and testing stage and seven new products in the post-clinical trial stage, which we expect to launch in 2014. See “— New and Pipeline Products.”

Our ability to continuously bring new products to market reflects a research and development process that is designed to be demand-driven and highly responsive to physician feedback and the latest trends in medical development. Our research and development team works closely with physicians (such as the Chinese Medical Doctor Association (中國醫師協會)), hospitals (such as the China PLA General Hospital (中國人民解放軍總醫院)), university research centers (such as the Research Institute of Tsinghua University in Shenzhen (深圳清華大學研究院)) and research institutes (such as the Shenzhen Institutes of Advanced Technology, Chinese Academy of Sciences (中國科學院深圳先進技術研究院)). Our orthopedic implant research and development team includes a well-recognized orthopedic surgeon with multiple patents including the patent of bridge-link fixation system in the development of orthopedic implant products. As of the Latest Practicable Date, we had 28 patents, including 18 for

BUSINESS

orthopedic implant products and 10 for infusion set products, and nine patent applications, including four for orthopedic implant products and five for infusion set products. In recognition of our research and development efforts, we have won research grants from China’s Torch Program sponsored by the Ministry of Science and Technology, which is one of China’s most prestigious national research and development programs. See “— Research and Development.”

Professional sales and marketing team managing an extensive nationwide distribution network

We believe that our historical rapid growth and leading market positions are largely due to our highly professional sales and marketing team. This team is divided into three dedicated teams by product category — infusion sets, trauma and spine, and joint. Our in-house sales team, consisting of 43 members as of June 30, 2013, is responsible for managing and training our distributors. Each of our regional sales managers has over 10 years of experience in the medical device industry. In addition, our marketing team, consisting of 80 members as of June 30, 2013, is responsible for providing technical support and product training to physicians and nurses. Approximately 30.0% of the members of our sales and marketing team have medical or nursing degrees, which helps ensure that communications with physicians are effective and seamless. Our sales and marketing team regularly attends and organizes national and international medical conferences and expositions.

Our sales and marketing team manages an extensive and fast-growing nationwide distribution network located across 30 provinces, municipalities and autonomous regions in China. Our network coverage and sales channel varies significantly based on product segment. Our distribution network for orthopedic implants primarily covers Class 2 hospitals in tiers II and III cities. In contrast, our distribution network for infusion sets primarily covers Class 3 hospitals in tiers I and II cities in China. The following table sets forth the number of our distributors and hospitals covered by our distribution network as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
<i>Orthopedic implants (trauma and spine)</i>				
Distributors	182	207	214	244
Hospitals	1,257	1,300	1,397	1,444
<i>Infusion sets</i>				
Distributors	33	28	182	211
Hospitals	602	765	995	1,113

BUSINESS

We believe that our professional sales and marketing team and the scale and reach of our distribution network distinguish us from many of our domestic competitors and enable us to continue to compete effectively in the orthopedic implant and infusion set markets.

Proven capabilities of identifying acquisition opportunities and executing growth strategy

Over our history, we have demonstrated a track record of identifying and acquiring growth-stage companies with attractive products in fast-growing and high-margin sectors with large addressable markets, and the ability to integrate, manage and grow these businesses with a rapid build-out of our distribution network and production capacity. Our acquisitions of Walkman Biomaterial — our subsidiary for orthopedic implant products — in 2008, and Fert Technology — our subsidiary for infusion sets — in 2011, and the subsequent growth of these companies are cases in point. Revenue from orthopedic implant products and Fert Technology’s revenue from infusion sets grew from RMB60.8 million and RMB88.8 million, respectively, in 2010 to RMB97.6 million and RMB234.0 million, respectively, in 2012, representing CAGRs of 26.7% and 62.3%, respectively. Operating profit of our orthopedic implant products and Fert Technology’s operating profit grew from RMB19.4 million and RMB27.3 million, respectively, in 2010 to RMB37.6 million and RMB90.9 million, respectively, in 2012, representing a CAGR of 39.3% and 82.5%, respectively. We have recently further expanded our orthopedic product portfolio with the acquisition of Bone Medical in January 2013, which provides us with a broad range of joint products, which is a product category that is expected to be a key driver for our future revenue growth.

Seasoned and dedicated management team

We are under the leadership of a seasoned and dedicated management team. This team has led our efforts in integrating and growing our acquired businesses over these years. Mr. JIANG Liwei, our chief executive officer, has 20 years of experience in the medical device industry, including serving five years as head of China of Biomet China Co., Ltd., a subsidiary of Biomet, Inc., a leading U.S.-based medical device manufacturer, serving three years as the general manager of Trauson Medical Device (China) Co., Ltd., then a leading domestic orthopedic product company, and serving nine years in various management positions with Zimmer (Shanghai) Medical International Trading Co., Ltd. Other members of our management, including our chief financial officer, the general managers of our major operating subsidiaries and other key executives, are also highly experienced in their respective fields, with deep professional and management experience. We believe that our leadership team, with their strong management talent, will help us sustain our organic growth and expand into new businesses.

BUSINESS

BUSINESS STRATEGY

Our objective is to further grow and consolidate our market position in the orthopedic implant and advanced infusion set markets, and potentially expand into other attractive sectors of China’s medical device industry. To that end, we intend to implement a business strategy with the following key components.

Broaden and deepen product portfolio

We plan to continue to broaden and deepen our product portfolio to capture future growth opportunities, both through research and development efforts as well as strategic acquisitions. In the trauma product category of our orthopedic implant segment, we have recently commercially launched our bridge-link combined fixation system, and our current research and development efforts focus on improving the features of this product based on market research and physician feedback. In the spine product category, our products under development include the PEEK (polyether ether ketone) fusion cage and vertebro plasty instruments, and in the hip and knee joint product category, we are conducting research to develop new designs and advanced materials to meet the varying needs of patients.

With respect to our infusion set segment, we plan to continue to develop new features for our precision filter infusion sets to increase infusion safety, including precise flow control, and auto-air-venting drop chambers, as well as a wider range of filtering pore sizes to meet the demand of patients. We also plan to expand our non-PVC-based infusion portfolio by developing non-PVC materials to cover all the major features and applications of our PVC-based infusion portfolio, such as non-PVC-based light-resistant infusion sets, which we expect to commercially launch in 2014.

Increase production capacity and continue to improve production efficiency

Demand for our products has been relatively high. We expect demand for our products to continue to increase, and accordingly, plan to increase production capacity as follows:

- *New facilities for infusion sets.* To meet the demand for increased production capacity in the short term, we recently acquired Yijia Medical in Xuzhou, Jiangsu province. In addition, we plan to further expand capacity with two new facilities. We have already commenced construction of our new facilities in Linyi, Shandong province, and expect to complete construction and begin production in the second half of 2014. We plan to reach an annual production capacity of 100 million precision filter infusion sets at these facilities by the end of 2015 and further expand their designed annual production capacity to 200 million precision filter infusion sets by the end of 2018. In addition, we have commenced construction at our facilities in Pinggu, Beijing, and currently expect to begin production in the fourth quarter of 2016 at these facilities, which are designed with an annual production capacity of 50 million sets.

BUSINESS

- *Facility expansion for orthopedic implant products.* We are expanding production capacity for our joint products at our newly-acquired Bone Medical facilities in Shenzhen, Guangdong province. Production capacity at these facilities was relatively low at 8,000 sets per year at the end of 2012. Since our acquisition, we have been making significant investments, and upon completion of our current expansion plan by the end of 2016, we expect our annual production capacity at our Shenzhen facilities to reach 30,000 sets of hip and knee joint products. In addition, we plan to expand our facilities in Tianjin beginning in the third quarter of 2014 and expect to complete the expansion in the second quarter of 2015, which we expect to increase our annual production capacity for trauma and spine products from a total of 2.2 million units as of June 30, 2013 to 5.5 million units.

Expand distribution network

We have built three dedicated sales and marketing teams for our products, two (i.e. trauma/spine and joint) for orthopedic implants, and one for infusion sets. Our strategy to further strengthen our sales and distribution channels and capabilities consists of the following:

- *Orthopedic implants.* In light of our recent acquisition of Bone Medical and its joint product portfolio, our current focus is to develop its sales and marketing capabilities, and to cross-sell into our existing trauma/spine distributor and hospital network. We will continue to focus on expanding into Class 2 hospitals in tiers II and III cities. In addition, we are exploring potential sales to international markets. We have obtained CE certifications for a range of our products, including non-sterilized metallic bone plates, metallic bone screws, metallic intramedullary nail system, spinal internal fixation and joint replacement surgery instruments, which indicate full compliance with Council Directive 93/42 of the European Union and enable us to market the certified products in the European Economic Area. In addition, we received the 510(k) clearance by the U.S. FDA in August 2013 for metallic locking compression bone plates and screws system, enabling us to market this product in the United States.
- *Infusion sets.* We believe there is significant room for growth in China’s domestic market for our advanced infusion sets. Accordingly, we plan to continue expanding our distributor network and hospital coverage in China, focusing in the short term on the Class 3 hospitals in larger cities in economically well-developed regions, and progressively penetrating into the smaller hospitals and cities. Our goal is to gain an additional 50 distributors and 500 hospitals to reach a total of approximately 250 distributors and 1,500 hospitals by the end of 2014. We will also consider selling our non-PVC-based products to international markets.

BUSINESS

Pursue strategic acquisitions to complement growth

We have built our business today on a successfully executed strategy of selectively making acquisitions in attractive segments of the industry. There are still significant acquisition opportunities in the infusion and orthopedics segments of China’s medical device industry. Among these opportunities, we are focused on products and technologies that would complement our existing product portfolio and business growth. We will also consider medical device products and technologies outside our existing businesses if their growth prospects and profitability are sufficiently attractive. As of the Latest Practicable Date, we had not identified any specific acquisition target.

PRODUCT PORTFOLIO

Our business consists of two product lines: orthopedic implant products and advanced infusion sets. The following table sets forth the components of our revenue by business segment for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB’000 except percentages)									
	(unaudited)									
Orthopedic implants	60,816	100.0%	75,379	43.0%	97,567	29.4%	45,568	31.3%	71,693	32.8%
Infusion sets ⁽¹⁾	—	—	99,888	57.0	233,974	70.6	100,205	67.7	147,057	67.2
Total	60,816	100.0%	175,267	100.0%	331,541	100.0%	145,773	100.0%	218,750	100.0%

(1) We acquired Fert Technology, our infusion set business, on April 30, 2011.

Orthopedic Implant Products

We are the third largest domestic developer, manufacturer and marketer of orthopedic implant products in China (excluding Kanghui and Trauson), with a 1.3% market share in terms of sales revenue for the 12 months ended June 30, 2013, according to the F&S Report. As a result of our recent acquisition of Bone Medical, we have added joint products to our product portfolio, which further enhances our competitiveness in China’s orthopedic implant market. As of the Latest Practicable Date, we were one of only two major domestic companies with a full product portfolio, covering all major applications in each category of trauma, spine and joint. Our trauma and spine products are sold under the “Walkman” brand and our joint products under the “Bone (博恩)” brand. In addition to our orthopedic implant products, we also manufacture and sell over a dozen specifications of instruments that are specifically designed to implant our implant products in orthopedic surgeries.

BUSINESS

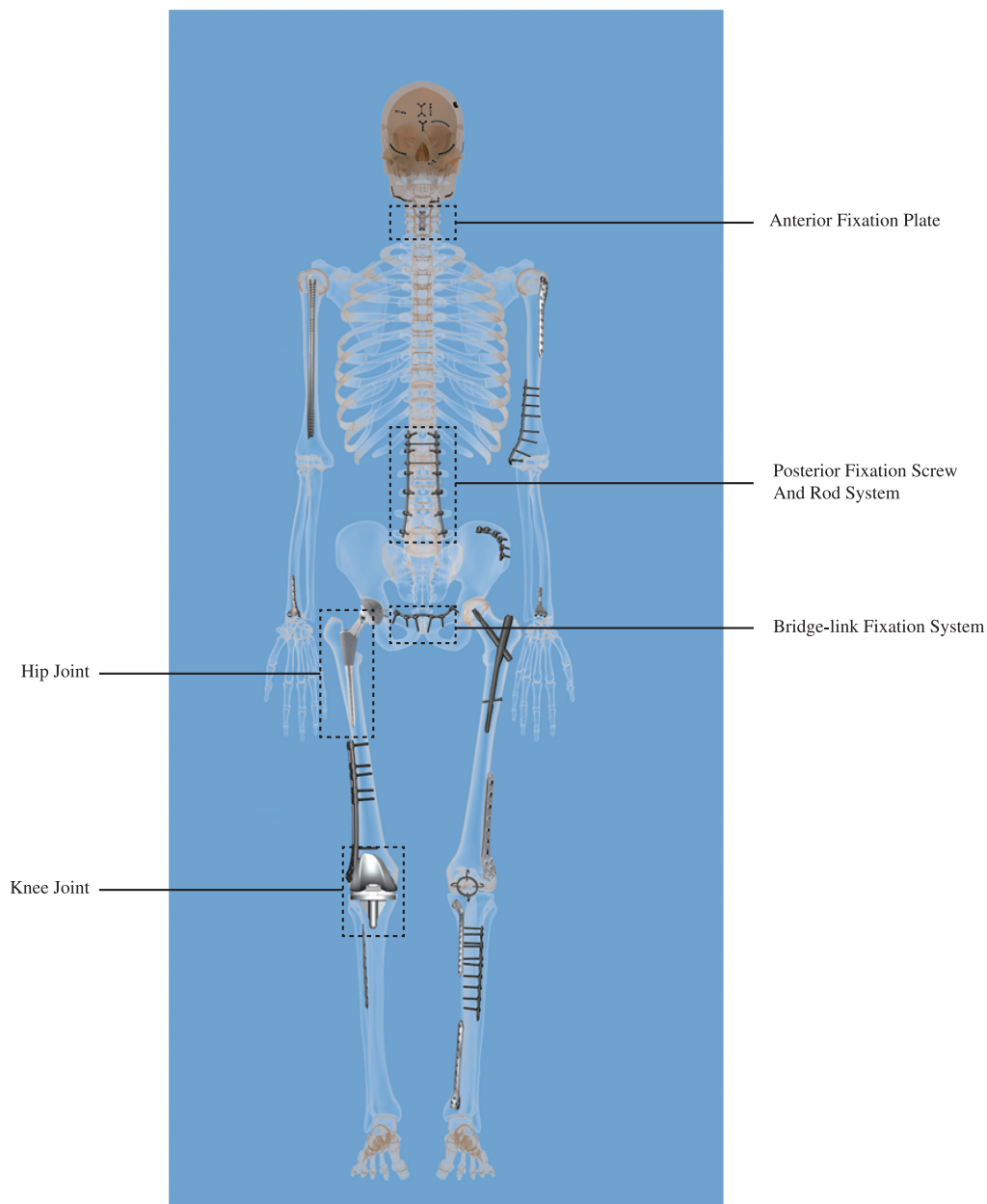
The following table sets forth the components of our orthopedic implant revenue by product category for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB'000 except percentages)						(unaudited)			
Trauma products	44,487	73.2%	56,261	74.6%	70,178	71.9%	31,886	70.0%	51,027	71.2%
Spine products	13,229	21.8	15,374	20.4	20,867	21.4	11,100	24.4	11,475	16.0
Joint products.	—	—	—	—	—	—	—	—	5,789	8.1
Others ⁽¹⁾	3,100	5.0	3,744	5.0	6,522	6.7	2,582	5.6	3,402	4.7
Total	60,816	100.0%	75,379	100.0%	97,567	100.0%	45,568	100.0%	71,693	100.0%

-
- (1) Consisting of (i) associated instruments for trauma and spine products and (ii) joint products that were manufactured by Bone Medical and distributed by us in 2012.

BUSINESS

The following diagram illustrates the application of our orthopedic implant products to a human body.



BUSINESS

Trauma Products

Our trauma products cover all major applications and are primarily used for the treatment of bone fractures and reconstruction of the metacarpal, phalange, upper and lower extremities, hips, ankles and jaws. We currently manufacture approximately 200 trauma products, including (i) internal fixation devices, such as standard plates and screws, locking plates and screws, intramedullary nails and cannulated nails, and (ii) cranial maxillofacial plates and screws.

Internal fixation devices are generally implanted into a patient’s body to fix fractured bones. Our key internal fixation products include standard plates and screws and locking compression plates and screws, known as LCPs. Our cranial maxillofacial plate and screw system is used for fractures of the mouth, jaw, face and skull, and bone reconstruction after tumor excision.

The table below sets forth certain information on our key trauma products.

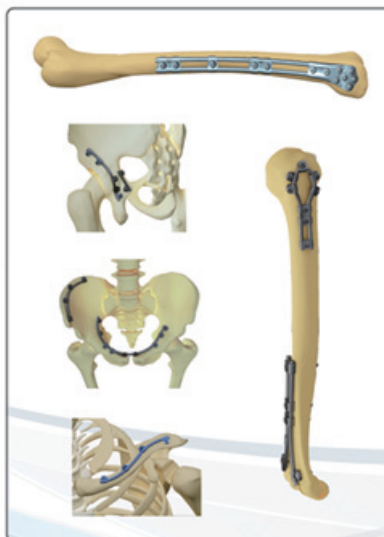
<u>Product Name</u>	<u>Sample Picture</u>	<u>Application</u>
Bone plates and screws:		
Standard plates and screws		Stabilization device for repositioned or reconstructed bone fragments
LCPs		Used for bone reconstruction surgery
Intramedullary nails. . .		Used for minimally invasive surgery of the upper and lower extremities
Cannulated nails		Used for reconstruction of the upper and lower extremities
Cranial and maxillofacial plates and screws.		Used for fractures of the mouth, jaw, face and skull, and bone reconstruction after tumor excision

BUSINESS

In addition to standard plates and screws and LCPs, we have the unique bridge-link combined fixation system that was officially launched in early 2013 and three other patented internal fixation products. The following table sets forth certain information on our patented products.

Product Name	Sample Picture	Application
Patellar rings.		Used for the treatment of patella fractures where the bone has been broken into several pieces
Dynamic hip locking plates		Used for the treatment of intertrochanteric and subtrochanteric fractures
Interlocking nails.		Used for the treatment of simple fractures of humerus, femur and tibia
Bridge-link combined fixation system.		Used for treatment of fractures inside the extremities, acromioclavicular joint, pelvis and acetabulum

Our unique bridge-link system is primarily used for fixation of fractures of the extremities, acromioclavicular joint, pelvis and acetabulum. It was originally developed by a member of our research and development team, who has granted us an exclusive license to use his patented design in China. Its pioneering design adopts a full locking, combined internal support structure through various combinations of rods, screws and cubes, which results in a superior biomechanical alignment which reduces stress on the implant. The innovative design also has multiple fixation features, including flexible fixation and three-dimensional fixation which effectively reduces stress shielding and implant metal fatigue. Our bridge-link system is applicable to a wide range of surgical applications, especially complex fractures, and is suitable for minimally invasive surgeries. The following diagram shows some applications of our bridge-link system.



BUSINESS

Spine Products

We currently manufacture approximately 10 spine products, including anterior and posterior spinal fixation devices and spinal fusion cages. The table below sets forth certain information on our spine products.

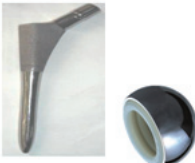
<u>Product Name</u>	<u>Sample Picture</u>	<u>Application</u>
Anterior spinal fixation device		Used for the correction and stabilization of the anterior cervical spine in cases of fractures, tumors and infection
Posterior spinal fixation device		Used for treatment of spinal instability including high-grade spondylolisthesis, spinal trauma and deformity, spinal tumor, spinal infection, and instability of spine after laminectomy
Spinal fusion cage		Used to stabilize a weakened spine and relieve pain from fractured or damaged vertebrae

Joint Products

Sales of joint implant products have been growing rapidly in the Chinese market and are expected to become the largest segment of the orthopedic implant market in terms of sales by 2017, according to the F&S Report. In January 2013, we acquired a majority interest in Bone Medical, a company in Shenzhen that mainly develops, manufactures and markets joint products. Bone Medical has five registration certificates for hip implants and one registration certificate for knee implants, the second largest number among major domestic companies in terms of hip and knee implants, the major areas of joint implants, as of the Latest Practicable Date, according to the F&S Report. Hip and knee implants accounted for approximately 95% of all joint implants sold in China in 2012 in terms of sales volume, according to the same source. In light of the high entry barriers to this market and lengthy process for obtaining product registration from the CFDA, we believe we are well positioned to capture the growth opportunities in the joint implant segment.

BUSINESS

Bone Medical has a broad portfolio of joint products, of which six products have been approved by the CFDA for production. The table below sets forth Bone Medical’s CFDA-approved products.

Product Name	Sample Picture	Application
Hip:		
Cobalt-chromium-molybdenum cemented hip joint replacement system		Used for the treatment of osteoarthritis, rheumatoid arthritis, degenerative arthritis, joint damage caused by trauma, avascular necrosis of femoral head, femoral neck fracture and congenital hip dysplasia
Triple-tapered hip joint. .		Used for the treatment of osteoarthritis, rheumatoid arthritis, degenerative arthritis, joint damage caused by trauma, avascular necrosis of femoral head, femoral neck fracture and congenital hip dysplasia
High nitrogen stainless steel hip joint		Used for the treatment of osteoarthritis, rheumatoid arthritis, degenerative arthritis, joint damage caused by trauma, avascular necrosis of femoral head, femoral neck fracture and congenital hip dysplasia
Triple-tapered hip with titanium plasma spray coating.		Used for the treatment of osteoarthritis, rheumatoid arthritis, femoral head cartilage or bone surface damage, especially for younger patients
Triple-tapered hip with HA (hydroxyapatite) plasma spray coating .		Used for the treatment of osteoarthritis, rheumatoid arthritis, femoral head cartilage or bone surface damage, especially for younger patients
Knee:		
Low-wear and high-flexion knee joint replacement system . .		Used for the treatment of degenerative or traumatic osteoarthritis, rheumatoid arthritis, ischemic osteonecrosis of the femoral condyle, moderate coxavarus and coxa valgus of knee deformity, etc

Compared to the products of MNC manufacturers currently available in China, we believe our joint products are more tailored to the physical characteristics of Chinese patients mainly based on statistics available in Anatomical Data of Chinese Population (中國人解剖學數值) published by the Chinese Society for Anatomical Sciences. In addition, we apply advanced surface treatment technologies to our joint products that are designed to facilitate bone re-growth for fixation purposes. Such surface treatment technologies include hydroxyapatite plasma spray coating and titanium plasma spray coating.

BUSINESS

Infusion Sets

We offer two principal types of infusion sets under our “Fert (伏尔特)” brand through our subsidiary Fert Technology: (i) precision filter infusion sets, which prevent insoluble particles in intravenous solutions from entering the blood vessels of patients; and (ii) non-PVC-based infusion sets with double-layer tubing, which eliminate the harmful effects of PVC additives and reduce drug absorption by the infusion set. Capitalizing on these fundamental technology building blocks, we have developed a full portfolio of products with a range of features and applications, such as light resistance and auto air venting. In addition, we also sell stand-alone precision filters to other infusion set makers for use in their infusion sets and other products such as medical swabs.

We acquired Fert Technology on April 30, 2011. The following table sets forth the components of Fert Technology’s infusion set revenue by product type for the period indicated.

	Pre-acquisition				Post-acquisition							
	For the year ended December 31, 2010 (Predecessor Period 2010)		For the period from January 1, 2011 to April 30, 2011 (Predecessor Period 2011)		For the period from May 1, 2011 to December 31, 2011 (Successor Period 2011)				For the six months ended June 30,			
							For the year ended December 31, 2012					
									2012		2013	
	(RMB'000 except percentages)				(RMB'000 except percentages) (unaudited)							
Precision filter infusion sets	85,275	96.0%	34,801	95.4%	95,702	95.8%	221,059	94.5%	95,720	95.5%	137,528	93.5%
Non-PVC- based infusion sets	—	—	—	—	—	—	2,915	1.2	583	0.6	4,070	2.8
Others ⁽¹⁾	3,534	4.0	1,675	4.6	4,186	4.2	10,000	4.3	3,902	3.9	5,459	3.7
Total	88,809	100.0%	36,476	100.0%	99,888	100.0%	233,974	100.0%	100,205	100.0%	147,057	100.0%

(1) Primarily consisting of precision filters sold on a stand-alone basis.

Precision Filter Infusion Sets

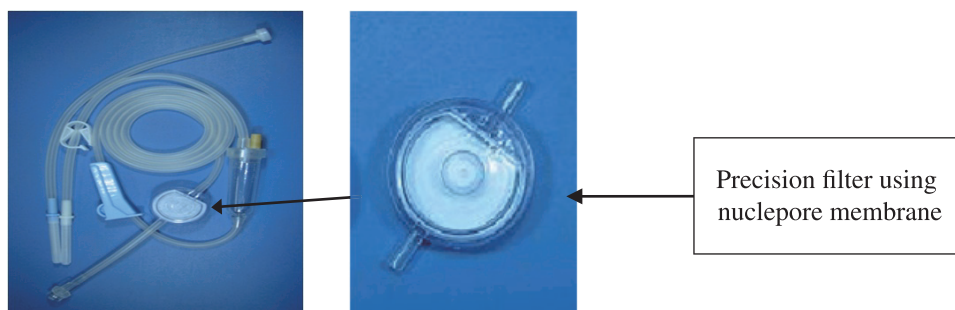
Our precision filter infusion sets incorporate precision filters designed to prevent insoluble particles in intravenous solutions from entering the blood vessels of patients, thereby increasing the safety of intravenous infusion therapy. Intravenous solutions contain insoluble particles from various sources, including insoluble drug particles which are not removed during the intravenous solution manufacturing process; glass or plastic particles from the intravenous solution container or infusion set; insoluble particles resulting from reactions between different administered drugs; and external contaminant particles introduced during the administration of intravenous therapy. It is practically impossible to eliminate all these insoluble particles in

BUSINESS

intravenous solutions. Traditional Chinese medicine infusion fluids, which are widely used in China, tend to contain more and larger insoluble particles, due to limitations in the herbal extraction and production processes.

Insoluble particles in intravenous solutions can block blood vessels, potentially causing pain, inflammation of blood vessels, and long-term damage to organs which receive blood supply from the blocked blood vessels. Precision filter infusion sets prevent the insoluble particles from entering the blood vessels and improve the safety of intravenous therapy.

We offer precision filter infusion sets with a wide selection of specifications to filter insoluble particles ranging from as small as two micron to five microns in diameter to meet requirements of different patients and different infusion fluids. Our precision filter infusion sets are designed with precision filters made from nuclepore membranes. The following pictures show a sample of our precision filter infusion set.



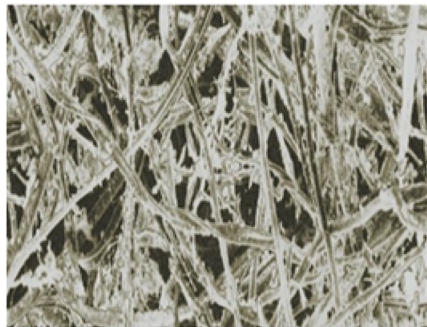
Precision filter using
nuclepore membrane

Generally, there are three different types of materials being used for precision filters, including PES membranes, nuclepore membranes and fibrous membranes. Fibrous membranes are the most cost-effective solution, but have irregular pore size, chemical incompatibility and high drug absorption. PES materials are usually imported and expensive, and have precisely controlled pore size and low drug absorption. Nuclepore membranes have relatively lower cost compared with PES, and also have precisely controlled pore size and low drug absorption.

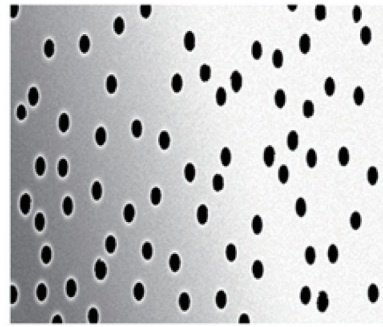
BUSINESS

The following graphic shows magnified samples of a fibrous membrane and a nuclepore membrane.

Fibrous membrane



Nuclepore membrane



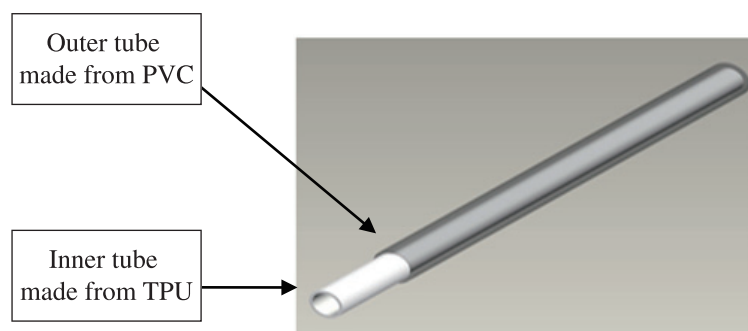
According to the F&S Report, approximately 30 manufacturers in China produce precision filter infusion sets, and three of them use nuclepore membranes in their precision filter infusion sets, including us, four use PES membranes and the remainder use fibrous membranes. Our precision filter infusion sets use filters made from nuclepore membranes, which have been shown to be significantly more effective in blocking insoluble particles than the leading alternative filtering material on the market. According to the F&S Report, as of the Latest Practicable Date, there were only three manufacturers in China, including us, that had obtained CFDA approval to manufacture precision filter infusion sets with nuclepore membranes. Because it typically takes one to two years to obtain such CFDA approval and additional time to gain market acceptance, we believe that we have a significant first-mover advantage over most of domestic manufacturers of precision filter infusion sets.

Non-PVC-based Infusion Sets

Our non-PVC-based infusion set product is our next-generation advanced infusion set product and represents a significant upgrade from the PVC-based infusion sets. Non-PVC-based infusion sets are widely adopted in more developed countries such as the United States, Germany, Japan and South Korea, because of toxicity and drug absorption associated with PVC-based tubing. Non-PVC-based infusion sets are expected to progressively replace PVC-based infusion sets in China, which in 2012 was a 7.9 billion set market, the largest in the world, according to the F&S Report. We sold approximately 0.4 million non-PVC-based infusion sets in 2012.

BUSINESS

The double-layer tubing design of our non-PVC-based infusion set uses TPU as the inner tubing and PVC as the outer tubing.



The PVC-based outer tubing ensures that the tubing maintains elasticity and allows the product to be manufactured cost-effectively. As of the Latest Practicable Date, we were one of only three PRC manufacturers to receive CFDA approval to manufacture non-PVC-based infusion sets and the only one to use TPU, which is one of the six types of TPE. Both of the other two PRC manufacturers use other types of TPE-based single-layer tubing in their products. We believe our double-layer tubing design compares favorably in terms of both safety and cost to tubing made from the types of TPE used by the other two PRC manufacturers. TPU is the only type of TPE that has been tested and met the U.S. FDA’s requirements for materials used as infusion tubing. Moreover, although the market price of TPU granules is between 20% and 50% more expensive than other types of TPE granules, both of their prices are substantially higher than that of PVC granules. Accordingly, we believe that our costs for making double-layer tubing infusion sets are significantly lower than the costs for making TPE-based single-layer tubing infusion sets.

Building around the precision filter feature and non-PVC-based double-layer tubing feature, we have developed a full portfolio of products with a range of features and applications, such as light resistance and auto air venting. We use light-resistant materials in infusion sets to block light and prevent light-sensitive infusion drugs from being altered by exposure to light. Auto air venting is achieved by using our auto-air-venting precision filter in the infusion set, which automatically vents air mixed in infusion fluids and prevents air from entering the human body and causing an air embolism. Precise regulation is achieved by adding a precise regulator in the infusion set, which allows precise regulation of flow rate of infusion and presents an economical alternative to infusion pumps. These additional features and applications can be included in our infusion sets to meet special infusion requirements. In addition to selling infusion sets, we sell precision filters as a stand-alone product to other infusion set makers in China, which incorporate our precision filters into their infusion sets.

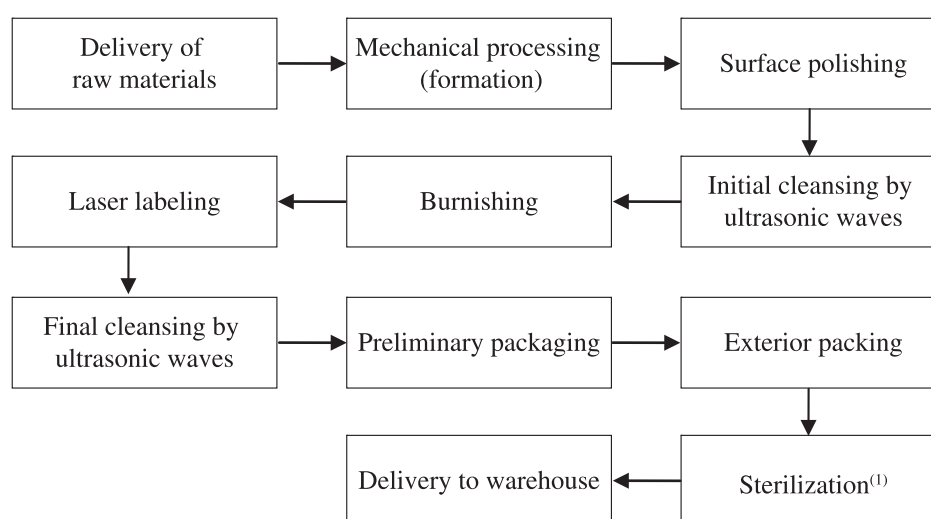
BUSINESS

PRODUCTION PROCESS

Our production involves the procurement of raw materials and components, some of which are sourced from third parties, internal production processes, assembly, product testing and warehousing of the final products. We employ standard manufacturing practices and processes, and automated machinery with customized features designed by our experienced engineers. The advanced automated machinery enables us to significantly increase our production efficiency. We have also established physical laboratories in our facilities to conduct various tests on our products to further improve our product quality.

Orthopedic Implant Products

We generally manufacture a variety of orthopedic implants and associated instruments at our own production facilities. Although the processes for producing different implants may differ, the following diagram illustrates the typical production process for our orthopedic products.



(1) The sterilization process is only applicable to the production of joint products.

Delivery of raw materials. Raw materials, primarily consisting of titanium, titanium alloy and stainless steel, are delivered to our production facilities at the time and in the amount determined based on our production plan. Upon delivery, raw materials are subject to our quality control inspection.

Processing and surface treatment. Raw materials are processed into form with highly automated machinery. The manufactured products then undergo surface polishing to ensure the surface is sufficiently smooth according to our quality standards. Substandard work-in-progress is returned for rectification or disposed of. Historically, Bone Medical has outsourced the surface treatment and initial processing work of certain joint products to third parties. We

BUSINESS

expect to continue such outsourcing arrangements after the [●], as these procedures require specialized techniques. Such outsourcing arrangements are customary in the industry for better quality control and cost efficiency.

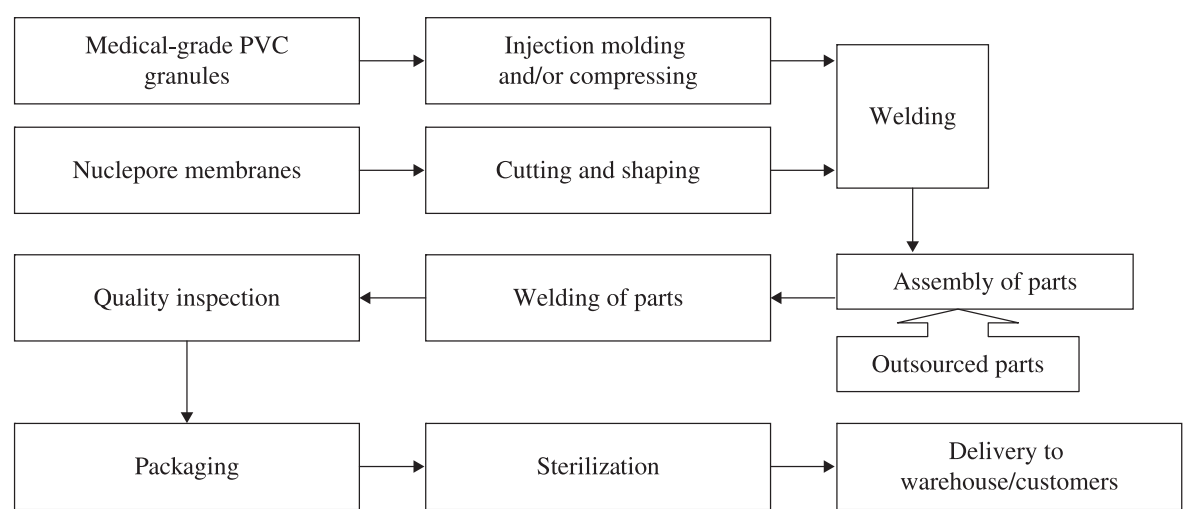
Cleansing, burnishing and labeling. We cleanse, burnish and label the processed products to prepare for packaging. Our cleansing procedure requires two stages of cleansing, with the second cleansing completed within the clean room to minimize bacterial contamination. Other than certain of our joint products, our products are not required to be sterilized under applicable PRC laws and regulations. These products are sterilized by hospitals before being used in surgeries. After labeling, we conduct the final quality inspection of our products based on our internal quality control procedures.

Packaging and delivery. Our implant products have two layers of packaging — interior and exterior. The interior packaging is completed within the clean room to minimize bacterial contamination. Packaged finished products are delivered to the warehouse pending dispatch to distributors.

Our manufacturing processes use advanced, high-precision automated and semi-automated machinery we have purchased from world-class manufacturers, including Tornos (Switzerland), DMG Meccanica (Italy), Biglia (Italy) and Hurco (United States). In particular, the five-axis machining center we purchased from DMG Meccanica represents the leading technology used in orthopedic implant manufacturing. In addition, all of our major machinery units were purchased less than four years ago and are in good condition for sustainable operation.

Infusion Sets

The following flowchart shows the typical production process for our infusion sets.



BUSINESS

Raw materials used in producing our infusion sets primarily include PVC granules, which are heated and blown into tubing with plastic blowers or molded into hard plastic parts with plastics injectors. We also purchase certain other materials and parts, such as nuclepore membranes and needles, from third parties. These materials and parts are further processed, assembled and integrated to form finished products. Finished products, after passing our quality inspection, are placed into plastic packaging and undergo sterilization before delivery to our customers.

We have accumulated significant know-how in producing infusion sets from our extensive research and development efforts, which allows us to increase automation in our production process and productivity. In addition, our know-how includes technical data on the distribution, density and size of pores of nuclepore membranes for optimal filtration, as well as the design and production process of precision filters. We believe that our know-how in producing precision filters forms a significant technology barrier that separates us from our competitors.

PRODUCTION FACILITIES

We currently have a total of six production facilities, including three for orthopedic implant products and three for advanced infusion sets, collectively occupying an aggregate site area of approximately 82,791 square meters.

Orthopedic Implant Products

We currently have a total of three production facilities for orthopedic implants — in Tianjin, Anyang and Shenzhen — occupying a total site area of approximately 45,440 square meters. Our Tianjin facility primarily produces our trauma and spine implant products. Our Anyang facility primarily produces the instruments associated with our trauma and spine implant products. The Shenzhen facility, operated by Bone Medical, primarily produces our joint products. The table below sets forth the annual production capacity, production volume and utilization rate of these production facilities for the period indicated.

	For the years ended December 31,									For the six months ended June 30,		
	2010			2011			2012			2013		
	Maximum annual capacity ⁽¹⁾	Production volume	Utilization rate	Maximum annual capacity ⁽¹⁾	Production volume	Utilization rate	Maximum annual capacity ⁽¹⁾	Production volume	Utilization rate	Maximum annual capacity ⁽¹⁾	Production volume	Utilization rate
Trauma products (Units) .	1,020,000	714,000	70.0%	1,290,000	890,100	69.0%	1,550,000	1,209,000	78.0%	1,960,000	780,000	79.6%
Spine products (Units) . .	130,000	84,500	65.0%	158,000	110,600	70.0%	210,000	157,500	75.0%	230,000	85,100	74.0%
Joint products (Sets) ⁽²⁾ . .	8,000	184	2.3%	8,000	56	0.7%	8,000	3,864	48.3%	8,000	1,774	44.4%
Instruments for trauma and spine (Sets)	—	—	—	—	—	—	2,000	1,500	75.0%	2,000	750	75.0%

(1) Production capacity is calculated based on 16 hours a day and 336 working days in each year.

BUSINESS

- (2) We acquired Bone Medical, our subsidiary that produces joint products, in January 2013 and the production capacity and utilization rates for 2010, 2011 and 2012 represented those of Bone Medical prior to our acquisition of it.

During the Track Record Period, we continually expanded our production capacity for trauma and spine implant products to meet increased demand for our products. Our production volume of trauma implant products increased at a slightly lower pace in 2011 than the increase in our production capacity, which resulted in a slight decrease in the utilization rate of our trauma implant production facilities. In contrast, our production volume of spine products increased at a higher pace than our production capacity in 2011. Consequently, our utilization rate of spine products increased from 65.0% in 2010 to 70.0% in 2011.

In anticipation of our sales growth, we further expanded our production capacity for trauma and spine implant products in 2012. However, as a result of our strong sales of trauma and spine implant products, the growth of our production volumes of trauma and spine implant products outstripped the expansion of our production capacity. Consequently, the utilization rate of our trauma implant production facilities increased from 69.0% in 2011 to 78.0% in 2012 and the utilization rate of our spine implant production facilities increased from 70.0% in 2011 to 75.0% in 2012.

Our trauma implant products experienced significant growth in the six months ended June 30, 2013 and accordingly the utilization rate of our trauma implant production facilities further increased to 79.6%. In contrast, sales of our spine products increased at a lower pace. Consequently, the production volume of spine implant products did not increase significantly in the six months ended June 30, 2013 and the utilization rate of our spine implant production facilities decreased to 74.0%.

We acquired our joint implant business in Bone Medical in January 2013. Bone Medical had limited sales and production in 2010 and 2011 and consequently the utilization rates of its production facilities were very low. As Bone Medical continued developing its market, its sales increased substantially in 2012 and the six months ended June 30, 2013 and its production volume and utilization rate increased accordingly.

Infusion Sets

We have three production facilities for infusion sets: one in Fengtai, Beijing, one in Shijingshan, Beijing, and one in Xuzhou, Jiangsu province, the last one of which we acquired in May 2013. Our Fengtai facility has a total site area of approximately 18,142 square meters and our Shijingshan facility has a total site area of approximately 1,905 square meters. The Xuzhou facility has a total site area of approximately 17,304 square meters. We acquired Yijia Medical, which holds the Xuzhou facility, for RMB20 million from Independent Third Parties in May 2013.

BUSINESS

The table below sets forth the total annual production capacity, production volume and utilization rate of Fert Technology’s two facilities in Beijing for the period indicated.

	Pre-acquisition					
	For the year ended December 31, 2010			For the period from January 1, 2011 to April 30, 2011		
	Maximum			Maximum		
	annual capacity ⁽¹⁾	Production volume	Utilization rate	annual capacity ⁽¹⁾	Production volume	Utilization rate
Infusion sets (Units '000)	46,000	30,360	66.0%	46,000	10,700	69.8%

	Post-acquisition								
	For the period from May 1, 2011 to December 31, 2011			For the year ended December 31, 2012			For the six months ended June 30, 2013		
	Maximum			Maximum			Maximum		
	annual capacity ⁽¹⁾	Production volume	Utilization rate	annual capacity ⁽¹⁾	Production volume	Utilization rate	annual capacity ⁽¹⁾	Production volume	Utilization rate
Infusion sets (Units '000)	46,000	30,240	98.6%	55,000	45,815	83.3%	55,000	22,422	81.5%

(1) Production capacity is calculated based on 16 hours a day and 315 working days in each year.

Prior to the acquisition by us, Fert Technology’s production volume and utilization rate of production facilities were relatively stable in 2010 and Predecessor Period 2011. Since our acquisition, we have significantly expanded Fert Technology’s distribution network and significantly increased our sales volume of advanced infusion sets. With Fert Technology’s production capacity unchanged, the utilization rate of our production facilities increased from 69.8% in Predecessor Period 2011 to 98.6% in Successor Period 2011. To alleviate the production capacity constraints and meet increasing market demand for our products, we purchased and installed additional automated equipment in 2012, significantly increasing our annual production capacity. As a result, our utilization rate decreased to 83.3% in 2012 despite a significant increase in our production volume. Our utilization rate decreased to 81.5% in the six months ended June 30, 2013 primarily due to the Lunar Chinese New Year holiday in February 2013.

BUSINESS

Expansion Plans

We believe that demand for our products will continue to increase in the near future. From 2013 to 2017, China’s markets for orthopedic implants and advanced infusion sets are expected to grow at a CAGR of 18.1% and 24.5%, respectively, according to the F&S Report, supported by a number of favorable industry trends, such as an aging population, increasing import substitution for orthopedic implants, and increasing health awareness about infusion safety. We plan to significantly increase our production capacities to meet such increase in demand accordingly.

We are currently expanding production capacity for our joint products at our newly-acquired Bone Medical facilities in Shenzhen, Guangdong province. Since the acquisition, we have been making significant investments, and upon completion of our current expansion plan by the end of 2016, our production capacity at our Shenzhen facilities will reach 30,000 sets of hip and knee joint products per year. We plan to expand our facilities in Tianjin beginning in the third quarter of 2014 and expect to complete the expansion in the second quarter of 2015, which will increase our annual production capacity for trauma and spine products from a total of 2.2 million units as of June 30, 2013 to 5.5 million units.

We also plan to significantly increase our production capacity of infusion sets over the next five years. We are in the process of constructing production facilities in Linyi, Shandong province, which occupy a total site area of 22,586 square meters, and expect to complete construction and begin production in the second half of 2014. We plan to reach an annual production capacity of 100 million precision filter infusion sets at these facilities by the end of 2015 and further expand their designed annual production capacity to 200 million precision filter infusion sets by the end of 2018. We have another production facility under construction in Pinggu, Beijing, which occupies a total site area of 53,224 square meters and has a designed annual production capacity of 50 million precision filter infusion sets. In addition to its role as a production facility, our Pinggu facility will also serve as the new corporate headquarters of our Group and a development and research center. We expect to complete the construction and commence production at this facility in the fourth quarter of 2016.

BUSINESS

The following table sets out further details of our expansion plans as described above:

Project	Designed annual production capacity	Construction commencement date/expected construction commencement date	Expected construction completion date	Expected aggregate capital expenditure⁽¹⁾ (RMB in millions)
Joint implant production facility	30,000 sets/year	2013	2016	63.5
Trauma and spine production facility	5.5 million units/year	2014	2015	54.0
Infusion set production facilities in Linyi, Shandong	200 million units/year ⁽²⁾	2013	2014	67.5
Infusion set production facility in Pinggu, Beijing ⁽³⁾	50 million units/year	2014	2016	235.0

(1) The expected aggregate capital expenditure represents the total amount of expenditures that we expect to incur from 2014 onwards.

(2) We plan to reach an annual production capacity of 100 million sets by the end of 2015, and plan to further expand the annual production capacity to 200 million sets by the end of 2018.

(3) The facilities in Pinggu also include facilities for purposes of testing, research and development, as well as corporate office.

We may face a number of challenges in implementing our expansion plans, such as the availability of skilled labor, procurement of sales orders and raw materials, and maintaining quality control. We intend to continue to enhance our labor productivity by offering appropriate training to our employees and retain and attract skilled labor by offering competitive benefits and advancement opportunities. In addition, we intend to further improve the automation levels of our production process to reduce our dependence on labor. Moreover, we intend to capture market growth and expand our market share by leveraging our leading market position and expanding distribution network. The raw materials used in our manufacturing process are primarily titanium, titanium alloy, stainless steel and PVC granules, the supply of which in China has generally been stable historically. We intend to continue to improve our inventory management and our procurement process in order to ensure a sufficient supply of raw materials. We also seek to continue to invest in and improve our quality control procedures and systems.

We are in the process of applying for the necessary and relevant approvals, permits and licenses for our expansion, which primarily relate to construction, environmental protection and production of medical devices. We expect to submit applications for production permit for our

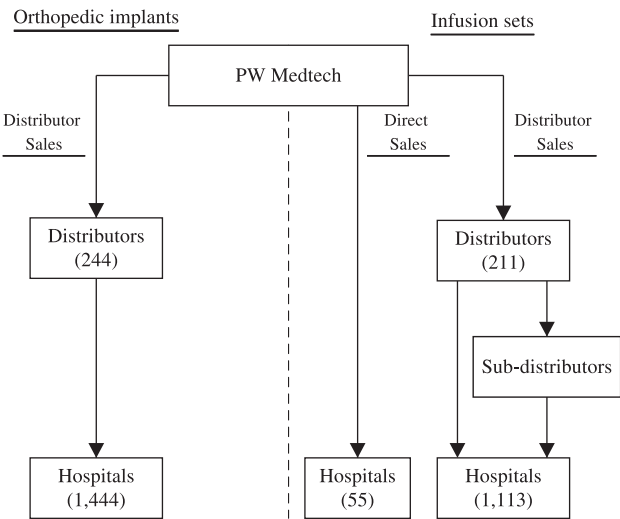
BUSINESS

infusion set expansion projects after the construction work is completed. We do not expect that there will be any legal impediments to obtain the relevant approvals and licenses for each of our expansion projects.

SALES AND DISTRIBUTION

Sales Model

The following diagram illustrates the sales model for our orthopedic implants and infusion sets as of June 30, 2013.



Consistent with market practice in China, we sell our products primarily to third-party distributors across the country, who in turn resell our products to hospitals in their designated territories. A small portion of our distributors of infusion sets on-sell our products to their sub-distributors primarily to supplement and expand their own sales networks in regions not covered by their own sales and marketing teams. Selling through distributors has allowed us to expand our business quickly. Hospitals generally require longer credit terms than required by distributors, resulting in larger trade receivables and slower trade receivable turnover. As a result, selling directly to hospitals would require substantial additional capital resources. Moreover, our products are sold to a large number of hospitals across China. Selling directly to these hospitals would require us to employ a large number of local sales and marketing personnel on the ground, which in turn would require substantial additional management resources and attention, and would incur substantial additional administrative and selling and marketing expenses. In addition, it takes substantially longer time to build local sales and marketing teams and develop direct sales with hospitals in new regions than leveraging established local distributors’ resources.

In general, hospitals will only purchase products which have been approved and adopted through tendering processes. We participate in the procurement tendering processes conducted by hospitals and government bureaus primarily to maintain our ability to select distributors.

BUSINESS

Only the entities that participate in and win the tendering processes organized by a hospital have the right to sell their products to the hospital, whether directly or indirectly through distributors. If a distributor, instead of us, participates and wins in the tendering processes organized by the hospital, we would have to sell our products to the hospital through this very distributor without the ability to choose another distributor or sell directly to the hospital.

Sales to distributors accounted for 100.0%, 100.0%, 97.3% and 86.1% of our total revenue, respectively, in 2010, 2011, 2012 and the six months ended June 30, 2013. We generally price products based on a number of factors, including market trends, changes in the levels of supply and demand and the prices of competing products, in addition to our cost of production.

Our distributors either sell the products directly to hospitals or to their sub-distributors which in turn sell to the hospitals. We believe that our distributors engage sub-distributors primarily to supplement and expand their sales networks in regions not covered by their own sales and marketing teams. To our knowledge, none of such sub-distributors engaged by our distributors are related parties of our Company.

We also began to sell a portion of infusion products offered by Fert Technology directly to certain hospitals in 2012. Fert Technology sells directly to over 50 hospitals in Beijing, where it is based, primarily to reduce its reliance on Fert Device. Direct sales to hospitals accounted for 3.9% and 20.7% of the segment revenue of our infusion set business in 2012 and the six months ended June 30, 2013, respectively. We do not intend to actively expand the number of hospitals to which we sell directly going forward.

Top Customers

In each of 2010, 2011, 2012 and the six months ended June 30, 2012 and 2013, our top five customers consisted of our distributors. In those periods, our single largest customer accounted for 4.8%, 44.7%, 42.7%, 50.5% and 14.6% of our total revenue, respectively, and our five largest customers accounted for 16.3%, 54.5%, 51.4%, 61.1% and 25.6% of our total revenue, respectively. We generally maintained stable business relationships with our customers and did not terminate our relationship with any of our distributor for orthopedic implant products during the Track Record Period. In 2010, 2011, 2012 and six months ended June 30, 2013, the average length of business relationship with the five largest customers of our orthopedic implant products, was four years, three years, three years and five years, respectively. During the same periods, all of the five largest customers of our infusion set products have conducted business with us since our acquisition of Fert Technology in April 2011. Fert Device was our largest customer in 2011, 2012 and the six months ended June 30, 2013. For the relationship of Fert Device with our Group, please refer to “History and Corporate Development — History of Our Infusion Set Business — Disposal of Fert Device.” Since our acquisition of Fert Technology, we have sold our products to Fert Device generally on terms similar to those we offer our other distributors. In the six months ended June 30,

BUSINESS

2013, our fifth largest customer, which is a distributor of our joint implant products, was controlled by Mr. WU Dong who is the general manager of Bone Medical. Mr. WU’s company had started to distribute joint implant products before our acquisition of Bone Medical. Since our acquisition, we have sold our products to Mr. WU’s company generally on arm-length commercial terms. In July 2013, Mr. WU disposed of his entire beneficial interests in this company, which ceased being a related party to our Group. Other than disclosed above, none of our Directors and their respective associates or any of our shareholders which, to the knowledge of our Directors, owns more than 5% of our share capital during the Track Record Period, has any interest in any of our five largest customers.

Distribution Network

We have an extensive and growing nationwide distribution network for each of our orthopedic implant product business and our infusion set business.

Orthopedic Implant Products

As of June 30, 2013, we had approximately 244 distributors for our orthopedic implant products, covering 30 provinces, municipalities and autonomous regions in China. The table below sets forth the changes in the number of our distributors for orthopedic implant products during the Track Record Period.

	For the year ended December 31,			For the six months ended June 30,
	2010	2011	2012	2013
Distributors at the beginning of the period.	140	182	207	214
Addition of new distributors	42	25	7	30
Termination of distributors	—	—	—	—
Net change in distributors.	42	25	7	30
Distributors at the end of the period. . .	182	207	214	244

BUSINESS

Geographically, we divide our distribution network for orthopedic implant products broadly into six regions and the table below sets forth the geographic distribution of our distributors as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
North ⁽¹⁾	51	53	64	71
Northeast ⁽²⁾	22	27	23	27
Northwest ⁽³⁾	26	37	40	41
South ⁽⁴⁾	40	39	41	49
East ⁽⁵⁾	25	26	25	33
Southwest ⁽⁶⁾	18	25	21	23

-
- (1) Consisting of Hebei, Beijing, Tianjin, Shanxi, Inner Mongolia and Shandong.
(2) Consisting of Jilin, Liaoning and Heilongjiang.
(3) Consisting of Henan, Shaanxi, Gansu, Xinjiang, Qinghai and Ningxia.
(4) Consisting of Hunan, Hubei, Guangdong, Guangxi, Hainan and Jiangxi.
(5) Consisting of Jiangsu, Zhejiang, Shanghai, Anhui and Fujian.
(6) Consisting of Sichuan, Chongqing, Yunnan and Guizhou.

The following map illustrates the number of distributors in our distribution network for orthopedic implant products as of June 30, 2013.



BUSINESS

As of December 31, 2010, 2011, 2012 and June 30, 2013, our distribution network for orthopedic implant products covered 1,257, 1,300, 1,397 and 1,444 hospitals in China, respectively. The high-end orthopedic implant market is currently dominated by large MNCs, such as Johnson & Johnson and Medtronic. We target the middle-end market which generally includes the Class 2 hospitals, as well as some Classes 1 and 3 hospitals, in tiers II and III cities in China as the primary market for our products.

As a result of our recent acquisition of Bone Medical and its joint product portfolio, we are currently focused on cross-selling the newly acquired joint products into our existing distributor and hospital network. As selling joint products requires certain specialized knowledge and industry contacts different from those required for selling trauma and spine products, we plan to establish a network focused on distributing our joint products.

Infusion sets

As of June 30, 2013, we had approximately 211 distributors for our infusion sets, covering 30 provinces, municipalities and autonomous regions in China. The following table sets forth the changes in the number of Fert Technology’s distributors for infusion sets during the Track Record Period.

	For the year ended December 31,			For the six months ended June 30,
	2010	2011	2012	2013
Distributors at the beginning of the period.	1	33	28	182
Addition of new distributors	32	0	154	29
Termination of distributors ⁽¹⁾	0	5	0	0
Net change in distributors.	32	(5)	154	29
Distributors at the end of the period. . .	33	28	182	211

(1) Termination of distributorship was due to the distributors ceasing operations.

Fert Technology’s sales model changed significantly during the Track Record Period. In the beginning of the Track Record Period, Fert Technology sold its products primarily through Fert Device as the general distributor, which re-sold to its sub-distributors and hospitals. As Fert Technology expanded its geographic reach, it gradually added more distributors. Since its acquisition by us in April 2011, Fert Technology has further expanded its distribution network by adding distributors at an increasing pace.

BUSINESS

Geographically, Fert Technology divides its distribution network for infusion sets broadly into three regions and the table below sets forth the geographic distribution of its distributors as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
Beijing.	5	5	55	58
Northern China ⁽¹⁾	12	14	61	79
Southern China ⁽²⁾	16	9	66	74

(1) Consisting of 14 provinces, municipalities and autonomous regions primarily to the north of the Yangtze River in China, including Hebei, Henan, Heilongjiang, Jilin, Liaoning, Inner Mongolia, Ningxia, Shandong, Shanxi, Shaanxi, Tianjin, Tibet, Xinjiang, and Qinghai.

(2) Consisting of 15 provinces, municipalities and autonomous regions primarily to the south of the Yangtze River in China, including Anhui, Fujian, Guangdong, Guangxi, Guizhou, Hainan, Hubei, Hunan, Jiangsu, Jiangxi, Shanghai, Sichuan, Zhejiang, Chongqing and Yunnan.

The following map illustrates the number of distributors in our distribution network for infusion sets as of June 30, 2013.



BUSINESS

As of December 31, 2010, 2011 and 2012 and June 30, 2013, Fert Technology’s distribution network for infusion sets covered 602, 765, 995 and 1,113 hospitals in China, respectively.

Our distribution network for infusion sets primarily seeks to cover Class 3 hospitals in tiers I and II cities in China. In particular, we have historically focused on increasing sales in the Beijing market, which is a leader in adopting new medical technology and a bellwether for the national market. Jiangsu province is another important market for us. Our market share in Beijing and Jiangsu province was 49.5% and 17.6%, respectively, in terms of sales revenue in 2012, according to the F&S Report. We believe there is significant room for growth in China’s domestic market for our infusion sets. Accordingly, we plan to continue expanding our distributor network and hospital coverage in China, focusing at least in the short term on the larger cities in economically well-developed areas. Our goal is to gain an additional 50 distributors and 500 hospitals to reach a total of approximately 250 distributors and 1,500 hospitals by the end of 2014.

Distributor Management

We select our distributors for both orthopedic implant products and infusion sets based on a number of criteria, the most important ones being a distributor’s experience in marketing the relevant products, distribution network coverage and capabilities in customer management. Other criteria include a distributor’s financial condition and resource deployment for target markets, its creditworthiness, reputation and industry contacts, as well as its compliance record with regulatory authorities. Our distributors must possess necessary licenses and qualifications to distribute our products. We generally enter into standard distribution agreements with our distributors, which include anti-bribery and anti-corruption requirements.

Orthopedic implant products

Set forth below are the key aspects of management of distributors of our orthopedic implant products.

- *Term.* Our distribution agreements for orthopedic products generally have a term of one year. Typically, our distributors will place purchase orders of products in accordance with their sales to the hospitals and their own inventories.
- *Designated distribution areas and/or hospitals.* The distribution agreements specify the designated distribution areas and/or hospitals for each of our distributors. We do not permit our distributors to market or sell our products outside their designated distribution areas and/or hospitals. Under the distribution agreements, we are entitled to impose monetary penalties for non-compliance of this term.

BUSINESS

- *Non-competition.* We do not permit our distributors to carry competing products during the terms of the distribution agreements. For example, if a distributor only carries our trauma products, it is prohibited from carrying similar products offered by our competitors. However, it may carry spine and joint products offered by our competitors. Under the distribution agreements, we are entitled to terminate the distribution agreements in serious cases for non-compliance.
- *Pricing.* We generally supply orthopedic implants at the prices specified in the distribution agreements. We require our distributors to comply with our market pricing system, which is designed as a protective mechanism to enable us to prevent distributors from selling our products below cost to disrupt our sales in the market. We have not discovered any instances of failure by our distributors to comply with our market pricing system and consequently have not enforced our right to penalize any distributors. We regularly collect pricing information from our distributors and hospitals as part of our sales and marketing activities.
- *Payment terms.* We may grant credit limits to qualified distributors of implant products in consideration of their historical payments, business performance and/or market positions. We believe that this practice is in line with the market practice. No prepayment is required for orders within the approved credit limits. In general, we require prepayment on orders placed by new distributors.
- *Sales targets.* We generally have pre-set quarterly and monthly sales targets for our distributors. Based on its performance, we may adjust a distributor’s designated distribution areas and/or products. In addition, if a distributor meets or exceeds the sales targets provided in the distribution agreement, we will provide a discount award equal to a predetermined percentage of its total purchases from us. Under the distribution agreements, however, we are entitled to revoke the distributorship in a designated distribution area or hospital if a distributor fails to establish presence in such distribution area or hospital within six months or fails to meet its monthly sales targets for two consecutive months. There were limited cases where our distributors failed to meet their sales targets during the Track Record Period, and we generally dealt with such cases in accordance with the relevant distribution agreements, including imposing a probationary period and/or reducing the designated distribution areas.
- *Delivery.* We are generally responsible for arranging delivery of products from our warehouse facilities in Tianjin to the locations designated by our regional distributors. The title of our products passes to the distributors upon their receipt of the products, and we are generally responsible for any loss, damage or spoilage in transit.

BUSINESS

- *Inventories and post-sale management.* We generally require our distributors to maintain stock sufficient for at least two months of supply, which comprise generally major products and specifications that are expected to receive the most demand. We also require our distributors to maintain an accurate record-keeping system for product sales for our review and notify us in a timely manner of any customer complaints for prompt rectification or improvement.
- *Returns and exchanges.* Our distribution agreements do not allow product returns or exchanges without our consent. In practice, we have historically accepted returns and exchanges by distributors, and we are generally able to sell the returned or exchanged products to other distributors at the prevailing prices. The amount of products returned and exchanged for 2010, 2011 and 2012 was RMB16.4 million, RMB19.1 million and RMB24.6 million, respectively, or 15.0%, 14.0% and 14.9% of our gross sales of orthopedic implant products in these years, respectively. Our revenue is stated net of estimated returns. Because patients require different products of different specifications that meet their individual requirements, hospitals require suppliers to be able to provide such products promptly. As such, both manufacturers and distributors in the PRC orthopedic implant industry generally offer a broad range of products with various specifications and maintain large inventories of products. As a result, it is customary for manufacturers to allow product returns and exchanges to maintain relationships with distributors and help them manage inventories. Likewise, we generally allow limited product returns and exchanges by our distributors of orthopedic implant products when the products are in resellable condition without any time limitation. Beginning in 2014, we plan to implement an internal policy to reduce product returns and exchanges by any distributor in a year to 10% of total purchases made by such distributor in the same year. In addition, we plan to implement a one-year return period and disallow returns and exchanges of any products more than one year after the original purchases. We set this 10% limit on returns and exchanges taking into account the feedback from our sales and marketing staff and our distributors, and believe that it is a reasonable limit for our distributors. Accordingly, we do not expect this new policy to have a material impact on our revenue or relationship with our distributors. During the Track Record Period and as of the Latest Practicable Date, we did not experience any material returns or exchanges from our distributors due to product defects.
- *Non-compliance.* We are entitled under the distribution agreements to impose penalties in the form of damages, reduction of the size of designated distribution areas or termination, as the case may be, for breach of exclusivity or non-competition terms or failure to meet sales targets. We did not experience any material disputes with distributors of orthopedic implants during the Track Record Period.

BUSINESS

Infusion sets

Set forth below are the key aspects of management of distributors of our infusion sets.

- *Term.* Our distribution agreements for infusion sets generally have terms ranging from one to four years.
- *Designated distribution areas and/or hospitals.* The distribution agreements specify the designated distribution areas and/or hospitals for each of our distributors. We do not permit our distributors to market or sell our products outside such designated distribution areas and/or hospitals. Under the distribution agreements, we are entitled to impose monetary penalties or revoke the distributorship in serious cases for non-compliance of this term.
- *Non-competition.* We do not permit our distributors to carry competing products during the terms of the distribution agreements. Under the distribution agreements, we are entitled to impose monetary penalties or revoke the distributorship in serious cases for non-compliance.
- *Pricing.* We generally sell our products at the prices specified in the distribution agreements and we may make adjustments due to changes in market conditions. Under certain distribution agreements, we have the right to determine guidance prices and monitor our distributors’ compliance with the agreed-upon price ranges. In certain instances, the distributors may, with our written consent, increase or reduce the specified prices within a 10% range. In either of the above situations, we are entitled to impose monetary penalties or revoke the distributorship in serious cases of non-compliance. This arrangement is similarly designed as a protective mechanism to enable us to prevent distributors from selling our products below cost to disrupt our sales in the market. We have not discovered any instances of failure by our distributors to comply with our market pricing system and consequently have not enforced our right to penalize any distributors. We regularly collect pricing information from our distributors and hospitals as part of our sales and marketing activities.
- *Payment terms.* For most of our distributors of infusion sets, we require prepayment for our products. We grant certain qualified distributors a combination of credit limits and credit periods generally ranging between two to six months and require them to settle trade balances when their purchases exceed the credit limits or the credit periods expire, whichever happens first. We may extend credit based on a distributor’s payment history, business performance and/or market positions.

BUSINESS

- *Sales targets.* We generally have pre-set quarterly and monthly sales targets for our distributors. Based on its performance, we may adjust a distributor’s designated distribution areas and/or products. We are entitled to revoke the distributorship in a designated distribution area or hospital if a distributor fails to establish presence in such distribution area or hospital within six months or fails to meet its monthly sales targets for two consecutive months. There were limited cases where our distributors failed to meet their sales targets during the Track Record Period, and we generally dealt with such cases in accordance with the relevant distribution agreements, including imposing a probationary period and/or reducing the designated distribution areas.
- *Delivery.* We are generally responsible for arranging delivery of products from our warehouse facilities in Beijing to the locations designated by our regional distributors outside Beijing.
- *Post-sale management.* We require our distributors to maintain an accurate record-keeping system for product sales for our review and notify us in a timely manner of any customer complaints for prompt rectification or improvement.
- *Returns and exchanges.* We do not accept returns or exchanges of products from our distributors except for defective products. During the Track Record Period and as of the Latest Practicable Date, we did not experience any material returns or exchanges from our distributors due to product defects.
- *Non-compliance.* We are entitled under the distribution agreements to impose penalties in the form of damages, reduction of the size of designated distribution areas or termination of distribution agreements, as the case may be, for breach of exclusivity or non-competition terms, non-observance of agreed-upon resale price ranges or failure to meet sales targets. We did not experience any material disputes with distributors of infusion sets during the Track Record Period.

Direct Sales to Hospitals

We began to sell a small portion of our infusion sets directly to hospitals in Beijing in 2012. As of June 30, 2013, we had approximately 55 direct-sale hospitals. In 2012 and the six months ended June 30, 2013, direct sales to hospitals totaled RMB9.1 million and RMB29.4 million, respectively, or approximately 3.9% and 20.7% of our segment revenue from sales of infusion sets, respectively. For the same product, we generally charge our direct-sale hospitals a higher price than we charge our distributors. As a result, the gross margins of direct sales to hospitals are generally higher than sales to distributors. Our direct-sale hospitals generally do not enter into standard sales contracts with us and instead place separate purchase orders for purchases. We typically grant our direct-sale hospitals credit periods ranging from six to 12

BUSINESS

months. We are generally responsible for delivery of products to the hospitals. We do not accept return or exchange of products from our direct-sale hospitals except for defective products.

The table below compares the average credit terms, credit limits and gross margins of our direct sales to hospitals and sales to distributors in 2012 and the six month ended June 30, 2013.

	For the year ended December 31, 2012		For the six months ended June 30, 2013	
	Direct-sale hospitals	Distributors	Direct-sale hospitals	Distributors
Average credit terms (days)	180	71	195	78
Average credit limits (RMB'000). .	—	1,407	—	1,324
Gross margins	77%	61%	79%	63%

Sales Support and Marketing

Our distribution network is managed and supported by our in-house sales team of 43 members, which is divided into three dedicated teams by product category — infusion, trauma/spine, and joint. Our in-house sales team is responsible for managing and training our distributors. As part of our after-sale services, we provide our distributors with technical support, including training on the basic technologies of our products and participating in presentations to potential hospital customers. By working with our distributors, our sales support staff are able to provide us with valuable insights into the operations of each distributor, which helps us ensure that each distributor operates to our standards.

In addition, we have a marketing team of 80 members responsible for interfacing with hospitals and surgeons, including training surgeons and answering technical questions on how to implant our products safely and effectively, as well as assisting in surgeries. Approximately 30.0% of the members of our sales and marketing team have medical or nursing degrees, which helps ensure that communications with physicians are effective and seamless. Our marketing efforts are focused on further expanding our distribution network and promoting our brands among surgeons and hospitals. For our orthopedic implant products, we had a marketing team of 43 members as of June 30, 2013, of which 14 members had professional medical degrees, dedicated to interfacing with doctors and surgeons. These members may attend the orthopedic surgeries to provide technical assistance. We also had a marketing team of 37 members for our infusion sets as of June 30, 2013, of which seven members with professional medical or nursing degrees were dedicated to interfacing with hospitals to promote our precision filter infusion sets.

BUSINESS

We focus on educating and training surgeons and doctors by regularly organizing training programs, academic seminars and product launch meetings. Our sales and marketing staff regularly attend and organize events at national and international medical conferences and expositions to keep abreast of new industry trends and to promote our products and enhance brand recognition.

INVENTORY MANAGEMENT

Our inventories primarily include raw materials, work-in-progress and finished products. We maintain inventories of finished products and procure raw materials according to our projection of the demand from our customers and the estimated production time of orthopedic implants and infusion sets. Such projection of demand is primarily based on our market survey activities. We communicate with our distributors on a monthly basis about their sales to hospitals to monitor their inventory levels and assess any further change in demand. We also regularly contact hospitals about the sales of our products and their future needs. We generally have a reasonable estimate of the volume of products that hospitals may annually purchase based on their size and number of patients received.

We employ information systems to track inventory levels as well as ensure adequate levels of raw materials and finished products. We establish an inventory management target each year by reviewing the historical performance and considering the data projections and market demographics. We also perform monthly and random inventory counts, monitor the shelf life of our products by conducting periodic review to assess our inventory control measures and costs. We implement monitoring procedures to ensure that follow-up action is taken on any inventory discrepancies discovered during each inventory count.

As part of our distribution management, we inquire of our distributors on a monthly basis about their sales to hospitals to monitor their inventory levels, sales performance and creditworthiness. We generally have a reasonable estimate of the volume of products that hospitals may annually purchase based on their size and number of patients received, and therefore, we are able to detect abnormal stock piling by our distributors if we believe the purchase amount by the relevant distributor unreasonably exceeds the needs of the hospitals in such distributor's designated regions. Additionally, the cost of purchasing inventories naturally serves as a disincentive for our distributors to accumulate unnecessary inventories. To our knowledge, there was no abnormal piling up of inventories by our distributors during the Track Record Period.

Inventory Provisioning

We also employ an inventory provisioning method to assess our inventories in order to make a reasonable estimate on the level of provisions to cover probable losses in our inventories. We write off inventories when they become obsolete or damaged or when their net realizable value is below their carrying costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated

BUSINESS

costs necessary to make the sale. Because of the quicker turnover and lower selling price per unit of our infusion sets compared to orthopedic products, we generally do not make any provision on infusion sets. No provision has been required for our existing orthopedic implant products and infusion sets due to our launch or planned launch of upgraded products in 2013 and 2014, because we expect to be able to continue to market such existing products and their net realizable value is not below their carrying costs based on our assessment.

The inventory provisioning process involves the collaboration of multiple internal departments. The general manager, financial controller and other relevant department heads of our principal PRC subsidiaries review and evaluate the information on inventories, which is submitted by warehouse and financial personnel, and their estimates on inventory aging and expected usability form the basis of our inventory provisioning scheme. Our chief financial officer and other relevant department heads at our corporate headquarters review and approve the proposed inventory provisioning scheme before it is implemented. The key decision-makers in this process include the general managers and financial controllers of our principal PRC subsidiaries and various department heads. They are all highly experienced in the orthopedic implant or infusion set industry. For the biographies of our chief financial officer and the general managers of our principal PRC subsidiaries, see “Directors and Senior Management — Senior Management.”

Management of Inventory Turnover

The average inventory turnover days of our orthopedic implant business were 304, 297, 441 and 362 days in 2010, 2011, 2012 and the six months ended June 30, 2013, respectively. Except for certain joint products, which are sterilized prior to packaging and generally have a shelf life of five years, our orthopedic implant products are generally not sterilized prior to packaging and generally have a very long shelf life. Our inventory turnover days were relatively long due to a number of reasons. First, due to the large number of human bones, the significant variations of anatomic features, fractures and ailments of individual patients, and the urgency to treat such fractures and ailments, one of the key factors for hospitals in making their purchase decisions is the completeness of product lines and product specifications of its suppliers and the ability of its suppliers to deliver its products to the hospital quickly. We currently have over 200 orthopedic implant products with approximately 8,500 specifications. To help our distributors (and by extension our Group) compete effectively, we generally require that our distributors maintain stock of major products and specifications that are expected to receive the most demand sufficient for two months of expected supply. To replenish our distributors’ inventories and meet the demands for other products and specifications by hospitals and distributors quickly, we in turn maintain large inventories of different products of different specifications. The production time for our non-sterilized orthopedic implants is up to 33 days and sterilization requires an additional 19 days. The long production cycles further add to the need for maintaining complete inventories. To compete effectively, we must also develop new products. For these new products to create a sizable market, their product lines must also be complete in terms of specifications and a sufficient

BUSINESS

level of inventories must be maintained. In addition, new products rarely displace the market for existing products over a short period of time, and existing products rarely become obsolete and are phased out over a short period of time simply due to the development of new products. As a result, the development of new products also contribute to the size of the our and our distributors' inventories. Third, the principal raw materials for orthopedic implants are titanium alloy, titanium alloy castings and stainless steel, which do not have a definite shelf life. With the general rising price of these raw materials, many orthopedic implant industry players, like us, are carrying a significant quantity of these raw materials as a measure to reduce cost increases in the long term. Our average inventory turnover days were long in 2012 and the six months ended June 30, 2013 also due to a combination of (i) our acquisition of Renli Orthopedic in 2012; (ii) our purchase of joint products from Bone Medical for which we acted as the general distributor in December 2012; (iii) our accumulation of inventories to support our increased production and sales; and (iv) our acquisition of Bone Medical in January 2013.

The average inventory turnover days for our infusion set business were 150, 175, 165, 144 and 118 days in Predecessor Period 2010, Predecessor Period 2011, Successor Period 2011, 2012 and the six months ended June 30, 2013. Our infusion sets have a shelf life of two years and their average production time is 11 days. Our infusion sets are primarily made from PVC or TPU granules, needles and nuclepore membranes which have a shelf life of two years, five years and five years respectively. We generally seek to maintain sufficient major raw materials for two to three months' production requirements. This practice is based on a number of factors, including primarily historical variances and fluctuations in the lead time required by our suppliers to make deliveries. We maintained a large balance of raw materials during the Track Record Period primarily because we need to address the risk of the uncertainty of supply of these raw material by maintaining a large amount of raw material to support its ongoing production.

QUALITY CONTROL

Product quality is vital to our business since our products have direct contact with the human body and any potential quality defect may cause pain and suffering to patients. As of June 30, 2013, our quality control department had 73 employees, including 51 employees for orthopedic implant products and 22 employees for infusion sets. 28, or 38%, of our 73 quality control employees have attained a bachelor's degree or above, and a majority of them have experience in the medical device industry. Each of Fert Technology, Walkman Biomaterial and Bone Medical has a quality control team dedicated to applying and monitoring consistent and strict standards for our products manufactured at each production facility. Each team at Fert Technology and Walkman Biomaterial is headed by our quality control director with more than eight years of experience in the medical device industry, while the team at Bone Medical is led by its general manager who has more than ten years of experience in medical device industry.

BUSINESS

We devote significant attention to quality control procedures at every stage of our manufacturing process. Our quality control process includes:

- *Inspection of raw materials.* We purchase raw materials only from qualified suppliers that are selected based on our internal supply management policy. We select samples based on our internal standards from each batch of raw materials and components purchased and engage qualified institutions to conduct chemical and mechanical tests to ensure compliance with our quality standards. If any of our suppliers do not meet our quality control standards, we are entitled to return or to exchange the materials purchased.
- *In-process quality control.* We monitor every stage of our manufacturing process to ensure compliance with our quality control requirements. For each stage in our manufacturing process, we inspect and conduct testing on sample basis in accordance with the GB2828 sampling procedure for inspection by attributes. Substandard work-in-progress is returned for rectification or disposed of, thereby minimizing the rate of defective products. For certain of our joint products that are outsourced to third parties for surface treatment and initial processing work, we examine each outsourced product under the same standards applicable to our finished products.
- *Final quality inspection.* We conduct rigorous tests on finished products to ensure that our products meet the needs of our end-user customers. We inspect each finished product prior to packaging. Products that do not meet our quality standards will be re-worked and subject again to the same inspection and performance testing process.

Our operation is in compliance with the CFDA’s regulations including the regulations regarding quality management. We have passed the inspection for GMP certification at our production facilities since the beginning of our operations. We consistently passed the quality inspection of medical devices conducted by the local CFDA. In addition, we have obtained ISO13485, ISO9001, CE, and China GMP certifications for our infusion sets and ISO13485:2003, EN ISO:2013 and EU Directive 93/42 certifications for our orthopedic implant products. Moreover, we assign an identification code through our enterprise management system to each implant product we sell. As a result, we are able to track the products that need to be replaced or further inspected. Furthermore, our test laboratory applies the ISO standards and ASTM testing methods to the inspection of our orthopedic implant products, which ensures the meeting of the relevant international standards or the standards of destination countries.

BUSINESS

As is a common industry practice, we generally do not provide any warranties on our products and did not make any warranty provisions during the Track Record Period. Metallic implant products sold in China are generally not subject to any warranty period. We implement strict quality control systems, which comply with the relevant laws and regulations, meet GMP certifications and consistently apply to the production cycle of our products. Finished products are subject to stringent quality inspections designed to prevent substandard or defective products from reaching the market. We did not experience any material returns or exchanges of products due to quality defects during the Track Record Period.

In accordance with our internal complaint handling procedures, our sales and marketing teams periodically collect feedback from our distributors and end customer hospitals through telephone callback, questionnaire and third party market survey. Our quality control department is responsible for conducting technical analysis to determine whether potential quality issue is involved. Based on the findings of our quality control department, we are responsible for losses caused by defects of our products. During the Track Record Period and as of the Latest Practicable Date, we did not receive any material complaints and our products had not been subject to any material claims, litigation or investigation due to product liability. In addition, during the Track Record Period and as of the Latest Practicable Date, there were no product recalls or fatal accidents related to our products.

NEW AND PIPELINE PRODUCTS

Orthopedic Implant Products

We seek to develop and offer better and more innovative products than our competitors in the orthopedic implant market. Since 2010, we have developed and brought to market 25 new products, including 23 trauma products and two spine products.

In 2013, we launched four new trauma and spine products and expect to launch six more by the end of the year. The following table sets forth certain information of these products.

<u>Product Category</u>	<u>Product Name</u>	<u>Application</u>	<u>Launch Date/ Expected Launch Date</u>
Trauma	Bridge-link fixation products	Fractures of the extremities, pelvis and acetabulum	January 2013
	Volar Distal Radius Locking Plates (Anatomic), Mono-lock	Fractures of the distal radius (volar aspect)	June 2013
	Distal Lateral Tibial Locking Plates (I), Combined-lock	Fractures of lateral distal tibia	August 2013
	Proximal Lateral Femoral Locking Plates	Fractures of lateral proximal femur	December 2013
Spine	New Thoracolumbar Fusion Cage and Instruments	Intervertebral disk disease and spinal instability	June 2013

BUSINESS

<u>Product Category</u>	<u>Product Name</u>	<u>Application</u>	<u>Launch Date/ Expected Launch Date</u>
	New Posterior Spinal Fixation (U-shaped) and Instruments	Spinal fractures, spondylolysis and degeneration	October 2013
	New Posterior Spinal Fixation (SCS) and Instruments	Thoracolumbar fractures, instability and degeneration	December 2013
	Cervical Fusion Cage and Instruments	Cervical intervertebral disk disease	December 2013
	Reniform Fusion Cage and Instruments	Intervertebral disk disease and spinal instability	December 2013
	Anterior Cervical Plates and Screws System	Cervical fractures and degeneration	December 2013

By the first half of 2014, we plan to develop and commercially launch five new trauma products and seven new spine products under our existing CFDA product registrations for which we have completed the clinical verification. The table below sets forth certain information on these products.

<u>Product Line</u>	<u>Product</u>	<u>Application</u>
<i>Trauma</i>	Distal Lateral Humeral Locking Plate (Buttress)	Fractures of the distal lateral humerus
	Distal Lateral Humeral Locking Plate	Fractures of the distal lateral humerus
	Distal Medial Humeral Locking Plate	Fractures of the distal medial humerus
	Mini Plate (Improved)	Maxillofacial fractures, and metatarsal and metacarpal fractures
	Interlocking Intramedullary Nails System and Instruments (New Type)	Fractures of the bone shaft (applied to intramedullary canal fixation)
<i>Spine</i>	Cervical Fusion Cage and Instruments	Cervical disk disease
	U-shape Posterior Spinal Fixation System and Instruments (New Type)	Spinal fixation, degeneration and spondylolysis
	Kidney-shape Fusion Cage and Instruments	Vertebrae disk disease and spinal instability
	Thoracolumbar Fusion Cage and Instruments (New Type)	Spinal disk degeneration and spinal instability
	Minimally Invasive Spinal Fixation System and Instruments	Minimal invasive treatment of spinal fractures, spondylolysis and degeneration
	SCS Posterior Spinal Fixation System and Instruments (New Type)	Lower thoracic vertebrae and lumbar vertebrae fractures and spinal instability and degeneration
	Anterior Cervical Fixation System	Cervical trauma and degeneration

BUSINESS

Infusion Sets

In 2013, we launched certain non-PVC infusion set products with additional features and we are currently developing a number of infusion sets to incorporate advanced features and applications. Our pipeline of infusion products currently consists of seven new products for which clinical trials have been completed, all of which are expected to be launched by the first half of 2014. The table below sets forth certain information on these products.

Product	Key Features
Light-resistant infusion pump tubing .	For use with infusion pumps
Non-PVC-based light-resistant infusion set	Non-PVC-based light-resistant tubing that blocks light and prevents light-sensitive infusion drugs from being altered by exposure to light
Precision filter infusion set	With precision filter that blocks insoluble particles as small as 0.2 micron in diameter
Precision filter	With small pores that blocks insoluble particles as small as 0.2 micron in diameter
Non-PVC-based precision filter infusion set	Non-PVC-based tubing; with precision filter that blocks insoluble particles as small as 0.2 micron in diameter
Precision filter infusion set with multiple ports	With multiple ports that allow “piggybacking” of additional infusion containers
Non-PVC-based light-resistant precision filter infusion set	Non-PVC-based light-resistant tubing that blocks light and prevents light-sensitive infusion drugs from being altered by exposure to light; with precision filter that blocks insoluble particles as small as 0.2 micron in diameter

RESEARCH AND DEVELOPMENT

General

We are highly committed to our research and development efforts. These efforts have contributed to our ability to continuously develop and bring to market new products and played a key role in our rapid growth. Our research and development expenses accounted for 1.9%, 4.0%, 2.9% and 3.0% of our total revenue in 2010, 2011, 2012 and the six months ended June 30, 2013, respectively. As part of our continuing efforts to enhance our research and development capabilities, our facility under construction in Pinggu, Beijing also includes new research and development facilities.

BUSINESS

As a result of our acquisition of Fert Technology and Bone Medical, we have acquired their respective technologies including patents and know-how which has enabled us to strengthen our research and development capability. Our research and development team is built upon these companies’ original research and development personnel, a majority of whom have remained with us since our acquisition. As of June 30, 2013, our research and development team consisted of 76 members, including 44 for orthopedic implant products and 32 for infusion sets.

Our Approach and Process

We seek to conduct research and development effectively and efficiently to achieve optimal results. With respect to our orthopedic products, our research and development approach focuses on joint research and development relationships with research institutions to leverage their research and development capabilities. In addition, we work closely with surgeons to upgrade existing products and develop new products based on their feedback and insights. These joint efforts with research institutions and surgeons have helped us develop and launch products that better meet patient demands and in a cost-effective manner. In our infusion set segment, we acquired our core technologies in infusion sets, such as our technology know-how relating to precision filtering and non-PVC-based tubing, in connection with our acquisition of Fert Technology in 2011. Since our acquisition, our research and development efforts have focused on developing new products with additional features for our infusion sets, such as auto-air-venting and light-resistant tubing, to address patient needs and improve infusion safety. By leveraging our core technology building blocks, we have been able to develop and launch these new products quickly and cost-effectively. Therefore, our research and development expenses during the Track Record Period were maintained at a relatively low level.

We have implemented an internal procedure to manage and monitor the use of funds in relation to our research and development activities. Our management, including the managers of our various internal departments, such as sales and marketing and finance departments, reviews the preliminary project proposals by our research and development team, which formulates a final plan for each approved project after taking into account suggestions and comments by our management. The final plans include detailed schedules and budgets for the projects. Our finance department monitors budget overruns and any increase in the original budget must be reviewed and approved by our management before the relevant project can continue.

Our Results

As a reflection of the efforts of our research and development team, we have been able to continuously develop and launch new products and technology to meet the needs of hospitals and patients. Since 2010, we have commercially launched 25 orthopedic implant products including our bridge-link combined fixation system and our non-PVC-based infusion sets. In our orthopedic implant business, as of the Latest Practicable Date, we were one of only two

BUSINESS

major domestic companies with a full product portfolio including trauma, spine, as well as hip and knee implants. In our infusion set business, our subsidiary, Fert Technology, is a pioneer in developing advanced infusion sets as one of the first manufacturers in China to receive CFDA approval to manufacture and market precision filter infusion sets in 1997 and one of the only three PRC manufacturers to receive CFDA approval to manufacture non-PVC-based infusion sets as of the Latest Practicable Date. As of the Latest Practicable Date, we had 28 patents, including 18 for orthopedic implant products and 10 for infusion set products, and nine patent applications, including four for orthopedic implant products and five for infusion set products. In recognition of our research and development efforts, we have won research grants from the China Torch Program sponsored by the Ministry of Science and Technology.

Orthopedic Implants

We currently have 12 new orthopedic implant products under research and development. Other than one spine product which is at the clinical trial stage, these products are all at the early development stage. We expect to spend approximately RMB4.5 million for the development of new trauma products, RMB2.0 million for the development of new spine products and RMB10.1 million for the development of new joint products. The table below sets forth certain information on these new products under development.

<u>Product Line</u>	<u>Product</u>	<u>Application</u>	<u>Current Stage</u>
<i>Trauma</i>	Titanium Guide Wire	Fracture traction and fixation	Producing samples for pre-clinical testing
	Titanium Alloy(TC20) Plate	Fractures of lower limbs and upper limbs	Producing samples for pre-clinical testing
	Absorbable Screw	Fractures of cancellous	Producing samples for pre-clinical testing
<i>Spine</i>	Vertebro Plasty Instruments	Vertebral compression fractures	Clinical trial
	PEEK Fusion Cage	Vertebrae disk disease and spinal instability	Producing samples for pre-clinical testing
<i>Joint</i>	Modular Femur Stem	Treatment of femoral head or femoral neck fracture, arthritis, femoral head necrosis, infection, congenital hip disease, hip revision, etc.	Pre-clinical
	Polished Cobalt-chromium-molybdenum Cemented Hip		
	Polished High Nitrogen Stainless Steel		
	Revision Stem		
	Square Stem		
	High Nitrogen Stainless Steel		
	Bone Defect Stem		

BUSINESS

Product Line	Product	Application	Current Stage
	Posterior Cruciate Ligament — Retaining Knee	Treatment of a variety of serious knee lesions, including rheumatoid arthritis, osteoarthritis, or other causes of serious instability, joint pain, deformity and functional limitation of the knee joint	Pre-clinical

We are a party to a number of joint research and development agreements with the local branches of prestigious research institutions. We were a contributor of a multi-party research program led by Research Institute of Tsinghua University in Shenzhen (深圳清華大學研究院). This program, which commenced in 2009, aims to develop joint products based on the behavioral and kinematic characteristics of the population in southern China and establish a corresponding clinical database. In addition, we are a participant in two other research programs led by the Shenzhen Institutes of Advanced Technology, Chinese Academy of Sciences (中國科學院深圳先進技術研究院), both of which began in November 2011. One of these programs focuses on the preparation of certain composite bone biomaterials and the evaluation of their biological functions. The other program relates to the establishment of a joint laboratory, which is at a preliminary stage.

Under the above programs, Research Institute of Tsinghua University in Shenzhen and Shenzhen Institutes of Advanced Technology, Chinese Academy of Sciences are the owners of all intellectual property rights created as a result of each program led by it respectively.

Infusion Sets

We currently have 12 new infusion products under development, for which we expect to spend approximately RMB10.7 million, and expect to commercially launch these products in 2015, including the following key products:

- *Auto-air-venting precision filter infusion set — in clinical trial.* This product features a precision filter and a “fool-proof” auto-air-venting drip chamber, which is designed to ensure that air rises out from the infusion fluid in the drip chamber, thereby reducing labor and human error. We expect to spend RMB1.5 million for the development of this product.
- *Precision filter and infusion set with precise flow regulator — in clinical trial.* This product features a precision filter and a precise flow regulator, which is designed to enable precise regulation of infusion rate, representing an economical alternative to infusion pumps. We expect to spend RMB1.5 million for the development of this product.

BUSINESS

- *Non-PVC-based light-resistant precision filter anti-free-flow infusion set — in pre-clinical testing.* This product offers a number of features: a non-PVC-based light-resistant tubing that blocks light and prevents light-sensitive infusion drugs from being altered by exposure to light; a precision filter that blocks insoluble particles; and automatic stoppage of infusion when the infusion fluid is depleted, thereby preventing air from entering into the patient’s body and blood from draining from the patient. We expect to spend RMB1.8 million for the development of this product.

As a testament to our market leadership and product development capabilities, we became one of only two companies selected by the CFDA to assist in developing national standards for precision filter infusion sets, which represents an opportunity for us to further strengthen our market position.

SUPPLIERS AND PROCUREMENT

The principal raw materials for our orthopedic implant products are titanium, titanium alloy, stainless steel and cobalt-chromium-molybdenum alloy. The principal raw materials for our infusion sets are PVC granules. We also purchase nuclepore membranes and needles of various specifications for use in our infusion sets. We primarily source our raw materials from multiple suppliers in China. For raw materials and components sourced for orthopedic implant products and associated instruments, we typically maintain three months of inventories. We generally maintain three to six months of inventories of raw materials and components for infusion sets based on our production plan. We have developed stable relationships with many of our key suppliers and generally retain at least two suppliers for each principal raw material. We did not experience any material supply shortages and prices of our major raw materials were relatively stable during the Track Record Period.

We select raw material suppliers based on a number of factors, including product quality, prices, service, financial condition and ability to timely deliver their products. We did not experience any material return of supplies due to quality defects and were not contractually committed to any minimum order quantity during the Track Record Period.

Titanium, Titanium Alloy and Stainless Steel

We generally enter into individual procurement agreements with suppliers of titanium, titanium alloy and stainless steel for our orthopedic products. The quantity and prices are specified in each agreement. For our trauma and spine products, we are sometimes required to make a 30% prepayment on our orders, with the balance payable upon receipt of products and quality inspection, and in other cases, we are required to make full payment upon receipt of products and quality inspection. As for our joint products, we are generally required to make full payment upon receipt of products and quality inspection.

BUSINESS

PVC Granules and Needles

We generally enter into annual contracts with suppliers of PVC granules and needles, and place monthly purchase orders with these suppliers to confirm actual purchases and the purchased quantity. The actual purchase prices are generally subject to adjustment based on the then prevailing market price. In most cases, we are required to make full payment within 30 days of receipt of products and quality inspection, and are entitled to exchange or return products with quality defects.

Nuclepore Membranes

We currently source nuclepore membranes, a key component of our precision filter infusion sets, primarily from two suppliers with whom we have entered into long-term supply contracts. The term of contract with each supplier is 10 years and three years, respectively, both of which are renewable upon expiration. Both contracts provide a minimum supply requirement which we believe is sufficient to meet our production needs. Pursuant to the contract with the ten-year term, either the supplier or we may terminate the contract by delivering three months prior notice to the other.

Initial Processing of Raw Materials and Coating Services

For certain joint products, we outsource initial processing of raw materials and coating of end products based on the demand for our products and our production capacity. For initial processing of raw materials, the outsourced parties are subject to confidentiality obligations with respect to the molds provided by us and any other technical information that they gain access to during the course of their service. We are required to make a 30% prepayment when we place an order, with the balance generally payable upon completion of the order. For coating of end products, we generally enter into an agreement for each order we place with a company or research center that specializes in surface treatment. We generally make full payment before the delivery of the coated products.

Top Suppliers

In 2010, 2011, 2012 and the six months ended June 30, 2012 and 2013, purchases from our five largest suppliers accounted for approximately 36.8%, 34.3%, 14.7%, 22.0% and 17.7% of our total cost of sales, respectively. In 2010, 2011, 2012 and the six months ended June 30, 2012 and 2013, purchases from our single largest supplier accounted for approximately 23.4%, 15.4%, 4.7%, 10.6% and 5.2% of our total cost of sales, respectively. Fert Device was our largest supplier in 2011 and second largest supplier in 2012. Materials we purchased from Fert Device in 2011 and 2012 primarily included PVC granules, needles used in infusion sets and nuclepore membranes. Other than as disclosed in “History and Corporate Development — History of Our Infusion Set Business — Disposal of Fert Device” above, none of our Directors

BUSINESS

and their respective associates or any of our shareholders which, to the knowledge of our Directors, owns more than 5% of our share capital during the Track Record Period, has any interest in any of our five largest suppliers.

COMPETITION

The medical device industry is characterized by rapid product development, technological advances, intense competition and a strong emphasis on proprietary products. We compete primarily based on quality, reliability, product functionality and design, price, brand recognition, distribution network and customer support.

Suppliers in China’s orthopedic implant market can be categorized into MNCs and Chinese domestic companies. MNCs, many equipped with better technology than domestic brand companies, generally charge higher prices for their products and primarily focus on Class 3 hospitals in tier I cities, while domestic companies generally charge lower prices for their products and compete mostly in Classes 2 and 1 hospitals in tiers II and III cities. We compete on quality, reliability, product functionality and design, brand recognition, distribution network and customer support in addition to price. The prices of our orthopedic implant products were generally stable during the Track Record Period. We primarily seek to penetrate Class 2 hospitals in tiers II and III cities and, consequently, our competitors primarily include domestic companies, such as Shandong Weigao, Tianjin Zhengtian and Suzhou Xinrong Best, as well as Kanghui and Trauson, which were acquired by MNCs in recent years. Chinese domestic companies have successfully improved their product quality and taken market share away from MNCs. Reimbursement under China’s social health insurance programs typically is either capped at a fixed amount or requires a fixed percentage of co-pay by patients. As China’s social health insurance system covers an increasing percentage of the population, domestic companies with full product portfolios as well as strong manufacturing and product development capabilities are expected to continue to take away market share from MNCs due to their price competitiveness. Benefiting from our full product portfolio, we believe that we are well positioned to capitalize on the import substitution opportunities. In addition, certain manufacturers of orthopedic implant products in more developed markets offer customized products based on the specific needs of individual patients. We are not aware of any companies in China that have adopted this practice, and do not believe that it is a significant factor affecting the competitive landscape in China’s orthopedic implant market.

In the infusion set market, our competitors are primarily domestic companies. There were over 300 infusion set manufacturers in China as of the Latest Practicable Date, the vast majority of which only produced conventional infusion sets without precision filters or other advanced features. As we focus on precision filter infusion sets and non-PVC-based infusion sets, our primary competitors are those other manufacturers that also offer similar products, including primarily Shandong Weigao, Shandong Shinva and Tianjin Hanaco. The precision filter infusion set and non-PVC-based infusion set market in China is under-penetrated and manufacturers primarily compete on quality, reliability, product functionality and design as

BUSINESS

opposed to pricing. In 2012, precision filter infusion sets accounted for only 5.1% of the infusion sets sold in China in terms of sales volume, according to the F&S Report. China’s market for non-PVC-based infusion sets remains at an early stage with a penetration rate of less than 5% in 2012, as compared to over 80% in the United States. Therefore we believe that the significant growth and upgrade opportunities in China will generate significant demand for our precision filter infusion sets and non-PVC-based infusion sets. We believe we have first-mover advantages over most of our competitors and are well positioned to capitalize on these opportunities.

PRODUCT CERTIFICATES, PERMITS AND APPROVAL

The medical devices industry is heavily regulated in China and manufacturers of medical devices are required to obtain requisite certificates, permits and approvals from the relevant government authorities. For details about the certificates, permits and approvals required for our operation, see “Regulation.” As of the Latest Practicable Date, we obtained all requisite business licenses and production certificates for all of our production facilities and all of such licenses and certificates are within their respective effective periods. We did not experience any material difficulties in renewing the business licenses and production certificates of our production facilities in the Track Record Period, and we currently do not expect to have any material difficulties in renewing such licenses and certificates when they expire.

An approved range of our products are certified with a CE mark, which indicates full compliance with Council Directive 93/42 of the European Union and enables us to market the approved products in the European Economic Area. In particular, we obtained CE certifications by MEDCERT Germany in 2009 for non-sterilized metallic bone plates and non-sterilized metallic bone screws. We engaged another professional assurance provider, SGS, in 2011, and have obtained CE certifications for our non-sterilized metallic bone plates, metallic bone screws, metallic intramedullary nail system and spinal internal fixation. In addition, we have obtained CE certifications by DNV for certain of our infusion sets, including precision filter infusion sets with needles, light-resistant infusion sets (with needles) and precision filters.

We received the 510(k) clearance by the U.S. FDA in August 2013 for metallic locking compression bone plates and screws system, which enables us to market this product in the United States. In addition, the U.S. FDA accepted our 510(k) clearance application for metallic intramedullary nail system in July 2013. We expect to obtain clearance for this product within 60 days if we are not requested to submit supplemental documentation. We are currently preparing the 510(k) clearance application for spinal orthopedic internal fixation. To comply with safety requirements imposed by the applicable U.S. laws and regulations, we will have our products tested by certified institutions with respect to product material, functionality, biological compatibility and shelf life. We will concurrently upgrade our quality management system pursuant to cGMP (current good manufacturing practice) standards as required in the United States.

BUSINESS

INSURANCE

We maintain limited product liability insurance. Our current product liability insurance policies cover up to RMB1 million per incident and RMB4 million per policy year for our orthopedic implant products. We are not required by PRC laws to and do not carry product liability insurance for our infusion products. We are not aware of any material claim, complaint, litigation, investigation, product recall or fatal accident involving Fert Technology and its infusion sets since its establishment and during the Track Record Period. We will consider purchasing product liability insurance for our infusion products in the future, depending on our then business scale and market feedback. Our Directors believe that the coverage of the insurances obtained by us is consistent with the market practice in China for our type of business and operations. As our business expansion efforts have in the past been focused on developing our domestic market, we did not identify or purchase any product liability insurance for our products sold overseas. As we intend to expand our overseas sales in the future, we are looking at purchasing additional product liability insurance to cover our products sold both in the PRC and overseas.

In the 12 months preceding the date of this document, we did not experience any material interruption to our business which has had a material impact on our financial position.

INTELLECTUAL PROPERTY

We have developed a significant portfolio of intellectual property rights to protect our technologies and products in China. As of the Latest Practicable Date, we had 28 patents, including 18 for orthopedic products and 10 for infusion set products, and nine patent applications, including four for orthopedic products and five for infusion set products. In addition, we are the registered owners of 16 domain names including our corporate website, www.pwmedtech.com. As of the Latest Practicable Date, we were the registered owner of 10 trademarks, including “Walkman” trademarks for our trauma and spine products, “Bone” and “博恩” trademarks for our joint products and “Fert” and “伏尔特” trademarks for our infusion set products. We have filed trademark applications in China and Hong Kong with respect to “普华和顺” and “PW Medtech.”

We have entered into confidentiality agreements with non-compete provisions with our senior management and certain key members of our research and development team and other employees who have access to secrets or confidential information of our business. We have also generally entered into confidentiality agreements with each of our employees, pursuant to which we are the owner of all rights to all inventions, technology know-how and trade secrets derived during the course of such employee’s work.

BUSINESS

PROPERTY

Our PRC principal executive offices are located in Beijing, China. We have production facilities located in Beijing, Tianjin, Shenzhen (Guangdong province), Linyi (Shandong province) and Xuzhou (Jiangsu province).

Owned Property

As of June 30, 2013, we owned six parcels of land with an aggregate site area of 197,943.2 square meters and 54 buildings and units with an aggregate gross floor area of 50,651.2 square meters, for use as production facilities, offices and other facilities. As of June 30, 2013, we were in the process of applying for the land use right certificate for one parcel of land with a site area of 53,333.6 square meters and the building ownership certificates for 12 buildings with an aggregate gross floor area of 25,289.5 square meters.

In respect of four buildings with an aggregate gross floor area of 12,620.3 square meters located in Tianjin, we had not obtained the relevant certificates of completion before commencing operations on these properties as of the Latest Practicable Date. Prior to our acquisition, our predecessors at Shengge Bioengineering, the owner of these properties, did not fully conform to the construction plan as approved by the local land planning and construction authorities when conducting the construction, which had delayed the application for the certificates of completion. We are currently applying to amend the original construction plan, after which we will apply for the certificates of completion. We expect to incur additional cost of RMB100,000 in connection with our applications and obtain the relevant certificates likely by 2014 and at the earliest by the end of 2013. We have been advised by our PRC legal adviser that (i) the likelihood of our not receiving such certificates is remote; and (ii) upon receiving the certificates of completion, we will not be subject to fines and other penalties for failing to obtain such certificates before commencing operations. These defective properties are not crucial to our operations because only minimal production was conducted on these properties. In the event that we are required to relocate, our Directors believe that our production and operations will not be materially and adversely affected.

In respect of 30 of our owned properties with an aggregate gross floor area of 11,718.0 square meters located in Fengtai, Beijing, we had not obtained the relevant planning and construction permits for these properties as of June 30, 2013. Most of these properties had been constructed prior to our acquisition of Fert Technology. After the acquisition, we have been in active communication with the local land planning and construction authorities with a view to resolving the defects. However, we are currently unable to predict the cost and timing associated with obtaining the relevant permits and title certificates. According to the relevant PRC laws and regulations, properties constructed without requisite approvals are subject to the risk of demolition. Based on a consultation conducted by our PRC legal adviser and Jingtian Gongcheng, PRC legal adviser to [●], on July 6, 2013, with the relevant officials from Beijing Fengtai Municipal Commission of Urban Planning (北京市規劃委員會豐台分局) and Beijing

BUSINESS

Fengtai Municipal Commission of Housing and Urban-Rural Development (北京市豐台區住房和城鄉建設委員會), we understand that the properties in question have proper land use right certificate and generally conform with the local land-use planning scheme. The officials at such consultation indicated that such authorities would not seek demolition of these properties or impose sanctions on Fert Technology. Based on the foregoing, our PRC legal adviser has advised us that the risk of the government demolishing these buildings is highly remote. In addition, the majority of these properties relates to auxiliary, office and warehousing facilities, and is not crucial to our production and operations. Our Directors are of the view that replacement properties for these facilities are readily available, and estimate the total relocation cost to be less than RMB1.0 million. Therefore, our Directors believe that, in the unlikely event that the government orders us to demolish these properties, our production and operations will not be materially and adversely affected.

In respect of one parcel of our owned land with a site area of 53,333.6 square meters and its associated buildings with an aggregate gross floor area of 10,869.2 square meters in Xuzhou, Jiangsu province, we had not obtained the title certificates as of June 30, 2013. Yijia Medical, a company that we acquired in May 2013, had begun construction on this site prior to our acquisition without obtaining the land use right certificate and the planning and construction permits. We had not occupied or commenced operations on these properties as of the Latest Practicable Date. We are currently preparing documents to acquire the land in question from the local government, as we would not be able to apply for the relevant permits and title certificates without first obtaining the land use right certificate covering the buildings. We expect to incur additional cost of RMB8 million in connection with our applications and obtain the relevant permits and title certificates by the end of 2015. We have obtained a confirmation from Xinyi Municipal Bureau of Housing and Urban-Rural Development (新沂市住房和城鄉建設局), indicating that it would accept our application for title certificates after we had obtained the land use right certificate, and would not impose sanctions on Yijia Medical in the interim. Although we are subject to potential fines and other penalties for failing to obtain the relevant permits before construction, based on such confirmation, we have been advised by our PRC legal adviser that the risk of the government reclaiming the land and demolishing the buildings is remote. Our Directors believe that they do not expect any material legal impediments to obtaining the permits and title certificates of Yijia Medical. In addition, although we have become the registered shareholders of 100% equity interest in Yijia Medical, we have structured the schedule of consideration payment in our equity transfer agreement in installments, which are conditioned upon certain milestones in the receipt of such permits and title certificates. There is no deadline under the equity transfer agreement by which such permits and title certificates are required to be obtained and the remaining consideration subject to the receipt of such permits and title certificates is required to be paid. In the event that such permits and title certificates are not obtained, we would not be obligated to pay the remaining consideration that is conditional upon the receipt of such permits and title certificates, and our consideration payable would be reduced accordingly. This arrangement helps us ensure that the previous owners of Yijia Medical will

BUSINESS

assist us in obtaining the relevant permits and title certificates, and as of the Latest Practicable Date, we had only made initial payments totaling RMB7.6 million under the equity transfer agreement. We currently have no intention to occupy these buildings as our production facilities before we obtain the required permits and title certificates.

Our PRC legal adviser has advised us that the existence of title defects in a parcel of land or a building will prevent us from selling or pledging such land or building with banks as securities for mortgages.

Leased Property

As of June 30, 2013, we leased 39 properties in the aggregate gross floor area and/or site area of 23,666.0 square meters. These properties are used primarily as production facilities and offices.

In respect of eight of our leased properties with an aggregate gross floor area and/or site area of 15,485.3 square meters, our landlords have not provided us with evidence of their valid and enforceable building ownership rights, the relevant title documents or evidence of their relevant rights or authority to sub-lease such properties. These properties are primarily used as offices and warehouses and are not crucial to our production and operations. In addition, our Directors are of the view that replacement properties for these facilities are readily available, and estimate that the total relocation cost is not material. As of the Latest Practicable Date, we were not aware of any challenge being made by a third party or government authority on the titles of any of the eight leased properties which might affect our current occupation. Should disputes arise due to title encumbrances to such properties or government action, we may encounter difficulties in continuing to lease such properties and may be required to relocate. In such circumstances, our Directors are of the view that such relocations will not have an adverse effect on our business operations as these properties only contribute to a very small proportion of our revenue and that we are able to relocate to comparable alternative premises in close proximity to such properties.

In respect of 32 of our leased properties with an aggregate gross floor area of 22,324.28 square meters, we had not registered any of the relevant lease agreements as of June 30, 2013. As advised by our PRC legal adviser, non-registration of these lease agreements will not affect their legality or validity and our rights as lessees under these lease agreements remain legally recognized and protected under the PRC law.

Property under Construction

As of June 30, 2013, we had three production sites under construction, located in Pinggu, Beijing, Linyi, Shandong province and Shenzhen, Guangdong province, respectively. See “— Production Facilities — Expansion Plans.”

BUSINESS

EMPLOYEES

We had 389, 1,099, 1,431 and 1,481 employees as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively. The following table sets forth the number of employees categorized by function as of June 30, 2013.

<u>Function</u>	<u>Number of Employees</u>	<u>Percentage of Total</u> %
Production	896	60.5%
Sales and Marketing	123	8.3
Administration	79	5.3
Research and Development	76	5.1
Management	32	2.2
Others	<u>275</u>	<u>18.6</u>
Total	<u><u>1,481</u></u>	<u><u>100.0%</u></u>

The compensation we offer to our employees primarily includes base salary and bonus. In general, we determine employee compensation based on each employee’s performance, qualifications, position and seniority. We are subject to social insurance contribution plans organized by PRC local governments. In accordance with the relevant national and local labor and social welfare laws and regulations, we are required to pay, on behalf of our employees, monthly social insurance premiums covering pension insurance, medical insurance, unemployment insurance and housing reserve fund.

We believe that we have maintained good relationships with our employees. Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. We have not experienced significant labor disputes which have had or are likely to have a material adverse effect on our business operations.

ANTI-BRIBERY COMPLIANCE

Sales to distributors accounted for 100.0%, 100.0%, 97.3% and 86.1% of our total revenue, respectively, in 2010, 2011 and 2012 and the six months ended June 30, 2013. The interaction we have with hospitals is primarily for the purpose of educating doctors and orthopedic surgeons through training and seminars and collecting feedback about our products. Despite our limited interaction with hospitals and doctors, we have taken a number of measures to prevent bribery or kickback by our employees or distributors. These measures include organizing internal training programs conducted by outside experts, implementing internal policy governing our employees, and including standard anti-bribery provisions in our employee handbook. To minimize our exposure to improper conduct by our distributors, we conduct background check on prospective distributors before entering into business relationships with them. We also include standard anti-bribery provisions in our distribution

BUSINESS

agreements with distributors requiring that they not engage in any improper conduct or violation of anti-corruption laws. In addition, we recently adopted a comprehensive anti-bribery policy and code of conduct for our employees to further improve our anti-bribery practice. In accordance with our internal policy, we will initiate an investigation if we receive a report, or otherwise become aware, of any improper or suspicious conduct by our employees or distributors.

During the Track Record Period, neither we nor our directors, employees or, to our knowledge, our distributors (including their sub-distributors) were involved in any bribery or kickback arrangements.

ENVIRONMENTAL MATTERS

Under the State Environmental Protection Law, the State Environmental Protection Bureau (中華人民共和國環保部) sets the environmental standards for China, while regional environmental protection bureaus may impose more stringent requirements for local environmental protection. The relevant PRC laws and regulations require any entity operating a facility that produces pollutants or other hazards to incorporate environmental protection measures into its operations and to establish an environmental protection responsibility system, which must adopt effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials. New construction, expansion or reconstruction projects and other installations that directly or indirectly discharge pollutants to the environment are subject to relevant regulations governing environmental protection for such projects. Entities undertaking such projects must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment to the competent authorities for examination. The facilities for the prevention and control of pollutants are required to be designated, constructed and put into use or operation simultaneously with the main part of a construction project.

Our production facilities discharge pollutants such as waste water and solid wastes. Our discharge of waste water is free of corrosive substance and is channeled to local wastewater treatment plants in accordance with applicable environmental standards and subject to periodic inspections by local environmental protection authorities. We have also engaged professional waste management firms to manage the disposal of solid and hazardous wastes. To fully comply with applicable environmental laws and regulations, we have implemented stringent waste treatment procedures in certain of our production facilities, particularly with respect to the handling of hazardous wastes, such as chemicals. Due to the type and volume of our pollutant discharges, we are not required to obtain pollutant discharge permits.

In 2010, 2011 and 2012, our costs incurred for compliance with environmental obligations were approximately RMB15,000, RMB2.7 million and RMB1.0 million, respectively. We expect to spend approximately RMB0.4 million on compliance with environmental laws and regulations in 2013.

BUSINESS

We are advised by our PRC legal adviser that as of the Latest Practicable Date, except that we were still in the process of applying for the relevant environmental assessment reports for certain facilities in Tianjin, there has been no claim, administrative penalty or other kind of proceeding in respect of environmental protection and safety against us. These environmental assessment reports are required for us to obtain the title certificates for the relevant properties. For more information about such properties, see “— Property — Owned Property.”

Except as otherwise disclosed in this document, based on the compliance confirmations issued by the relevant environmental protection authorities regarding the environmental protection measures undertaken by our principal PRC operating entities, we had complied with applicable laws and regulations on environmental protection in all material respects and obtained all the requisite environmental permits and approvals for our production facilities as of the Latest Practicable Date.

LEGAL PROCEEDINGS AND COMPLIANCE

We are subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. As of the Latest Practicable Date, we were not involved in any material litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our directors that could have a material adverse effect on our business, financial condition or results of operations.

BUSINESS

Non-compliance Incidents

During the Track Record Period, we are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in the PRC. We have, from time to time, been involved in regulatory non-compliance incidents. We set out below the details of our non-compliance incidents and the primary remedial measures we adopted in response to these incidents:

Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
Our PRC subsidiary, Tianqiong Investment, had not made registration for housing provident funds as of the Latest Practicable Date.	Under the applicable PRC laws and regulations, a newly-established enterprise is required to register with the competent housing provident fund management center within 30 days of its establishment. Failure to make such registrations within the 30-day period may result in an order to rectify within a time limit, failing which a fine of up to RMB50,000 may be imposed.	We understand from our communication with the housing provident fund authority that registration may not be accepted until Tianqiong Investment is required to make housing provident fund contributions for its employees. Tianqiong Investment is an investment holding company and had no employees as of the Latest Practicable Date.	We have taken the following rectification measures: (i) strengthening legal compliance training to our management team; and (ii) enhancing our internal control.

BUSINESS

Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
Our PRC subsidiary, Tianqiong Investment, had not made registration for social insurances as of the Latest Practicable Date.	Under the applicable PRC laws and regulations, a newly-established enterprise is required to register with the competent social insurance authority within 30 days of its establishment. Failure to make such registrations within the 30-day period may result in an order to rectify within a time limit, failing which a fine of up to three times the social insurance amount that falls due may be imposed on the enterprise and/or a fine of up to RMB3,000 may be imposed on the person in charge of the responsibility of such registrations.	We understand from our communication with the local social insurance authority that registration may not be accepted until Tianqiong Investment is required to make social insurance contributions for its employees. Tianqiong Investment is an investment holding company and had no employees as of the Latest Practicable Date.	We have taken the following rectification measures: (i) strengthening legal compliance training to our management team; and (ii) enhancing our internal control.
Our predecessors at Shengge Bioengineering had commenced operations at certain facilities without obtaining the certificates of completion (including the environmental assessment report). For details, see “— Property — Owned Property” above.	Under the applicable PRC laws and regulations, an enterprise is required to obtain the certificates of completion for the construction of a facility before commencing operations on such facility. Failure to obtain such certificates before commencing operations may result in an order to rectify within a time limit, a fine of up to 4% of the contractual construction fees, and/or an order to cease operations. In addition, failure to obtain the environmental assessment report may result in a fine of up to RMB100,000 and/or an order to cease operation.	We are currently in the process of applying for the certificates of completion and other related government approvals and expect to obtain such certificates and approvals likely by 2014 and at the earliest by the end of 2013. For details, see “— Property — Owned Property” above.	As this non-compliance incident was caused primarily by our predecessors, we did not take any particular remedial action to address any current internal control issues. We are actively seeking to obtain the required permits and title certificates.

BUSINESS

Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
Our predecessors at Fert Technology had commenced the construction of certain facilities without obtaining the planning and construction permits and commenced operations at such facilities without obtaining the certificates of completion. For details, see “— Property — Owned Property” above.	Under the applicable PRC laws and regulations, an enterprise is required to obtain the planning and construction permits for the construction of a facility and obtain the certificates of completion before commencing operations at such facility. (i) Failure to obtain the planning permits may result in demolition of such facility, or if demolition is not feasible, confiscation of property or disgorgement of illegal income and a fine of up to 10% of the construction fees. (ii) Failure to obtain the construction permits may result in disgorgement of illegal income and/or a fine of up to RMB30,000. (iii) Failure to obtain the certificates of completion before commencing operations may result in order to rectify within a time limit, a fine of up to 4% of the contractual construction fees, and/or order to cease operations.	We have been in active communication with the local land planning and construction authorities and understand from our consultation with two competent land planning and construction bureaus that the risk of demolition or other sanctions is highly remote. For details, see “— Property — Owned Property” above.	As this non-compliance incident was caused primarily by our predecessors, we did not take any particular remedial action to address any current internal control issues. We are actively seeking to obtain the required permits and title certificates.

BUSINESS

Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
Our predecessors at Yijia Medical had commenced the construction of certain facilities without obtaining the land use right covering such facilities and the planning and construction permits prior to our acquisition of Yijia Medical. For details, see “— Property — Owned Property” above.	Under the applicable PRC laws and regulations, an enterprise is required to obtain the planning and construction permits before the construction of a facility. (i) Failure to obtain the planning permits may result in demolition of such facility, or if demolition is not feasible, confiscation of property or disgorgement of illegal income and a fine of up to 10% of the construction fees. (ii) Failure to obtain the construction permits may result in disgorgement of illegal income and/or a fine of up to RMB30,000.	We currently have no intention to occupy these facilities for production before we obtain the required permits and title certificates, and are preparing documents to acquire the land use right from the local government. We expect to obtain the relevant permits and title certificates by the end of 2015. Based on a written confirmation from the local land planning and construction authority, such government authority would not impose sanctions on us for construction without permits. For details, see “— Property — Owned Property” above.	As this non-compliance incident was caused primarily by our predecessors, we did not take any particular remedial action to address any current internal control issues. We are actively seeking to obtain the required permits and title certificates.

Internal Controls

Our Directors are responsible for monitoring our internal control system and for reviewing its effectiveness. In accordance with the applicable laws and regulations, we have implemented internal procedures with a view to establishing and maintaining our internal control system, including monitoring of production and operational processes, the establishment of risk management policies and procedures and compliance with local laws and regulations in both domestic and international markets, if applicable. In particular, we have implemented the following internal control procedures to strengthen our corporate governance structure:

- *Internal compliance guidelines and compliance officer.* We have implemented several new internal compliance guidelines, including a comprehensive anti-bribery policy, with the assistance of third party professional advisers, to enhance our internal compliance system and monitor the proper conducting of business. We have also appointed a compliance officer, who directly reports to our chief executive officer, Mr. JIANG Liwei, and oversees the application and maintenance of required

BUSINESS

registrations, licenses, permits and approvals for our operations. We will continue to engage third party professional advisers as necessary and work with our internal audit and legal teams to conduct regular review to ensure that all registrations, licenses, permits and approvals are valid and that the renewals of such documents are made in a timely manner.

During the Track Record Period, our Directors did not identify any material internal control weaknesses or failures.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the [●] and [●], Ms. Yufeng LIU will be interested in, through Cross Mark, approximately 34.19% of issued share capital of our Company and hence will continue to be our ultimate Controlling Shareholder.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders after the [●].

Management Independence

Our management and operational decisions are made by our Board and senior management. Our Board comprises one executive Director, three non-executive Directors and three independent non-executive Directors. Ms. Yufeng LIU does not hold any directorship in our Company or any management position of our Group, while there is no impediment for her to act as a Director under [●]. Ms. Yue’e ZHANG, daughter of Ms. Yufeng LIU, is a non-executive Director who will be not involved in the management of our daily operation. All of our executive Director and senior management who are in charge of different functions are full time officers and employees of our Group. Our executive Director has also entered into a service contract with our Company for a term of three years.

Our Board meets regularly to consider major matters affecting our operations. Each of our Directors is aware of his/her fiduciary duties as a director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and any of our Directors, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum for the relevant Board meeting. The interested Director(s) shall not attend any independent board committee meetings comprising our independent non-executive Directors only.

All our senior management members are independent from our ultimate Controlling Shareholders. They have substantial experience in the industry which we are engaged in and the majority of them have served our Group for a sufficient length of time during which period they have demonstrated their capability of discharging their duties independently from our Controlling Shareholders.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Operational Independence

All our operating subsidiaries hold all relevant licenses that are material in relation to our business operations in their own names. We have sufficient operational capacity in terms of capital, plants and machinery equipment, facilities, premises and employees to operate our business independently. We also have independent access to suppliers and customers and an independent management team to handle our day-to-day operations.

We are led by a management team with extensive experience and technical expertise in the industry that we are engaged in. The majority of our senior management team has been serving our Group since 2008. Please refer to “Directors and Senior Management” for further details.

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders during the Track Record Period and will continue to operate independently.

Financial Independence

We have an independent financial system and make financial decisions according to our own business needs. As of the [Latest Practicable Date], (i) we did not have any outstanding loans or borrowings from our Controlling Shareholders; and (ii) none of our outstanding loans or borrowings was guaranteed by our Controlling Shareholders. Our Directors confirm that we will not rely on our Controlling Shareholders for financing after the [●] as we expect that our working capital will be funded by our operating income and bank borrowings.

We have our own financial management system and ability to operate independently of our Controlling Shareholders from a financial perspective.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders.

NON-COMPETITION UNDERTAKING

Ms. Yufeng LIU, our ultimate Controlling Shareholder, confirms that she does not have any interest in any business which competes or is likely to compete, directly or indirectly, with our business and which would require disclosure under [●].

Ms. Yufeng LIU and Cross Mark (the “Covenanters”) have entered into a deed of non-competition (the “**Non-competition Deed**”) in favor of us, pursuant to which each of the Covenanters has irrevocably, jointly and severally undertaken to us that she/it would not, and that any entity controlled by her/it (except any member of our Group) would not, during the restricted period set out below, directly or indirectly, either body corporate, partnership, joint venture on her or its own account or in conjunction with or on behalf of any person, firm or

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with our existing core business (the “**Restricted Business**”).

Such non-competition undertaking does not apply in relation to:

- (a) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business which has first been offered or made available to our Company, and our Company, after review and approval by our Directors or shareholders as required under the relevant laws and regulations, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business, provided that the principal terms by which the Covenanter (or her relevant associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are not more favorable than those made available to our Company; or
- (b) any interests in the shares or equity interests of any member of our Group; or
- (c) interests in the shares of a company whose shares are listed on a recognized stock exchange, provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company’s consolidated turnover or consolidated assets, as shown in that company’s latest audited accounts; or
 - (ii) the total number of the shares held by the Covenanter and any entity controlled by her in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Covenanter together with any entity controlled by her are not entitled to appoint a majority of the directors of that company.

The “restricted period” stated in the Non-competition Deed refers to the period during which (i) our Shares remain [●] on the [●]; (ii) the Covenanter and any entity controlled by her, individually or jointly, are entitled to exercise or control the exercise of no less than 30% of the voting power at general meetings of our Company; and (iii) the Covenanter is as a director of any member of our Group.

The Covenanter has further undertaken to procure that, during the restricted period, any business investment or other commercial opportunity (the “**New Opportunity**”) in the PRC relating to the Restricted Business identified by or offered to her or any entity controlled by her, is first referred to us in the following manner:

- (a) the Covenanter is required to refer, or to procure the referral of, the New Opportunity to us, and shall give written notice (the “Offer Notice”) to us of any New Opportunity containing all information reasonably necessary for us to consider

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

whether (i) such New Opportunity would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue such New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs; and

- (b) the Covenanter will be entitled to pursue the New Opportunity only if (i) she has received a notice from us declining the New Opportunity, or (ii) she has not received such notice from us within fifteen (15) Business Days (which may be extended for a reasonable period of time as and if requested by our Board committee comprising only independent non-executive Directors (the “Independent Board Committee”)) from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunity pursued by the Covenanter, she will refer the New Opportunity as so revised to us in the manner set out above.

Upon receipt of the Offer Notice, we will seek opinions and decisions from our Independent Board Committee as to whether (i) such New Opportunity would constitute competition with our core business, (ii) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunity, and (iii) to pursue or decline the New Opportunity. Such opinions and decisions (together with their bases) from our Independent Board Committee will be disclosed in our annual reports.

Our Directors consider that our independent non-executive Directors have sufficient experience in assessing whether or not to take up any New Opportunity. Our Board committee comprising only independent non-executive Directors will also review, on an annual basis, the compliance with the Non-competition Deed by the Covenanter, the results of which will be disclosed in our annual reports. In any event, the committee formed by our independent non-executive Directors may appoint financial advisors or professional experts to provide advice, at the cost of our Company, in connection with whether to take up any New Opportunity.

The Covenanter has further undertaken to:

- (a) procure that all relevant information relating to the implementation of the Non-competition Deed in her possession and/or the possession of any of her associates be provided to us;
- (b) allow, subject to confidentiality restrictions imposed by any third party, our representatives and those of our advisers to have access to her financial and corporate records as may be necessary for us to determine whether the non-competition undertakings in the Non-competition Deed have been complied with by the Covenanter and her associates;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (c) provide us, within twenty (20) Business Days from the receipt of our written request, with a written confirmation in respect of her compliance and that of her associates with the non-competition undertakings in the Non-competition Deed and consent to the inclusion of such confirmation in our annual reports; and
- (d) provide all information necessary for the annual review by our Board committee comprising only independent non-executive Directors, and the enforcement of the Non-competition Deed.

The Covenanter (for herself and on behalf of the entities controlled by her (except for any member of our Group)) has also acknowledged that we may be required by applicable laws, regulations, rules of [●] on which we may be [●] and relevant regulatory bodies, to disclose, from time to time, information on any New Opportunity, including but not limited to the disclosure in public announcements or our annual reports of decisions made by us to pursue or decline such New Opportunity and has agreed to such disclosure to the extent necessary to comply with any such requirement.

Each of our Directors has confirmed that he/she is not engaged in any business which competes or is likely to compete, either directly or indirectly, with our business.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board of Directors currently consists of seven Directors, comprised of one executive Director, three non-executive Directors and three independent non-executive Directors. The following table sets forth information regarding the Directors.

Name	Age	Position	Date of Appointment as Director
Mr. JIANG Liwei (姜黎威)	46	Chief executive officer and executive Director ⁽¹⁾	June 21, 2013
Mr. LIN Junshan (林君山)	51	Chairman and non-executive Director ⁽²⁾	June 21, 2013
Ms. Yue’e ZHANG (張月娥)	50	Non-executive Director ⁽²⁾	May 13, 2011
Mr. FENG Dai (馮岱)	38	Non-executive Director ⁽²⁾	June 21, 2013
Mr. ZHANG Xingdong (張興棟)	75	Independent non-executive Director ⁽²⁾	October 14, 2013
Mr. CHEN Geng (陳庚)	42	Independent non-executive Director ⁽²⁾	October 14, 2013
Mr. WANG Xiaogang (王小剛)	40	Independent non-executive Director ⁽²⁾	October 14, 2013

(1) Our executive Director oversees our Group’s overall corporate strategies and management.

(2) Our non-executive Directors and independent non-executive Directors are responsible for our Group’s compliance, corporate governance, development and business strategies.

Save as disclosed below, there are no other matters concerning each of the Directors’ appointment that need to be brought to the attention of our Shareholders and there are no other matters which shall be disclosed pursuant to [●].

Executive Director

Mr. JIANG Liwei (姜黎威), aged 46, is our chief executive officer and executive Director. He is primarily responsible for the overall corporate strategies and management of our Group. Mr. JIANG has 20 years of management experience in the medical device industry. Prior to joining our Group in February 2013, Mr. JIANG was the head of China for Biomet China Co., Ltd. (邦美(上海)商貿有限公司) from 2008 to 2013 and the general manager of Trauson Medical Device (China) Co., Ltd. (創生醫療器械(中國)有限公司) from 2005 to 2008. He also held various management positions with Zimmer (Shanghai) Medical International Trading Co., Ltd. (捷邁(上海)醫療國際貿易有限公司) from 1999 to 2005 and Smith & Nephew Medical (Shanghai) Limited (施樂輝醫用產品國際貿易(上海)有限公司) from 1997 to

DIRECTORS AND SENIOR MANAGEMENT

1999. Mr. JIANG was a resident doctor for a few years upon graduation from Shanghai Second Medical University (上海第二醫科大學) (now School of Medicine, Shanghai Jiaotong University (上海交通大學醫學院)) with a bachelor’s degree in clinical medicine in July 1991.

Mr. JIANG has not been a director of any publicly listed company during the three years preceding the date of this document.

Non-executive Directors

Mr. LIN Junshan (林君山), aged 51, is our chairman and a non-executive Director. Mr. LIN joined our Group as a director of Walkman Biomaterial in April 2010, and has been a director of PWM Investment since December 2010, a director of PW Medtech (Beijing) since February 2013 and the chairman of Fert Technology since April 2013. Before joining our Group, Mr. LIN was a chief engineer and professorate senior engineer of CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd. (南車青島四方機車車輛股份有限公司) from January 2007 to June 2013. After graduation from Xi’an Jiaotong University (西安交通大學) with a doctorate degree in materials science and engineering in March 1990, Mr. LIN held various research positions in Shanghai Jiaotong University (上海交通大學), Osaka University (Japan) and Hitachi Mechanical Engineering Research Laboratory (now Hitachi Research Laboratory), Hitachi Ltd. from April 1990 to December 2006.

Mr. LIN has not been a director of any publicly listed company during the three years preceding the date of this document.

Ms. Yue’e ZHANG (張月娥), aged 50, is a non-executive Director. She is also the executive director of Cross Mark since February 2007 and a director of PWM Investment since December 2010. In addition to her roles with our Group, Ms. ZHANG currently serves as the general manager, senior engineer and executive director of WP Medical Technologies, Inc. Ms. ZHANG has worked in the medical device industry for approximately 20 years and has accumulated considerable experience in product design, research and development, and management and investment. Ms. ZHANG graduated from Xi’an Jiaotong University (西安交通大學) with a bachelor’s degree in materials science and engineering in July 1985, and later received two master’s degrees relating to material sciences and management from Xi’an University of Technology (西安理工大學) and Florida International University in July 1988 and April 1996, respectively.

WP Medical Technologies Inc., where Ms. ZHANG has been serving in multiple roles, is an investment holding company and a founding shareholder of Lepu Medical Technology (Beijing) Co., Ltd. (樂普(北京)醫療器械股份有限公司), or Lepu Medical. Lepu Medical, [●] on the Shenzhen Stock Exchange (stock code: 300003), is a high-tech medical device developer and manufacturer with a focus on cardiac therapy, whose business does not represent a competing business of our Group. Ms. ZHANG and her husband, Mr. PU Zhongjie, were among the early founders of Lepu Medical.

DIRECTORS AND SENIOR MANAGEMENT

Ms. ZHANG has not been a director of any publicly listed company during the three years preceding the date of this document. Ms. ZHANG is Ms. Yufeng LIU’s daughter.

Mr. FENG Dai (馮岱), aged 38, is a non-executive Director. He is also the chairman of Walkman Biomaterial since January 2013, a director of PWM Investment since December 2010 and a director of Fert Technology since December 2012. He also served as a director of Walkman Biomaterial from October 2010 to February 2012. In addition to his roles with our Group, Mr. FENG is currently a managing director of Warburg Pincus Asia LLC and a director of EA Inc. (時代天使生物科技有限公司), Beijing Amcare Women’s and Children’s Hospital Co., Ltd. (北京美中宜和婦兒醫院有限公司) and Lepu Medical. Prior to joining Warburg Pincus Asia LLC, Mr. FENG commenced his career with Goldman Sachs (Asia) LLC as an analyst in 1997 and an associate in 2003. Mr. FENG graduated from Harvard University with a bachelor’s degree in electrical engineering in June 1997.

Independent Non-executive Directors

Mr. ZHANG Xingdong (張興棟), aged 75, is an independent non-executive Director. He is also an independent non-executive director of LifeTech Scientific Corporation, a company listed on the Stock Exchange (stock code: 8122), since 2011. Mr. ZHANG is currently a professor at Sichuan University (四川大學), an Academician of the Chinese Academy of Engineering (中國工程院院士) and the president of the Chinese Society for Biomaterials (中國生物材料學會理事長). He has more than 10 honorary titles, including the International Union of Societies of Biomaterials Science and Engineering (國際生物材料委員會), council member of the Tissue Engineering and Regenerative Medicine International Society (Asia Pacific Chapter) (國際組織工程與再生醫學學會大陸(亞太)理事會), adviser in the Science and Technology Advisory Group for the People’s Government of Sichuan Province, chairman of National Technical Committee 248 on Biological Evaluation on Medical Device of Standardization, and chairman of National Technical Committee on Dental Materials and Devices of Standardization. Mr. ZHANG has conducted in-depth research in artificial bone and coatings which is widely recognized and applied in the PRC medical equipment. His research has received numerous awards, including the National Science and Technology Progress Award. Mr. ZHANG graduated from Sichuan University with a bachelor’s degree in solid state physics in 1960.

Mr. CHEN Geng (陳庚), aged 42, is an independent non-executive Director. Mr. CHEN is the vice president of EC-Founder (Holdings) Company Limited, a company listed on the Stock Exchange (stock code: 0618), since May 2013. He also served as its executive president from 2005 to 2006 and executive director from 2006 to May 2013. He was also an executive director of Founder Holdings Limited, a company listed on the Stock Exchange (stock code: 0418), from 2006 to 2011, the vice president of New Auto Group (新奧特集團) from 2004 to 2005 and had worked in various investment firms in China, garnering extensive experience in finance and management. Mr. CHEN has obtained the qualification of senior economist (高級經濟師) from China State Construction Engineering Corporation (中國建築工程總公司) in

DIRECTORS AND SENIOR MANAGEMENT

October 2010. He graduated from Northwest University (西北大學) with a bachelor’s degree in administrative management in July 1993 and later received an EMBA degree from Guanghua School of Management, Peking University (北京大學光華管理學院) in January 2005.

Mr. WANG Xiaogang (王小剛), aged 40, is an independent non-executive Director. Mr. WANG is currently a managing director of China Aerospace Industry Investment Fund Management (Beijing) Co., Ltd. (航天產業投資基金管理(北京)有限公司) since February 2011. He was previously a partner at PricewaterhouseCoopers Consulting (Shenzhen) Co., Ltd. (普華永道諮詢(深圳)有限公司), or PricewaterhouseCoopers Consulting, where his work focused primarily on financial advisory on investment, merger and acquisition related transactions. He joined PricewaterhouseCoopers Consulting in 1997. Mr. WANG obtained the qualification of Certified Public Accountant from Beijing Institute of Certified Public Accountants (北京註冊會計師協會) in June 1997 and the qualification to practice law in the PRC from the Ministry of Justice (司法部) in February 2007. Mr. WANG graduated from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) (now Hangzhou Dianzi University (杭州電子科技大學)) with a bachelor’s degree in accounting in July 1995, and later received a master’s degree in investment management from Sir John Cass Business School of The City University London in March 2004.

Mr. WANG has not been a director of any publicly listed company during the three years preceding the date of this document.

SENIOR MANAGEMENT

The following table presents certain information concerning the senior management personnel of our Group:

Name	Age	Position
Mr. JIANG Liwei (姜黎威)	46	Chief executive officer and executive Director
Mr. WANG Jie (王杰)	40	Chief financial officer; financial controller of Fert Technology
Mr. HUA Wei (華煒)	43	General manager of Fert Technology
Mr. HE Zhibo (何志波)	36	General manager of Walkman Biomaterial
Mr. WU Dong (吳棟)	43	General manager and the chairman of Bone Medical
Mr. CHEN Jun (陳俊)	33	General manager of Yijia Medical and the head of technology (including research and development) of Fert Technology
Mr. YE Ting (葉挺)	32	Head of sales of Walkman Biomaterial

DIRECTORS AND SENIOR MANAGEMENT

Mr. JIANG Liwei (姜黎威), aged 46, is our chief executive officer and executive Director. His biographical details are set out above under the paragraph headed “Executive Director.”

Mr. WANG Jie (王杰), aged 40, is our chief financial officer, responsible for the financial management of our Group. He also serves as the financial controller of Fert Technology. Mr. WANG has almost 20 years of experience in financial management. Prior to joining our Group in May 2012, he had held various financial and accounting positions in companies such as China Express Co., Ltd. (中經匯通有限責任公司) as its chief financial officer from 2009 to 2012, Shenzhen PARKnSHOP Superstore Co., Ltd. (深圳百佳超市有限公司) from 2006 to 2009, Shanghai Yongle Household Appliances Co., Ltd. (上海永樂家電有限公司) (now acquired by GOME Group (國美電器集團)) in 2005, and East Hope Group (東方希望集團) from 1997 to 2003. Mr. WANG graduated from Sichuan College of Commerce (四川省商業高等專科學校) with a diploma in accounting in June 1994, and received a diploma in financial management from Zhongnan University of Economics and Law (中南財經政法大學) in September 2009. Mr. WANG obtained the qualification of senior accountant (高級會計師) from Guangdong Bureau of Human Resources and Social Security (廣東省人力資源和社會保障廳) in August 2009.

Mr. WANG has not been a director of any publicly listed company during the three years preceding the date of this document.

Mr. HUA Wei (華煒), aged 43, is the general manager of Fert Technology. Prior to joining our Group in April 2011, Mr. HUA had served as an executive assistant general manager and general manager of Zhongguancun Development Hi-Tech Incubator Co., Ltd (中關村興業(北京)高科技孵化器股份有限公司) from 2002 to 2011. Mr. HUA also held various managing positions with the branch companies of Xinjiang Securities Corporation Limited (新疆證券有限責任公司) from 1995 to 2001. Mr. HUA started his career with the Shihezi branch of the People’s Bank of China (中國人民銀行石河子市分行) in 1991. Mr. HUA graduated from Changchun College of Finance (長春金融專科學校) with a diploma in finance in July 1991, and received an MBA degree from Renmin University of China (中國人民大學) in January 2009.

Mr. HUA has not been a director of any publicly listed company during the three years preceding the date of this document.

Mr. HE Zhibo (何志波), aged 36, is the general manager of Walkman Biomaterial. Prior to joining Walkman Biomaterial in August 2008, Mr. HE had served as a project engineer and sales manager with Lepu Medical from 2003 to 2008. He started his career as an assistant engineer with Beijing February Seventh Locomotive Factory Co. Ltd. (北京二七機車廠有限責任公司) in 2000. Mr. HE graduated from Central South University (中南大學) with a

DIRECTORS AND SENIOR MANAGEMENT

bachelor’s degree in manufacturing processes and equipment in June 2000, and later received a master’s degree in business administration from Beijing University of Chemical Technology (北京化工大學) in June 2013.

Mr. HE has not been a director of any publicly listed company during the three years preceding the date of this document.

Mr. WU Dong (吳棟), aged 43, is the general manager and chairman of Bone Medical. Mr. WU is the founder and has been serving as the chairman of Bone Medical since 2002. He was the general manager of Shenzhen Taigelai Industrial Co., Ltd. (深圳市泰格萊實業有限公司) from 2000 to 2002, responsible for the distribution and sales of joint products. Mr. WU graduated from Xinjiang Medical College (新疆醫學院) (now Xinjiang Medical University (新疆醫科大學)) with a bachelor’s degree in preventive medicine in July 1993.

Mr. WU has not been a director of any publicly listed company during the three years preceding the date of this document.

Mr. CHEN Jun (陳俊), aged 33, is the general manager of Yijia Medical since May 2013 and the head of technology (including research and development) of Fert Technology since April 2008. Mr. CHEN graduated from Wuhan University of Technology (武漢理工大學) with a bachelor’s degree in mechanical design and manufacturing in June 2002.

Mr. CHEN has not been a director of any publicly listed company during the three years preceding the date of this document.

Mr. YE Ting (葉挺), aged 32, is the head of sales of Walkman Biomaterial since July 2010. Mr. YE joined Walkman Biomaterial in 2004 as a technical support supervisor. He subsequently became a customer service manager in 2005 and a sales manager in 2008. Mr. YE graduated from Tianjin Medical University (天津醫科大學) with a diploma in clinical medicine in June 2001, and received his bachelor’s degree in clinical medicine from Inner Mongolia University for the Nationalities (內蒙古民族大學) in January 2006.

Mr. YE has not been a director of any publicly listed company during the three years preceding the date of this document.

COMPANY SECRETARY

Mr. William FU (傅偉霖), aged 36, is our company secretary. He is currently a manager of the corporate services division of Tricor Services Limited. He has over nine years of experience in corporate secretarial practice, providing corporate services to various private companies and public companies listed on the Stock Exchange (including H share companies). Mr. FU is a chartered secretary and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Mr. FU

DIRECTORS AND SENIOR MANAGEMENT

received a bachelor’s degree of science from the Chinese University of Hong Kong in May 1999, a bachelor’s degree of laws from the University of London (external program) in August 2002 and master’s degree of laws from the City University of Hong Kong in November 2003.

Mr. FU was appointed as the company secretary of our Company on October 14, 2013.

BOARD COMMITTEES

Audit Committee

We established an audit committee on October 14, 2013 with written terms of reference in compliance with the Corporate Governance Code as set out in [●]. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of our Group.

The audit committee comprises Mr. WANG Xiaogang, Mr. CHEN Geng and Ms. Yue’e ZHANG, and is chaired by Mr. WANG Xiaogang.

Remuneration Committee

We established a remuneration committee on October 14, 2013 with written terms of reference as suggested under the Corporate Governance Code set out in [●]. The primary functions of the remuneration committee include determining the policies in relation to human resources management, reviewing our remuneration policies and determining remuneration packages for our Directors and senior management members.

The remuneration committee comprises Mr. CHEN Geng, Mr. ZHANG Xingdong and Mr. FENG Dai, and is chaired by Mr. CHEN Geng.

Nomination Committee

We established a nomination committee on October 14, 2013 with written terms of reference as suggested under the Corporate Governance Code set out in [●]. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

The nomination committee comprises Mr. LIN Junshan, Mr. WANG Xiaogang and Mr. ZHANG Xingdong, and is chaired by Mr. LIN Junshan.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations.

DIRECTORS AND SENIOR MANAGEMENT

In each of 2010, 2011 and 2012, the aggregate amount of salaries and other allowances and benefits in kind paid by our Group to our Directors was RMB0, RMB0 and RMB0, respectively. The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which were paid or payable by our Group to our five highest paid individuals for 2010, 2011 and 2012 was approximately RMB1,298,000, RMB1,391,000 and RMB1,727,000, respectively.

No remuneration was paid to our Directors or the five highest paid individuals of our Group as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of 2010, 2011 and 2012. Further, none of our Directors had waived any remuneration during the same period.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonuses, payable to our Directors for the year ending December 31, 2013 to be no more than RMB2.0 million.

Our executive Director has entered into a service contract with our Group dated June 21, 2013 and our Group has also entered into letters of appointment with each of our non-executive Directors and independent non-executive Directors. Further details of the terms of the above service contracts and letters of appointment are set out in “Statutory and General Information — Further Information about Our Directors and [●]” as Appendix IV to this document.

SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue:

	Nominal value
	US\$
<i>Authorized Share capital:</i>	
5,000,000,000 Shares	500,000
<i>Issued Share capital:</i>	
94,274,345 Shares in issue as of the date of this document	9,427.43

RANKINGS

The [●] will be ordinary shares in the share capital of our Company and will rank equally with all Shares currently in issue or to be issued as mentioned in this document and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

GENERAL MANDATE TO ISSUE SHARES

Assuming the [●] becomes unconditional, our Directors will be granted a general mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- [●]
- the total nominal amount of our share capital repurchased by us under the mandate as mentioned in the paragraph entitled “— General Mandate to Repurchase Shares” below.

The general mandate is in addition to the powers of our Directors to allot, issue or deal with Shares under any rights issue, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend in accordance with our Articles of Association.

This general mandate to issue Shares will remain in effect until the earliest of:

- the conclusion of our Company’s next annual general meeting;
- the expiration of the period within which our Company is required by any applicable laws of the Cayman Islands or the Articles of Association to hold its next annual general meeting; or

SHARE CAPITAL

- when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to allot, issue and deal with Shares are set forth under Appendix IV entitled “Statutory and General Information — Further Information about our Group — Resolutions in Writing of the Shareholders of our Company Passed on October 14, 2013” in this document.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors will be granted a general mandate to exercise all our powers to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the [●], excluding Shares which may be issued upon the exercise of the [●].

The general mandate to repurchase Shares will remain in effect until the earliest of:

- the conclusion of our Company’s next annual general meeting;
- the expiration of the period within which our Company is required by any applicable laws of the Cayman Islands or the Articles of Association to hold its next annual general meeting; or
- when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, 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 our Company and are therefore regarded as substantial shareholders of our Company under the [●]:

<u>Name</u>	<u>Nature of Interest and Capacity</u>	<u>Number of Shares Held</u>	<u>Approximate % of Interest</u>
Ms. Yufeng LIU	Interest of a controlled corporation	547,061,863	34.19%
Cross Mark ⁽¹⁾	Beneficial owner	547,061,863	34.19%
WP X	Beneficial owner	327,148,418	20.45%
Warburg Pincus Private Equity X, L.P. ⁽²⁾	Interest of a controlled corporation	327,148,418	20.45%
Warburg Pincus X Partners L.P. ⁽²⁾	Interest of a controlled corporation	327,148,418	20.45%
Mr. Marc CHAN	Interest of a controlled corporation	232,256,544	14.52%
Right Faith ⁽³⁾	Beneficial owner	232,256,544	14.52%
Mr. LI Ngai	Interest of a controlled corporation	93,533,175	5.84%
Sparkle Wealthy ⁽⁴⁾	Beneficial owner	93,533,175	5.84%
Mr. ZHANG Zaixian ⁽⁵⁾	Interest of Spouse	547,061,863	34.19%
Ms. CHAN Hiu Kwan ⁽⁶⁾	Interest of Spouse	93,533,175	5.84%

Notes:

- (1) The entire issued share capital of Cross Mark is legally and beneficially owned by Ms. Yufeng LIU.
- (2) WP X is a wholly owned subsidiary of Warburg Pincus Private Equity X, L.P. and Warburg Pincus X Partners, L.P., which are therefore deemed to be interested in the shares held by WP X.
- (3) The entire issued share capital of Right Faith is legally and beneficially owned by Mr. Marc CHAN.
- (4) The entire issued share capital of Sparkle Wealthy is legally and beneficially owned by Mr. LI Ngai.
- (5) 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.
- (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.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed herein, our Directors are not aware of any persons who will have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, 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 our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

FINANCIAL INFORMATION

You should read this section in conjunction with our combined financial information, including the accompanying notes thereto, as set out in Appendix I — “Accountant’s Report” to this document. Our combined financial information has been prepared in accordance with [●], which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States.

Prior to May 2011, we were engaged primarily in developing, manufacturing and marketing orthopedic implant products. As a result of our acquisition of Fert Technology on April 30, 2011, we expanded into the infusion set business and began including its financial results into our combined financial statements from May 1, 2011. As a result, our results of operations in the financial periods from May 2011 are not directly comparable with previous periods.

OVERVIEW

PW Medtech is a medical device company focused on fast-growing and high-margin segments of China’s medical device industry. We engage in the following two business segments:

- **Orthopedic implants:** We sell our trauma and spine products under the “Walkman” brand and our joint products under the “Bone (博恩)” brand. We offer a full product portfolio in trauma, spine as well as hip and knee joint implants.
- **Infusion sets:** As a result of our acquisition of Fert Technology on April 30, 2011, we expanded into the infusion set business. We offer two principal types of advanced infusion sets under the “Fert (伏尔特)” brand through our subsidiary, Fert Technology: (i) precision filter infusion sets, which are designed to effectively prevent insoluble particles in infusion fluids that pose various health risks from entering the blood circulatory system of patients during infusion therapy; and (ii) non-PVC-based infusion sets with double-layer tubing, which eliminates the harmful effects of PVC additives and reduce drug absorption by the infusion sets.

FINANCIAL INFORMATION

We sell our products primarily through distributors. The following table sets forth the numbers of distributors and hospitals covered by our distribution network as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
<i>Orthopedic implants</i>				
<i>(trauma and spine)</i>				
Distributors	182	207	214	244
Hospitals	1,257	1,300	1,397	1,444
<i>Infusion sets</i>				
Distributors	33	28	182	211
Hospitals	602	765	995	1,113

Our business has expanded substantially as both of our orthopedic implant business and infusion set business grew during the Track Record Period. In 2010, 2011 and 2012, our revenue totaled RMB60.8 million, RMB175.3 million and RMB331.5 million, respectively, representing a CAGR of 133.5% over the three years. Our revenue increased by 50.1% from RMB145.8 million in the six months ended June 30, 2012 to RMB218.8 million in the same period in 2013. In 2010, 2011 and 2012, our net profit totaled RMB14.3 million, RMB49.3 million and RMB100.2 million, respectively, representing a CAGR of 164.4% over the three years. Our net profit increased by 35.2% from RMB44.6 million in the six months ended June 30, 2012 to RMB60.2 million in the same period in 2013.

Revenue of our orthopedic implant segment grew from RMB60.8 million in 2010 to RMB97.6 million in 2012, representing a CAGR of 26.7% over the three years. Revenue for this segment increased by 57.3% from RMB45.6 million in the six months ended June 30, 2012 to RMB71.7 million in the same period in 2013. Operating profit of our orthopedic implant segment increased from RMB19.4 million in 2010 to RMB37.6 million in 2012, representing a CAGR of 39.3% over the three years. Operating profit for this segment increased by 29.3% from RMB17.5 million in the six months ended June 30, 2012 to RMB22.6 million in the same period in 2013.

Fert Technology’s revenue increased from RMB88.8 million in 2010 to RMB234.0 million in 2012, representing a CAGR of 62.3% over the three years. Fert Technology’s revenue increased by 46.8% from RMB100.2 million in the six months ended June 30, 2012 to RMB147.1 million in the same period in 2013. Fert Technology’s operating profit increased from RMB27.3 million in 2010 to RMB90.9 million in 2012, representing a CAGR of 82.5% over the three years. Fert Technology’s operating profit increased by 48.0% from RMB38.2 million to RMB56.6 million in the same period in 2013.

FINANCIAL INFORMATION

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations, financial condition and the period-to-period comparability of our financial results are principally affected by the following factors:

- *Sales volume.* Our sales volume is affected by factors such as (i) the scale of our distribution network; (ii) effectiveness of our sales and marketing activities; (iii) completeness of our product portfolio; (iv) market acceptance of relatively new products, which in turn is affected by government regulation and policies; (v) coverage and reimbursement policies of China’s social health insurance system; and (vi) macro factors such as economic growth, expansion in public health investment, healthcare reform, and the aging population in China.
- *Pricing.* The average selling prices of our products, which generally increased during the Track Record Period, are affected by a number of factors, including changes in sales model, product mix and price of competing products. See “— Product mix” and “— Change in sales model” below.
- *Product mix.* The changes in our product mix have an impact on our revenue growth and profitability. As a result of our acquisition of Fert Technology, we gained a portfolio of infusion set products, which contributed significantly to our revenue growth in 2011 and 2012, but had lower gross margins than our orthopedic implant products. Furthermore, we expect sales of non-PVC-based infusion sets to become increasingly significant, driven by government policies and increasing health consciousness of the Chinese public. In addition, we acquired Bone Medical in January 2013 and expect that joint products will be an increasingly significant source of revenue. Bone Medical currently has a low production volume and generates limited sales. Consequently, the acquisition of Bone Medical has had a limited impact on our gross margin as well as our inventory level and accounts receivable. We are currently expanding production capacity at our Bone Medical facilities, and upon completion of our current expansion plan by the end of 2016, our production capacity at our these facilities will increase from 8,000 sets to 30,000 sets of hip and knee joint products per year. We expect that Bone Medical’s production efficiency will gradually increase along the ramp-up of its production and its gross margin will gradually improve to a level close to those of our trauma and spine products.
- *Change in sales model.* Prior to its acquisition by us in April 2011, Fert Technology sold its products primarily to Fert Device, a medical device distribution company under the control of Fert Technology’s ultimate shareholders. Acting as Fert Technology’s “general distributor,” Fert Device covered substantially all of Fert Technology’s market of end-customer hospitals and purchased substantially all of Fert Technology’s products and on-sold them to its own sub-distributors and direct-

FINANCIAL INFORMATION

sale hospitals. Fert Device was also responsible for conducting sales and marketing activities to promote Fert Technology’s infusion sets. In part to compensate Fert Device for these sales services, Fert Technology charged Fert Device lower prices than it offered its other distributors. Since the acquisition, we have significantly changed Fert Technology’s sales model, including reducing Fert Device’s role from its general distributor to one of regional distributor which is estimated to contribute to an increase of 5.2 percentage points in Fert Technology’s gross margin in 2012. As a result of this effort, we (i) sold directly to an increasing number of Fert Device’s sub-distributors and direct-sale hospitals to “cut out the middleman” and increase our margins as well as reduced our reliance on Fert Device; (ii) raised our selling prices for Fert Device to levels similar to what we charge other distributors; (iii) developed additional distributors and expanded our distribution network; and (iv) transitioned to conducting sales and marketing activities on our own instead of relying on Fert Device. In part due to this change in our sales model, the overall average selling price of our infusion sets had continually increased during the Track Record Period, which in turn affected our revenue and gross margins. Moreover, as we transitioned to conducting sales and marketing activities on our own, our selling expenses also increased significantly. In addition, as hospitals generally pay higher purchase prices and require longer credit periods than distributors, increased direct sales to hospitals as a percentage of our revenue have also contributed to the increase in our average selling price as well as an increase in our accounts receivable and average accounts receivable turnover days.

- *Cost of raw materials.* Raw material cost historically has been the principal component of our cost of sales. Titanium alloy, medical grade stainless steel and cobalt-chromium-molybdenum alloy are the principal raw materials for our orthopedic implant products. The principal raw materials for our infusion sets are PVC granules. As revenue of non-PVC-based infusion sets continues to grow as a percentage of our total revenue, we expect cost of TPU granules to constitute an increasing portion of our raw material cost. During the Track Record Period, our purchase prices for raw materials were generally stable except for a significant decline in the purchase price of TPU granules. Cobalt-chromium-molybdenum alloy prices are affected by steel prices, and PVC and TPU prices are affected by oil and gas prices. Accordingly, significant changes in the prices of these commodities may affect our profitability.
- *Production capacity.* In our infusion set segment, the utilization rate of our production facilities has been relatively high during the Track Record Period. In particular, the utilization rate of our infusion set production facilities was 81.5% in the six months ended June 30, 2013, which constrained our sales of infusion sets from growing at a higher rate despite strong market demand for our products. To meet the demand for increased production capacity in the short term, we recently acquired Yijia Medical in Xuzhou, Jiangsu province. In addition, we plan to further

FINANCIAL INFORMATION

expand capacity with two new facilities in Linyi, Shandong province and Pinggu, Beijing. In our orthopedic implant segment, we are currently expanding production capacity for our joint products at our newly-acquired Bone Medical facilities in Shenzhen, Guangdong province. We also plan to expand our facilities in Tianjin beginning in the third quarter of 2014. Our future growth will depend on our ability to continue to expand our production capacity and to maintain high levels of utilization.

- *Acquisitions.* We have built our business today on a strategy of selectively making acquisitions in the past, such as Fert Technology and Bone Medical. Our ability to successfully identify and integrate businesses may affect various aspects of our results of operations, such as write-offs related to the impairment of goodwill and other intangible assets, amortization expenses related to intangible assets, and assumption of legal liabilities.

BASIS OF PRESENTATION

Our Controlling Shareholders owned and controlled the companies now comprising our Group immediately before the Reorganization and continue to own and control these companies after the Reorganization. Our financial information has been prepared on a basis in accordance with the principles of the Auditing Guideline [●]. The combined balance sheets, the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of our Group for the Track Record Period have been prepared as if the current group structure had been in existence throughout the Track Record Period, since their respective dates of incorporation/establishment, or since the date when the companies first came under the control of our Controlling Shareholders, whichever is the shorter period, in a manner similar to the principles of merger accounting under Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combination” issued by the HKICPA. For companies acquired from third parties during the Track Record Period, they were included in the financial information from the respective dates of acquisition as discussed in Note 34 of the Accountant’s Report as set out in Appendix I to this document.

Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on combination.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our combined financial information requires us to make significant estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these significant assumptions and estimates could result in outcomes that

FINANCIAL INFORMATION

could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future. We have identified below the accounting policies that we believe are the most critical to our combined financial information and that involve the most significant estimates.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of our activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after elimination of sales made within our Group. We recognize 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 as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. We base our estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Sales are recognized when the risk and reward of the goods have been transferred to the customer, which is usually at the date when we have 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.

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. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% PRC withholding tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the Track Record Period, we do not have any plan to require our PRC subsidiaries to distribute their retained earnings and intend to retain them to operate and expand our business in the PRC. Accordingly, no deferred income tax liability on PRC withholding tax was accrued as of the end of each reporting period.

FINANCIAL INFORMATION

Estimated Write-downs of Inventories

We write down inventories to net realizable value based on an assessment of the realizability of inventories. Write-downs on inventories are recorded where events or changes in circumstances occur as a result of which the balances may not be realized. The identification of write-downs requires the use of judgment 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.

Impairment of Trade and Other Receivables and Impairment Provision Policy

We regularly review our trade and other receivables for objective evidence of impairment. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered as objective evidence that a receivable is impaired. In determining the impairment, we make judgments as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect on the market and economic environment in which the debtor operates. Where there is objective evidence of impairment, we further make judgments as to whether an impairment loss should be recorded as an expense.

We review the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts. Details of the impairment provision policy on our trade and other receivables are as follows:

- Receivables with amounts that are individually significant are subject to individual assessment for impairment based on some high risk profile criteria such as the historical transactions and subsequent repayment records. If there exists objective evidence that we will not be able to collect the amount under the original terms, a bad debt provision will be provided at the difference between the receivable’s carrying amount and the present value of its estimated future cash flows.
- Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics such as long aging with less repayment and transactions records. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

FINANCIAL INFORMATION

We take the following steps to assess provisions for unsettled trade and other receivables:

- Assess whether objective evidence of impairment exists for trade and other receivables of our Group that are individually significant; and
- Assess the impairment for the insignificant trade and other receivables and significant trade and other receivables with no impairment loss based on their individual assessment on a group basis by grouping the trade and other receivables with similar credit risk characteristics and collectively assess them for impairment.

Impairment of Goodwill

We test annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 3.6(a) of the Accountant’s Report as set out in Appendix I to this document. The recoverable amounts of cash-generating units, or CGU, have been determined based on value-in-use calculations. These calculations require the use of estimates.

According to the valuation results produced by management based on the assumptions as disclosed in Note 9 of the Accountant’s Report as set out in Appendix I to this document, management considered that no impairment charge was required against goodwill arising from acquisitions during the Track Record Period.

In the opinion of our Directors, regarding our infusion set business or orthopedic implant business, respectively, had the gross margin been 10% lower with other assumptions held constant, or had the terminal growth rate been 1% lower with other assumptions held constant, or had the discount rate been 1% higher with other assumptions held constant, there would be no impairment charge needed to be made against goodwill of our Group for the Track Record Period.

Useful Lives of Property, Plant and Equipment

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

FINANCIAL INFORMATION

Control of Certain Entities through Majority Voting Rights

The Controlling Shareholders originally owned 55% equity interests in our orthopedic implant business. After a series of transactions, the Controlling Shareholders’ effective equity interests were diluted to an ownership of less than 50%. However, the Controlling Shareholders still have the ability to control our orthopedic implant business through their majority voting rights, including those relating to:

- management, especially the composition of the senior management;
- business strategies and plans;
- distribution of dividends; and
- the election of the directors and supervisors.

Accordingly, these directly or indirectly owned entities engaged in our orthopedic implant business are regarded as subsidiaries and fully accounted for as such in the combined financial statements.

Sales Returns and Exchange

Our distribution agreements do not allow product returns or exchanges without our consent. However, in practice, we have historically accepted certain returns and exchanges by distributors of our orthopedic implant business. We believe that, based on past experience, the percentage of subsequent returns or exchanges will be approximately 15% of annual sales in our orthopedic implant segment. Therefore, we have recognized revenue with a corresponding provision against revenue for estimated returns with 15% of annual sales of our orthopedic segment for the Track Record Period. For a sensitivity analysis on the impact of sales returns and exchanges on our revenue, see Note 5.1(g) to the Accountant’s Report set out in Appendix I to this document.

FINANCIAL INFORMATION

DESCRIPTION OF CERTAIN COMBINED INCOME STATEMENT ITEMS

The following table sets forth a summary of our combined income statements for the period indicated. This information should be read together with our combined financial information and related notes, which have been prepared in accordance with [●] and set out in Appendix I — “Accountant’s Report” to this document. Our results of operations in any period are not necessarily indicative of results that may be expected for any future period.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue
(RMB'000 except percentages)										
(unaudited)										
Revenue	60,816	100.0%	175,267	100.0%	331,541	100.0%	145,773	100.0%	218,750	100.0%
Cost of sales	(16,629)	(27.3)	(66,150)	(37.7)	(112,694)	(34.0)	(54,521)	(37.4)	(71,360)	(32.6)
Gross profit	44,187	72.7	109,117	62.3	218,847	66.0	91,252	62.6	147,390	67.4
Selling expenses . . .	(13,071)	(21.5)	(23,405)	(13.4)	(46,821)	(14.1)	(17,900)	(12.3)	(28,542)	(13.0)
Administrative expenses	(10,621)	(17.5)	(17,708)	(10.1)	(35,603)	(10.7)	(14,668)	(10.1)	(33,272)	(15.2)
Research and development expenses	(1,153)	(1.9)	(7,064)	(4.0)	(9,512)	(2.9)	(4,651)	(3.2)	(6,614)	(3.0)
Other gains — net . .	30	0.0	866	0.5	1,570	0.5	1,687	1.2	251	0.1
Operating profit . . .	19,372	31.9	61,806	35.3	128,481	38.8	55,720	38.2	79,213	36.2
Finance income	38	0.1	201	0.1	329	0.1	71	0.1	247	0.1
Finance costs	(2,142)	(3.5)	(4,679)	(2.7)	(9,089)	(2.7)	(3,377)	(2.3)	(5,116)	(2.3)
Finance costs — net .	(2,104)	(3.5)	(4,478)	(2.6)	(8,760)	(2.6)	(3,306)	(2.2)	(4,869)	(2.2)
Profit before income tax	17,268	28.4	57,328	32.7	119,721	36.1	52,414	36.0	74,344	34.0
Income tax expense .	(2,936)	(4.8)	(7,982)	(4.6)	(19,538)	(5.9)	(7,845)	(5.4)	(14,104)	(6.4)
Profit for the year/period	14,332	23.6%	49,346	28.2%	100,183	30.2%	44,569	30.6%	60,240	27.5%

Business Segments

We conduct our operation in two business segments: orthopedic implants and infusion sets.

FINANCIAL INFORMATION

Orthopedic Implants

The following table sets forth selected segment results of operations of our orthopedic implants segment for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue
(RMB'000 except percentages)										
(unaudited)										
Segment revenue . . .	60,816	100.0%	75,379	100.0%	97,567	100.0%	45,568	100.0%	71,693	100.0%
Cost of sales	<u>(16,629)</u>	<u>(27.3)</u>	<u>(20,458)</u>	<u>(27.1)</u>	<u>(23,886)</u>	<u>(24.5)</u>	<u>(11,858)</u>	<u>(26.0)</u>	<u>(21,478)</u>	<u>(30.0)</u>
Gross profit	<u>44,187</u>	<u>72.7</u>	<u>54,921</u>	<u>72.9</u>	<u>73,681</u>	<u>75.5</u>	<u>33,710</u>	<u>74.0</u>	<u>50,215</u>	<u>70.0</u>
Selling expenses . . .	(13,071)	(21.5)	(18,385)	(24.4)	(18,017)	(18.5)	(7,526)	(16.5)	(8,170)	(11.4)
Administrative expenses	(10,621)	(17.5)	(11,805)	(15.7)	(16,651)	(17.1)	(8,766)	(19.2)	(16,288)	(22.7)
Research and development expenses	(1,153)	(1.9)	(2,252)	(3.0)	(2,397)	(2.5)	(871)	(1.9)	(3,570)	(5.0)
Other gains — net . .	<u>30</u>	<u>0.0</u>	<u>42</u>	<u>0.1</u>	<u>960</u>	<u>1.0</u>	<u>929</u>	<u>2.0</u>	<u>414</u>	<u>0.6</u>
Segment operating profit	<u>19,372</u>	<u>31.9%</u>	<u>22,521</u>	<u>29.9%</u>	<u>37,576</u>	<u>38.5%</u>	<u>17,476</u>	<u>38.4%</u>	<u>22,601</u>	<u>31.5%</u>

Infusion Sets

We acquired Fert Technology on April 30, 2011. Under [●], the financial results of Fert Technology have been included in our combined financial information since that date. For purposes of presenting Fert Technology’s results of operations, we refer to the fiscal year ended December 31, 2010 as “Predecessor Period 2010,” the period from January 1, 2011 to April 30, 2011 as “Predecessor Period 2011,” and the period from May 1, 2011 to December 31, 2011 as “Successor Period 2011.” The financial results of Fert Technology for Predecessor Period 2010 and Predecessor Period 2011 are derived from Fert Technology’s stand-alone pre-acquisition financial information while the financial results of Fert Technology for Successor Period 2011, 2012 and the six months ended June 30, 2012 and 2013 are derived from the segment financial information of our infusion set business. We present these data for information and illustrative purposes only. As we did not control the infusion set business for Predecessor Period 2010 and Predecessor Period 2011, we are not permitted under [●] to include its financial results in our combined financial statements for these periods.

FINANCIAL INFORMATION

The following table sets forth selected segment results of operations of our infusion set segment for the period indicated.

	Pre-acquisition				Post-acquisition							
	For the year ended		For the period from		For the period from							
	December 31, 2010		January 1, 2011 to		May 1, 2011 to							
			April 30, 2011		December 31, 2011							
	(Predecessor		(Predecessor		(Successor		For the year ended		For the six months		For the six months	
	Period 2010)		Period 2011)		Period 2011)		December 31, 2012		ended June 30, 2012		ended June 30, 2013	
	% of	% of			% of	% of	% of	% of				
	segment	segment			segment	segment	segment	segment				
	Amount	revenue	Amount	revenue	Amount	revenue	Amount	revenue	Amount	revenue	Amount	revenue
	(RMB'000 except percentages)				(RMB'000 except percentages)							
	(unaudited)											
Segment revenue . . .	88,809	100.0%	36,476	100.0%	99,888	100.0%	233,974	100.0%	100,205	100.0%	147,057	100.0%
Cost of sales	(51,457)	(57.9)	(16,419)	(45.0)	(45,692)	(45.7)	(88,808)	(38.0)	(42,663)	(42.6)	(49,882)	(33.9)
Gross profit	37,352	42.1	20,057	55.0	54,196	54.3	145,166	62.0	57,542	57.4	97,175	66.1
Selling expenses . . .	(1,193)	(1.3)	(1,327)	(3.6)	(5,020)	(5.0)	(28,804)	(12.3)	(10,374)	(10.4)	(20,372)	(13.9)
Administrative expenses	(5,694)	(6.4)	(1,162)	(3.2)	(5,903)	(5.9)	(18,952)	(8.1)	(5,902)	(5.9)	(16,984)	(11.5)
Research and development expenses	(3,638)	(4.1)	(839)	(2.3)	(4,812)	(4.8)	(7,115)	(3.0)	(3,780)	(3.8)	(3,044)	(2.1)
Other gains/(losses) — net	464	0.5	2,603	7.1	824	0.8	610	0.3	758	0.8	(163)	(0.1)
Segment operating profit	27,291	30.7%	19,332	53.0%	39,285	39.3%	90,905	38.9%	38,244	38.2%	56,612	38.5%

In Predecessor Period 2010, Predecessor Period 2011, Successor Period 2011, 2012 and the six months ended June 30, 2012 and 2013, Fert Technology’s revenue totaled RMB88.8 million, RMB36.5 million, RMB99.9 million, RMB234.0 million, RMB100.2 million and RMB147.1 million, respectively, and Fert Technology’s net profit totaled RMB23.2 million, RMB16.5 million, RMB31.4 million, RMB69.0 million, RMB30.1 million and RMB43.1 million, respectively. A combination of the results of the infusion set business in the successor periods with those of the infusion set business in the predecessor periods would not necessarily reflect our financial results had we acquired the infusion set business at any time during the predecessor periods.

FINANCIAL INFORMATION

Revenue

The following table sets forth the components of our revenue by business segment for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
(RMB'000 except percentages)										
(unaudited)										
Orthopedic implants	60,816	100.0%	75,379	43.0%	97,567	29.4%	45,568	31.3%	71,693	32.8%
Infusion sets	—	—	99,888	57.0	233,974	70.6	100,205	68.7	147,057	67.2
Total	<u>60,816</u>	<u>100.0%</u>	<u>175,267</u>	<u>100.0%</u>	<u>331,541</u>	<u>100.0%</u>	<u>145,773</u>	<u>100%</u>	<u>218,750</u>	<u>100.0%</u>

During the Track Record Period, we derived our revenue from sales of orthopedic implant products and infusion sets. As a result of our acquisition of Fert Technology, we have generated revenue from sales of infusion sets since May 2011.

Orthopedic Implants

We divide our orthopedic implant products into four categories — trauma, spine, joint and others. The following table sets forth the components of our orthopedic implants revenue by product category for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
(RMB'000 except percentages)										
(unaudited)										
Trauma products	44,487	73.2%	56,261	74.6%	70,178	71.9%	31,886	70.0%	51,027	71.2%
Spine products	13,229	21.8	15,374	20.4	20,867	21.4	11,100	24.4	11,475	16.0
Joint products	—	—	—	—	—	—	—	—	5,789	8.1
Others	<u>3,100</u>	<u>5.0</u>	<u>3,744</u>	<u>5.0</u>	<u>6,522</u>	<u>6.7</u>	<u>2,582</u>	<u>5.6</u>	<u>3,402</u>	<u>4.7</u>
Total	<u>60,816</u>	<u>100.0%</u>	<u>75,379</u>	<u>100.0%</u>	<u>97,567</u>	<u>100.0%</u>	<u>45,568</u>	<u>100.0%</u>	<u>71,693</u>	<u>100.0%</u>

During the Track Record Period, revenue from our orthopedic implant products primarily represented the sale of trauma and spine products. We began sales of joint products following our acquisition of Bone Medical in January 2013. The “others” category during the Track Record Period primarily consisted of trauma and spine instruments, and secondarily sales of joint products manufactured by Bone Medical, for which we acted as the general distributor in 2012.

FINANCIAL INFORMATION

We offer a wide selection of orthopedic implant products with various specifications, and our selling prices for different products vary significantly. The selling prices for our products were generally stable during the Track Record Period. In 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013, if the average selling price of orthopedic implants products had been higher or lower by 5%, the revenue, gross profit and gross margin of our orthopedic implants segment would have increased or decreased as follows, assuming all other factors remain the same:

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
	(RMB'000, except percentages)				
Revenue	60,816	75,379	97,567	45,568	71,693
+5% increase	3,041	3,769	4,878	2,278	3,585
-5% decrease	(3,041)	(3,769)	(4,878)	(2,278)	(3,585)
Gross profit	44,187	54,921	73,681	33,710	50,215
+5% increase	3,041	3,769	4,878	2,278	3,585
-5% decrease	(3,041)	(3,769)	(4,878)	(2,278)	(3,585)
Gross margin	73%	73%	76%	74%	70%
+5% increase	1%	1%	1%	1%	1%
-5% decrease	(1%)	(1%)	(1%)	(1%)	(1%)

Infusion Sets

Fert Technology primarily offers two types of advanced infusion sets: precision filter infusion sets and non-PVC-based infusion sets. The following table sets forth the components of Fert Technology's revenue by product category for the period indicated.

	Pre-acquisition				Post-acquisition							
	For the year ended December 31, 2010 (Predecessor Period 2010)	For the period from January 1, 2011 to April 30, 2011 (Predecessor Period 2011)			For the period from May 1, 2011 to December 31, 2011 (Successor Period 2011)	For the year ended December 31, 2012	For the six months ended June 30					
							2012		2013			
	(RMB'000 except percentages)				(RMB'000 except percentages) (unaudited)							
Precision filter infusion sets . . .	85,275	96.0%	34,801	95.4%	95,702	95.8%	221,059	94.5%	95,720	95.5%	137,528	93.5%
Non-PVC-based infusion sets . . .	—	—	—	—	—	—	2,915	1.2	583	0.6	4,070	2.8
Others ⁽¹⁾	3,534	4.0	1,675	4.6	4,186	4.2	10,000	4.3	3,902	3.9	5,459	3.7
Total	88,809	100.0%	36,476	100.0%	99,888	100.0%	233,974	100.0%	100,205	100.0%	147,057	100.0%

(1) Primarily consisting of precision filters sold on a standalone basis.

FINANCIAL INFORMATION

The following table sets forth the sales volume and average selling price of our precision filter infusion sets and non-PVC-based infusion sets for the period indicated.

	Pre-acquisition				Post-acquisition							
	For the year ended December 31, 2010 (Predecessor Period 2010)		For the period from January 1, 2011 to April 30, 2011 (Predecessor Period 2011)		For the period from May 1, 2011 to December 31, 2011 (Successor Period 2011)				For the year ended December 31, 2012 For the six months ended June 30			
	(Units)	(RMB)	(Units)	(RMB)	(Units)	(RMB)	(Units)	(RMB)	(Units)	(RMB)	(Units)	(RMB)
Precision filter												
infusion sets . .	33,991,676	2.5	9,602,718	3.6	23,552,260	4.1	45,791,861	4.8	22,139,004	4.3	24,772,796	5.6
Non-PVC-based												
infusion sets . .	—	—	—	—	—	—	444,952	6.6	120,796	4.8	598,270	6.8

The average selling prices of Fert Technology’s infusion sets increased during the Track Record Period, primarily reflecting a combination of factors, including (i) the change in Fert Technology’s sales model, including transitioning from sales to a single general distributor to increasing sales to multiple distributors and hospitals directly and (ii) an increase in percentage of sales derived from products with additional features which generally command higher prices. In Predecessor Period 2010, Predecessor Period 2011, Successor Period 2011, 2012 and the six months ended June 30, 2012 and 2013, if the average selling price of infusion sets had been higher or lower by 5% or 15%, Fert Technology’s revenue, gross profit and gross margin would have increased or decreased as follows, assuming all other factors remain the same:

	For the year ended December 31, 2010 (Predecessor Period 2010)	For the period from January 1, 2011 to April 30, 2011 (Predecessor Period 2011)	For the period from May 1, 2011 to December 31, 2011 (Successor Period 2011)	For the year ended December 31, 2012	For the six months ended June 30,	
					2012	2013
(RMB’000, except percentages)						
Revenue	88,809	36,476	99,888	233,974	100,205	147,057
+5% increase . .	4,440	1,824	4,994	11,699	5,010	7,353
–5% decrease . .	(4,440)	(1,824)	(4,994)	(11,699)	(5,010)	(7,353)
+15% increase . .	13,321	5,471	14,983	35,096	15,031	22,059
–15% decrease . .	(13,321)	(5,471)	(14,983)	(35,096)	(15,031)	(22,059)
Gross profit	37,352	20,057	54,196	145,166	57,542	97,175
+5% increase . .	4,440	1,824	4,994	11,699	5,010	7,353
–5% decrease . .	(4,400)	(1,824)	(4,994)	(11,699)	(5,010)	(7,353)
+15% increase . .	13,321	5,471	14,983	35,096	15,031	22,059
–15% decrease . .	(13,321)	(5,471)	(14,983)	(35,096)	(15,031)	(22,059)
Gross margin	42%	55%	54%	62%	57%	66%
+5% increase . .	3%	2%	2%	2%	2%	2%
–5% decrease . .	(3%)	(2%)	(2%)	(2%)	(2%)	(2%)
+15% increase . .	8%	6%	6%	5%	6%	4%
–15% decrease . .	(10%)	(8%)	(8%)	(7%)	(8%)	(6%)

FINANCIAL INFORMATION

Cost of Sales

Our cost of sales consists of material costs, labor costs and other costs. Material costs primarily consist of costs incurred for the purchase of raw materials and consumables used in production and inventory impairment. Labor costs primarily consist of compensation and benefits we provide to our employees. Other costs primarily consist of rental expenses, taxes and surcharges, and depreciation.

Orthopedic Implants

The following table sets forth the components of material costs in our orthopedic implant segment by nature for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB'000 except percentages)						(unaudited)			
Titanium alloy materials . . .	2,228	83.9%	3,707	92.0%	3,692	69.7%	1,824	67.7%	2,044	34.9%
Processed joint casting	—	—	—	—	—	—	—	—	395	6.7
Titanium alloy casting	—	—	—	—	—	—	—	—	372	6.4
Others ⁽¹⁾	426	16.1	321	8.0	1,607	30.3	869	32.3	3,047	52.0
Total material costs	2,654	100.0%	4,028	100.0%	5,299	100.0%	2,693	100.0%	5,858	100.0%

- (1) The category of “others” primarily includes UHMWPE (ultra-high-molecular-weight polyethylene) plates for joint products and other consumables and materials for trauma and spine products which are highly diverse raw materials with a wide range of unit prices based on specifications.

During the Track Record Period, our material costs increased in line with the increase in sales of our products. During the Track Record Period, cost of titanium alloy materials represented the single largest component of our material costs in this segment and the price of titanium alloy materials has been relatively stable. Cost of titanium alloy materials as a percentage of total material costs in this segment decreased from 92.0% in 2011 to 70.0% in 2012 primarily due to our purchase and resale of joint products produced by Bone Medical as its general distributor in 2012, the cost for which is accounted for under “others” category. Cost of titanium alloy materials as a percentage of total material costs decreased from 68.0% in the six months ended June 30, 2012 to 35.0% in the same period in 2013, primarily due to our sale of joint products as a result of our acquisition of Bone Medical in January 2013. Bone Medical’s joint products are made of more types of materials than trauma and spine products. In addition, the decrease was also attributable to an increase in our purchase of components processed by third parties, which could shorten our production lead-time.

FINANCIAL INFORMATION

Infusion Sets

The following table sets forth the components of material costs in our infusion sets segment by nature for the period indicated.

	Pre-acquisition				Post-acquisition							
	Year ended		Period from		Period from May 1,				Year ended			
	December 31, 2010		January 1, 2011 to		2011 to December				December 31, 2012			
	(Predecessor Period		(Predecessor Period		31, 2011 (Successor				For the six months ended June 30,			
	2010)		2011)		Period 2011)				2012			
	(RMB'000 except percentages)				(RMB'000 except percentages)				(unaudited)			
PVC and TPU												
granules	12,291	38.2%	3,935	37.8%	10,950	37.8%	21,175	37.1%	10,187	39.7%	12,806	36.1%
Needles	3,121	9.7	866	8.3	2,411	8.3	4,303	7.5	2,068	8.1	2,204	6.2
Membranes	1,746	5.4	708	6.8	1,971	6.8	4,108	7.2	1,974	7.7	1,560	4.4
Others ⁽¹⁾	15,000	46.7	4,895	47.1	13,620	47.1	27,523	48.2	11,414	44.5	18,910	53.3
Total material costs	32,158	100.0%	10,404	100.0%	28,952	100.0%	57,109	100.0%	25,643	100.0%	35,480	100.0%

(1) The category of “others” primarily includes cost of packaging, chemicals and other consumables and materials.

Raw materials and components for our infusion set products primarily include PVC and TPU granules, needles, membranes and other materials. During the Track Record Period, costs of PVC and TPU granules represented the single largest component of our raw material costs in this segment. The price of PVC granules was relatively stable during the Track Record Period while the price of TPU granules had declined in 2012. Cost of PVC and TPU granules as a percentage of the total material costs in this segment decreased from 40.0% in the six months ended June 30, 2012 to 36.0% in the same period in 2013, primarily due to an increase in sales of infusion sets with new features using additional materials.

FINANCIAL INFORMATION

Gross Profit and Gross Margin

The following table sets forth our gross profit and gross margin by business segment for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin
(RMB'000 except percentages)										
(unaudited)										
Orthopedic implants . . .	44,187	72.7%	54,921	72.9%	73,681	75.5%	33,710	74.0%	50,215	70.0%
Infusion sets	—	—	54,196	54.3	145,166	62.0	57,542	57.4	97,175	66.1
Total	<u>44,187</u>	<u>72.7%</u>	<u>109,117</u>	<u>62.3%</u>	<u>218,847</u>	<u>66.0%</u>	<u>91,252</u>	<u>62.6%</u>	<u>147,390</u>	<u>67.4%</u>

Operating Expenses

Our operating expenses primarily consist of selling expenses, administrative expenses, and research and development expenses. The following table sets forth the components of our operating expenses for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue
(RMB'000 except percentages)										
(unaudited)										
Selling expenses	13,071	21.5%	23,405	13.4%	46,821	14.1%	17,900	12.3%	28,542	13.0%
Administrative expenses	10,621	17.5	17,708	10.1	35,603	10.7	14,668	10.1	33,272	15.2
Research and development expenses	1,153	1.9	7,064	4.0	9,512	2.9	4,651	3.2	6,614	3.0
Other gains — net. . . .	(30)	(0.0)	(866)	(0.5)	(1,570)	(0.5)	(1,687)	(1.2)	(251)	(0.1)
Total	<u>24,815</u>	<u>40.9%</u>	<u>47,311</u>	<u>27.0%</u>	<u>90,366</u>	<u>27.2%</u>	<u>35,532</u>	<u>24.4%</u>	<u>68,177</u>	<u>31.2%</u>

FINANCIAL INFORMATION

Selling Expenses

Our selling expenses primarily consist of employee compensation, advertising and promotion and transportation and business development. The following table sets forth the components of our selling expenses for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
(RMB'000 except percentages)										
(unaudited)										
Employee compensation	2,415	18.5%	4,336	18.5%	7,211	15.4%	2,775	15.5%	10,483	36.7%
Advertising and promotion	7,703	58.9	12,478	53.3	28,853	61.6	11,548	64.5	11,696	41.0
Transportation and business development	1,267	9.7	1,395	6.0	2,866	6.1	1,042	5.8	1,921	6.7
Others	1,686	12.9	5,196	22.2	7,891	16.9	2,535	14.2	4,442	15.6
Total	<u>13,071</u>	<u>100.0%</u>	<u>23,405</u>	<u>100.0%</u>	<u>46,821</u>	<u>100.0%</u>	<u>17,900</u>	<u>100.0%</u>	<u>28,542</u>	<u>100.0%</u>

Administrative Expenses

Our administrative expenses primarily consist of employee compensation, transportation and entertainment expenses, office and communication and other expenses. The following table sets forth the components of our administrative expenses for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
(RMB'000 except percentages)										
(unaudited)										
Employee compensation	5,532	52.1%	10,632	60.0%	17,869	50.2%	5,681	38.7%	10,222	30.7%
Transportation and entertainment	1,012	9.5	1,316	7.4	3,440	9.7	1,199	8.2	1,677	5.0
Office and communication	497	4.7	787	4.4	2,375	6.7	1,379	9.4	1,644	4.9
Others ⁽¹⁾	3,580	33.7	4,973	28.2	11,919	33.4	6,409	43.7	19,729	59.4
Total	<u>10,621</u>	<u>100.0%</u>	<u>17,708</u>	<u>100.0%</u>	<u>35,603</u>	<u>100.0%</u>	<u>14,668</u>	<u>100.0%</u>	<u>33,272</u>	<u>100.0%</u>

(1) The category of “others” primarily includes provision for doubtful debt, rental expenses, depreciation and professional services.

FINANCIAL INFORMATION

Research and Development Expenses

Our research and development expenses primarily consist of expenditure on research and product development activities. We apply a conservative policy in capitalizing research and development expenditures and did not capitalize any research and development expenses during the Track Record Period.

Other Gains — net

Other net gains primarily consist of government grants and gains or losses on disposal of property, plant and equipment. Government grants represent grants and subsidies received from the local government in relation to encouragement of technical innovation activities carried out by us.

Finance Income

Our finance income primarily consists of interest income on short-term bank deposits.

Finance Costs

Our finance costs primarily represent interest expenses on bank borrowings, deemed interest on an interest-free loan from a related party in connection with our Reorganization, bank charges and net foreign exchange loss.

Income Tax Expense

Income tax expense represents current and deferred income tax.

We are not subject to any income tax in the Cayman Islands. Our subsidiaries incorporated in Hong Kong were subject to Hong Kong profit tax at a rate of 16.5% during the Track Record Period.

Our subsidiaries located in mainland China, other than Fert Technology and Walkman Biomaterial, were subject to PRC corporate income tax at a rate of 25% on the assessable profits generated during the Track Record Period. Fert Technology and Walkman Biomaterial qualified as “High and New Technology Enterprises” under the PRC income tax law and were entitled to a preferential income tax rate of 15% on their estimated assessable profits during the Track Record Period. Their qualification as “High and New Technology Enterprises” is valid through 2014. We intend to apply for renewal of such qualification thereafter but there is no assurance that our application will succeed.

Our income tax expenses were RMB2.9 million, RMB8.0 million, RMB19.5 million, RMB7.8 million and RMB14.1 million in 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013, respectively, and our effective income tax rate was 17.0%, 13.9%, 16.3%, 15.0% and 19.0% during those periods, respectively.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

Due to the acquisition of Fert Technology in April 2011, our results of operations for the years ended December 31, 2010, 2011 and 2012 are not directly comparable to each other. See “— Factors Affecting Our Results of Operations and Financial Condition — Acquisitions.”

Six months ended June 30, 2013 compared to six months ended June 30, 2012

Revenue

Our total revenue increased by 50.1% from RMB145.8 million in the six months ended June 30, 2012 to RMB218.8 million in the same period in 2013. This increase reflected an increase in revenue from both our orthopedic implant and infusion set businesses.

Orthopedic implants

Revenue from our orthopedic implant business increased by 57.3% from RMB45.6 million in the six months ended June 30, 2012 to RMB71.7 million in the same period in 2013 primarily due to our increased sales of trauma implant products. Specifically, revenue from trauma products increased by 60.0% to RMB51.0 million in the six months ended June 30, 2013, or 71.2% of the segment revenue, as compared to RMB31.9 million in the same period in 2012, or 70.0% of the segment revenue. The increase in our revenue from trauma products was primarily attributable to sales of bridge-link fixation products, which have been well received by hospitals since we introduced them to the market in early 2013. In addition, we acquired Bone Medical in January 2013 and generated revenue of RMB5.8 million from sales of Bone Medical’s joint implant products, which also contributed to the increase in our revenue from orthopedic implant products. Revenue from spine products increased by 3.4% to RMB11.5 million in the six months ended June 30, 2013, or 16.0% of the segment revenue, as compared to RMB11.1 million in the same period in 2012, or 24.4% of the segment revenue. Our revenue from spine implant products grew at a lower rate than our trauma products primarily because we were preparing for the release of upgraded models of certain spine products in the second half of 2013 and 2014. Revenue from our other orthopedic products increased by 31.8% to RMB3.4 million in the six months ended June 30, 2013, compared to RMB2.6 million in the same period in 2012, in part due to sales of certain third-party orthopedic implant products carried by Bone Medical. Moreover, the increase in our revenue from the orthopedic implant business was also attributable to (i) the growth of the PRC orthopedic market; (ii) increased recognition and market acceptance for our products; and (iii) the continuing expansion of our distribution network. Other than our newly introduced bridge-link fixation products, the prices of our orthopedic implant products remained relatively stable in the six months ended June 30, 2012 and 2013.

FINANCIAL INFORMATION

Infusion sets

Revenue from sales of infusion sets increased by 46.8% from RMB100.2 million in the six months ended June 30, 2012 to RMB147.1 million in the same period in 2013, due to an increase in both our sales volume and average selling price. Our sales volume increased by 14.0% due to increased demand for our products and the continuing expansion of our distribution network. However, our production capacity constraints prevented our sales volume from increasing at a higher rate. In the six months ended June 30, 2013, the utilization rate of our infusion production facilities was 81.5%. The average selling price of our infusion sets increased from RMB4.3 per set in the six months ended June 30, 2012 to RMB5.6 per set in the same period in 2013, primarily due to a combination of (i) the change in our sales model, which resulted in an increase in our direct sales to hospitals for which we charged higher prices than sales to distributors and (ii) an increase in the percentage of sales derived from our non-PVC-based infusion sets and other infusion sets with additional features which generally command higher prices.

Cost of sales

Our cost of sales increased by 30.9% from RMB54.5 million in the six months ended June 30, 2012 to RMB71.4 million in the same period in 2013. This increase was due to increased cost of sales of both our orthopedic implant and infusion set business.

Cost of sales of our orthopedic implant segment increased by 81.1% from RMB11.9 million in the six months ended June 30, 2012 to RMB21.5 million in the same period in 2013. The increase was primarily attributable to increased labor costs, raw material costs and depreciation. The increase in labor costs was due to an increase in both of our employee headcount and our average employee compensation. The increase in our raw material costs was attributable to our increased sales volume and a slight increase in our purchase prices of raw materials, including primarily titanium and titanium alloys. In addition, increased depreciation resulting from the addition of new production equipment also contributed to the increase in our cost of sales.

Cost of sales of our infusion set segment increased by 16.9% from RMB42.7 million in the six months ended June 30, 2012 to RMB49.9 million in the same period in 2013. This increase was primarily attributable to our increased labor costs, which in turn was attributable to our increased employee headcount and average employee compensation. To a lesser extent, the increase in cost of sales was also attributable to an increase in raw material costs, which in turn was primarily attributable to our increased sales volume.

FINANCIAL INFORMATION

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 61.5% from RMB91.3 million in the six months ended June 30, 2012 to RMB147.4 million in the same period in 2013. Our gross margin increased from 62.6% in the six months ended June 30, 2012 to 67.4% in the same period in 2013, due to an increase in the gross margins of our infusion set business partially offset by a decrease in the gross margin of our orthopedic implant business.

Our gross profit of our orthopedic implant business increased by 49.0% from RMB33.7 million in the six months ended June 30, 2012 to RMB50.2 million in the same period in 2013. The gross margin of our orthopedic implant business decreased from 74.0% in the six months ended June 30, 2012 to 70.0% in the same period in 2013, primarily due to a combination of (i) our increased labor costs, (ii) the slight increase in our purchase prices of raw materials, including primarily titanium and titanium alloys, (iii) increased depreciation resulting from the addition of new production equipment, and (iv) our sales of joint products, which had lower gross margins than our trauma and spine products due to Bone Medical’s limited production scale. In the six months ended June 30, 2013, the gross margins of our trauma, spine and joint products were 73.6%, 74.0% and 52.5%, respectively. Excluding our joint implant products, the gross margin of our orthopedic implant products would have been 71.6%.

The gross profit for infusion set business increased by 68.9% from RMB57.5 million in the six months ended June 30, 2012 to RMB97.2 million in the same period in 2013. The gross margin of our infusion set business increased from 57.4% in the six months ended June 30, 2012 to 66.1% in the same period in 2013. This increase in gross margin in the six months ended June 30, 2013 was primarily due to an increase in our average selling price while our average cost of sales remained relatively stable.

Selling expenses

Our selling expenses increased by 59.5% from RMB17.9 million in the six months ended June 30, 2012 to RMB28.5 million in the same period in 2013. This increase was primarily attributable to an increase in the selling expenses for our infusion set segment.

Our selling expenses for the orthopedic implant segment increased by 8.6% from RMB7.5 million in the six months ended June 30, 2012 to RMB8.2 million in the same period in 2013. This increase was primarily due to an increase in employee compensation, which in turn reflected both our increased employee headcount to support our growing business and the average employee compensation.

Our selling expenses for the infusion set segment increased by 96.4% from RMB10.4 million in the six months ended June 30, 2012 to RMB20.4 million in the same period in 2013, primarily due to an increase in employee compensation, which in turn reflected both our increased employee headcount to support our growing business and the average employee compensation. Increases in advertising and promotion expenses as well as other components of

FINANCIAL INFORMATION

our selling expenses of the infusion set business also contributed to the overall increase in selling expenses, due to our continued efforts to expand our distribution network and promote our non-PVC-based and other infusion sets with additional advanced features, as well as our increased direct sales to hospitals.

Administrative expenses

Our administrative expenses increased by 126.8% from RMB14.7 million in the six months ended June 30, 2012 to RMB33.3 million in the same period in 2013. This increase was primarily attributable to our incurrence of [●] expenses of RMB7.5 million and increases in other administrative expenses of both our orthopedic implant and infusion set segments.

Our administrative expenses for the orthopedic implant segment increased by 85.8% from RMB8.8 million in the six months ended June 30, 2012 to RMB16.3 million in the same period in 2013. This increase was primarily due to the allocation of [●] expenses of RMB1.2 million to our orthopedic implant segment, increases in employee compensation and other expenses, such as rental expenses and bad debt provision as a result of our business expansion.

Our administrative expenses for the infusion set segment increased by 187.8% from RMB5.9 million in the six months ended June 30, 2012 to RMB17.0 million in the same period in 2013, primarily due to the allocation of [●] expenses of RMB6.3 million to our infusion set segment and an increase in employee compensation driven by our business growth.

Research and development expenses

Research and development expenses increased by 42.2% from RMB4.7 million in the six months ended June 30, 2012 to RMB6.6 million in the same period in 2013, primarily due to our increased research and development activities.

Other gains — net

Other net gains decreased by 85.1% from RMB1.7 million in the six months ended June 30, 2012 to RMB0.3 million in the same period in 2013, primarily due to a decrease in government grants. Government grants decreased from RMB1.0 million in the six months ended June 30, 2012 to RMB0.2 million in the same period in 2013 due to the non-recurring nature of government grants.

Finance income

Our finance income increased from RMB71,000 in the six months ended June 30, 2012 to RMB247,000 in the same period in 2013, primarily due to an increase in our short-term bank deposits.

FINANCIAL INFORMATION

Finance costs

Our finance costs increased by 51.5% from RMB3.4 million in the six months ended June 30, 2012 to RMB5.1 million in the same period in 2013. This increase was primarily attributable to the interest on our bank borrowings in the six months ended June 30, 2013 and an increase in our net foreign exchange loss. We had total bank borrowings of RMB97.3 million as of June 30, 2013 while did not have any outstanding bank borrowings as of June 30, 2012.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by 41.8% from RMB52.4 million in the six months ended June 30, 2012 to RMB74.3 million in the same period in 2013.

Income tax expense

Our income tax expense increased by 79.8% from RMB7.8 million in the six months ended June 30, 2012 to RMB14.1 million in the same period in 2013, primarily attributable to our increased profit before tax. Our effective income tax rate increased from 15.0% in the six months ended June 30, 2012 to 19.0% in the same period in 2013 primarily because we did not recognize deferred tax assets in respect of losses incurred by certain subsidiaries and part of the [●] expenses incurred by us was not deductible for income tax purposes.

Profit for the period

As a result of the foregoing, our profit increased by 35.2% from RMB44.6 million in the six months ended June 30, 2012 to RMB60.2 million in the same period in 2013.

Year ended December 31, 2012 compared to year ended December 31, 2011

Revenue

Our total revenue increased by 89.2% from RMB175.3 million in 2011 to RMB331.5 million in 2012. This increase reflected an increase in revenue from our orthopedic implant business and our acquisition of Fert Technology.

Orthopedic implants

Revenue from our orthopedic implant business increased by 29.4% from RMB75.4 million in 2011 to RMB97.6 million in 2012, with revenue increasing in each of our product categories. Specifically, revenue from trauma products increased by 24.7% to RMB70.2 million in 2012, or 71.9% of the segment revenue, as compared to RMB56.3 million in 2011, or 74.6% of the segment revenue. Revenue from spine products increased by 35.7% to RMB20.9 million in 2012, or 21.4% of the segment revenue, as compared to RMB15.4 million in 2011, or 20.4%

FINANCIAL INFORMATION

of the segment revenue. The demand for our spine implant products as a percentage of our revenue increased at a higher rate than our trauma products primarily due to our introduction of several new spine products in 2012. Revenue from our other orthopedic products increased by 74.2% to RMB6.5 million, as compared to RMB3.7 million in 2011, partly due to commencement of sales of Bone Medical’s joint products as its distributor in 2012. This overall increase in revenue from our orthopedic implant business primarily reflected an increase in the sales volume of these products, which in turn was primarily attributable to increased sales to existing distributors as a result of (i) increasing sales and marketing activities, (ii) increased recognition and market acceptance for our products, (iii) continuing expansion of our product portfolio, and (iv) growth of the China orthopedic market. To a lesser extent, our revenue increase in this segment was also attributable to the continuing expansion of our distribution network, with 214 distributors covering 1,397 hospitals as of December 31, 2012, increasing from 207 distributors covering 1,300 hospitals as of December 31, 2011. The selling prices of our orthopedic implant products were relatively stable in 2011 and 2012.

Infusion sets

Revenue from sales of infusion sets was RMB36.5 million in Predecessor Period 2011, RMB99.9 million in Successor Period 2011, and RMB234.0 million in 2012. This increase primarily reflected an increase in the sales volume of these products, which in turn was primarily due to a significant expansion of our distribution network, with 182 distributors covering 995 hospitals as of December 31, 2012, increasing from 28 distributors and 765 hospitals as of December 31, 2011. The average selling price of our products also increased during this period, primarily reflecting a combination of (i) the change in our sales model, which reduced the layer of distributors, resulting in an increase in our average selling price and, (ii) an increase in percentage of sales derived from products with additional features which generally command higher prices. The overall average selling price of Fert Technology’s infusion sets increased from RMB2.5 per set in Predecessor Period 2010 to RMB3.6 per set in Predecessor Period 2011, to RMB4.1 per set in Successor Period 2011, and further to RMB4.9 per set in 2012.

Cost of sales

Our cost of sales increased by 70.4% from RMB66.2 million in 2011 to RMB112.7 million in 2012. This increase primarily reflected our increased sales volume of orthopedic implant products and our acquisition of Fert Technology.

Cost of sales for orthopedic implants increased by 16.8% from RMB20.5 million in 2011 to RMB23.9 million in 2012 primarily attributable to an increase in raw material costs, which in turn was primarily attributable to our increased sales volume. To a lesser extent, the increase in cost of sales was also attributable to our increased labor costs, resulting from our increased employee headcount and average employee compensation.

FINANCIAL INFORMATION

Cost of sales for infusion sets was RMB16.4 million in Predecessor Period 2011, RMB45.7 million in Successor Period 2011, and RMB88.8 million in 2012. This increase was primarily attributable to an increase in raw material costs, which in turn was primarily attributable to our increased sales volume. To a lesser extent, the increase in cost of sales was also attributable to our increased labor costs, resulting from our increased employee headcount and average employee compensation.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 100.6% from RMB109.1 million in 2011 to RMB218.8 million in 2012. Our gross margin increased from 62.3% in 2011 to 66.0% in 2012, due to an increase in our gross margin for both orthopedic implant and infusion set products.

Our gross profit for orthopedic implants increased by 34.2% from RMB54.9 million in 2011 to RMB73.7 million in 2012. Our gross margin for orthopedic implants increased from 72.9% in 2011 to 75.5% in 2012, primarily due to increasing economies of scale, as our cost of sales incurred in this segment, including labor costs and raw material costs, increased less significantly than our revenue.

Our gross profit for infusion sets was RMB20.1 million in Predecessor Period 2011, RMB54.2 million in Successor Period 2011, and RMB145.2 million in 2012. In those same periods, gross margin for infusion sets was 55.0%, 54.3% and 62.0%, respectively. This increase in gross margin in 2012 was due to a combination of (i) our increased sales of infusion sets with additional features which generally command higher margins, and (ii) the change in our sales model, which reduced the layer of distributors and contributed to an increase in our average selling price.

Selling expenses

Our selling expenses increased by 100.0% from RMB23.4 million in 2011 to RMB46.8 million in 2012. This increase was primarily attributable to our acquisition of Fert Technology and the increase in marketing efforts by Fert Technology, partially offset by a slight decrease in the selling expenses for our orthopedic implant segment.

Our selling expenses for the orthopedic implant segment decreased to RMB18.0 million in 2012 from RMB18.4 million in 2011, as we organized several major events to promote our products in 2011, which significantly increased our selling expenses in that year.

Our selling expenses for the infusion set segment totaled RMB1.3 million, RMB5.0 million and RMB28.8 million in Predecessor Period 2011, Successor Period 2011 and 2012, respectively. As we continuously promote new infusion sets with additional features, we

FINANCIAL INFORMATION

increased our investment in marketing efforts. In addition, as part of the change in its sales model, Fert Technology transitioned to conducting marketing activities itself from relying on Fert Device to market and promote its products.

Administrative expenses

Our administrative expenses increased by 101.1% from RMB17.7 million in 2011 to RMB35.6 million in 2012. This increase was primarily attributable to the growth of our orthopedic implant business and acquisition of Fert Technology.

Our administrative expenses for the orthopedic implant segment increased by 41.1% from RMB11.8 million in 2011 to RMB16.7 million in 2012, primarily due to the growth of our orthopedic implant business.

Our administrative expenses for the infusion set segment totaled RMB1.2 million, RMB5.9 million and RMB19.0 million in Predecessor Period 2011, Successor Period 2011 and 2012, respectively. The increase in administrative expenses in 2012 was primarily due to increases in employee headcount and our business growth.

Research and development expenses

Our research and development expenses increased by 34.7% from RMB7.1 million in 2011 to RMB9.5 million in 2012. This increase was primarily due to our increased research and development activities and our acquisition of Fert Technology.

Other gains — net

Other net gains increased by 81.3% from RMB0.9 million in 2011 to RMB1.6 million in 2012. This increase was primarily attributable to an increase in government grants, partially offset by our loss on disposal of property, plant and equipment in 2012. Government grants increased from RMB0.3 million in 2011 to RMB4.7 million in 2012, primarily because we were recognized by a number of government-funded programs that provide subsidies and grants to high-technology and innovative companies. We recorded loss on disposal of property, plant and equipment of RMB0 and RMB3.3 million in 2011 and 2012, respectively. Our loss on disposal of property, plant and equipment in 2012 was primarily attributable to the obsolescing of certain equipment we acquired as part of our acquisition of Fert Technology.

Finance income

We recorded finance income of RMB0.2 million and RMB0.3 million in 2011 and 2012, respectively, reflecting an increase in short-term bank deposits.

FINANCIAL INFORMATION

Finance costs

Our finance costs increased by 94.3% from RMB4.7 million in 2011 to RMB9.1 million in 2012. This increase was primarily due to an increase of deemed interest on the interest-free loan received from a related party in connection with our Reorganization and an increase in net foreign exchange loss. We recorded deemed interest of RMB5.7 million on this interest-free loan. In addition, we incurred interest expenses of RMB0.5 million in 2012, due to new bank borrowings in 2012, which also contributed to the increase in finance costs.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by 108.8% from RMB57.3 million in 2011 to RMB119.7 million in 2012.

Income tax expense

Our income tax expense increased by 144.8% from RMB8.0 million in 2011 to RMB19.5 million in 2012, primarily attributable to our increased profit before tax. Our effective income tax rate increased from 13.9% in 2011 to 16.3% in 2012 primarily because we did not recognize deferred tax assets in respect of losses incurred by certain subsidiaries.

Profit for the year

As a result of the foregoing, our profit for the year increased by 103.0% from RMB49.3 million in 2011 to RMB100.2 million in 2012.

Year ended December 31, 2011 compared to year ended December 31, 2010

Revenue

Our total revenue increased by 188.2% from RMB60.8 million in 2010 to RMB175.3 million in 2011. The increase reflected the growth of our orthopedic implant business and our acquisition of Fert Technology in April 2011.

Orthopedic implants

Revenue from our orthopedic implant business increased by 23.9% from RMB60.8 million in 2010 to RMB75.4 million in 2011. This increase primarily reflected an increase in the sales volume of these products, which in turn was primarily attributable to increased sales to existing distributors as a result of (i) increasing sales and marketing activities, (ii) increased recognition and market acceptance for our products, (iii) continuing expansion of our product portfolio, and (iv) growth of the China orthopedic market. Our revenue increase in this segment was also attributable to the continuing expansion of our distribution network, with 207 distributors

FINANCIAL INFORMATION

covering 1,300 hospitals as of December 31, 2011, increasing from 182 distributors covering 1,257 hospitals as of December 31, 2010. The selling prices of our orthopedic implant products were relatively stable in 2010 and 2011.

Infusion sets

We acquired Fert Technology in April 2011 and generated revenue of RMB99.9 million from this newly acquired business in Successor Period 2011.

Cost of sales

Our cost of sales increased by 297.8% from RMB16.6 million in 2010 to RMB66.2 million in 2011. This increase primarily reflected our acquisition of Fert Technology and, to a lesser extent, increased sales volume of our orthopedic implant products. Our cost of sales for the infusion set segment totaled RMB45.7 million.

Cost of sales for our orthopedic implant segment increased by 23.0% from RMB16.6 million in 2010 to RMB20.5 million in 2011, reflecting primarily an increase in raw material costs, which in turn was primarily attributable to our increased sales volume.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 146.9% from RMB44.2 million in 2010 to RMB109.1 million in 2011. Fert Technology generated gross profit of RMB54.2 million in Successor Period 2011. Gross profit of our orthopedic implant segment increased by 24.3% from RMB44.2 million in 2010 to RMB54.9 million in 2011.

Our gross margin decreased from 72.7% in 2010 to 62.3% in 2011, primarily due to our acquisition of Fert Technology, which had a lower gross margin than that of our orthopedic implant business. Our gross margin for orthopedic implants remained relatively stable at 72.7% in 2010 and 72.9% in 2011. Our gross margin for infusion sets was 54.3% in Successor Period 2011.

Selling expenses

Our selling expenses increased by 79.1% from RMB13.1 million in 2010 to RMB23.4 million in 2011. This increase was due to (i) an increase in the selling expenses of our orthopedic implant business and (ii) our acquisition of Fert Technology. We recorded RMB5.0 million of selling expenses from Fert Technology in 2011.

Selling expenses of our orthopedic implant business increased by 40.7% from RMB13.1 million in 2010 to RMB18.4 million in 2011, primarily due to our increased advertising and promotion expenses, as we organized several major events to promote our products in 2011.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses increased by 66.7% from RMB10.6 million in 2010 to RMB17.7 million in 2011, primarily due to our acquisition of Fert Technology. We recorded RMB5.9 million of administration expenses from Fert Technology in Successor Period 2011.

In addition, administrative expenses for our orthopedic implants increased by 11.1% from RMB10.6 million in 2010 to RMB11.8 million in 2011, primarily due to increased employee compensation as a result of our business expansion, which also contributed to the increase in our total administration expenses.

Research and development expenses

Our research and development expenses increased by 512.7% from RMB1.2 million in 2010 to RMB7.1 million in 2011, primarily due to our acquisition of Fert Technology. We recorded RMB4.8 million of research and development expenses from Fert Technology in 2011.

Research and development expenses for orthopedic implants increased by 95.3% from RMB1.2 million in 2010 to RMB2.3 million in 2011, primarily due to our increased research and development activities, which also contributed to the increase in our total research and development expenses.

Other gains — net

We recorded other net gains of RMB30,000 and RMB0.9 million in 2010 and 2011, respectively. The increase was primarily due to our receipt of government grants of RMB0.3 million in 2011, as compared to RMB0 in 2010.

Finance income

We recorded finance income of RMB38,000 in 2010 and RMB0.2 million in 2011, reflecting an increase in short-term bank deposits in connection with our acquisition of Fert Technology.

Finance costs

Our finance costs increased by 118.4% from RMB2.1 million in 2010 to RMB4.7 million in 2011. In 2011, we incurred a net foreign exchange loss of RMB1.1 million as compared to RMB1.4 million in 2010. In addition, we had interest expense on bank borrowings of RMB0.7 million in 2010. We recorded deemed interest of RMB3.6 million on an interest-free loan received from a related party in connection with our acquisition of Fert Technology in 2011.

FINANCIAL INFORMATION

Profit before income tax

As a result of the foregoing, our profit before income tax increased by 232.0% from RMB17.3 million in 2010 to RMB57.3 million in 2011.

Income tax expense

Our income tax expense increased by 171.9% from RMB2.9 million in 2010 to RMB8.0 million in 2011, primarily due to our increased profit before tax. Our effective income tax rate decreased from 17.0% in 2010 to 13.9% in 2011, primarily due to a combination of (i) additional tax deduction for research and development expenses incurred by Fert Technology, (ii) smaller expenses not deductible for tax purpose, and (iii) larger tax deductible expenses incurred by certain of our PRC subsidiaries with a higher applicable income tax rate.

Profit for the year

As a result of the foregoing, our profit for the year increased by 244.3% from RMB14.3 million in 2010 to RMB49.3 million in 2011.

FINANCIAL INFORMATION

DISCUSSION OF CERTAIN ITEMS FROM THE COMBINED BALANCE SHEETS

The following table sets forth our combined balance sheets as of the date indicated. This information should be read together with our combined financial information included in Appendix I — “Accountant’s Report” to this document.

	As of December 31,			As of
	2010	2011	2012	June 30,
	(RMB’000)			2013
Non-current assets				
Land use rights	2,732	2,672	31,161	52,237
Property, plant and equipment	45,735	104,945	115,177	174,387
Intangible assets	67	198,572	207,331	320,588
Available-for-sale financial assets	—	100	—	—
Investments in structured products	—	—	3,000	—
Deferred income tax assets	1,408	4,007	5,925	6,957
Long-term prepayments	6,444	39,253	109,004	20,776
Total non-current assets	<u>56,386</u>	<u>349,549</u>	<u>471,598</u>	<u>574,945</u>
Current assets				
Inventories	15,445	54,702	72,994	76,709
Amounts due from related parties	1,790	8,000	395	2,546
Trade and other receivables	30,585	68,767	161,203	214,074
Restricted cash	11	—	2,657	4,158
Cash and cash equivalents	62,750	61,142	212,466	142,192
Total current assets	<u>110,581</u>	<u>192,611</u>	<u>449,715</u>	<u>439,679</u>
Current liabilities				
Amounts due to related parties	7,034	120,000	108,153	13,885
Trade and other payables	27,853	60,402	242,715	105,135
Current income tax liabilities	3,554	5,499	6,955	11,435
Borrowings	—	—	30,000	97,318
Total current liabilities	<u>38,441</u>	<u>185,901</u>	<u>387,823</u>	<u>227,773</u>
Net current assets	<u>72,140</u>	<u>6,710</u>	<u>61,892</u>	<u>211,906</u>
Total assets less current liabilities	128,526	356,259	533,490	786,851
Non-current liabilities				
Deferred income tax liabilities	—	10,661	8,389	16,678
Amounts due to related parties	—	92,350	—	—
Deferred income	—	—	400	2,362
Total non-current liabilities	<u>—</u>	<u>103,011</u>	<u>8,789</u>	<u>19,040</u>
Net assets	<u>128,526</u>	<u>253,248</u>	<u>524,701</u>	<u>767,811</u>

FINANCIAL INFORMATION

Land Use Rights

Our land use rights represent prepaid operating lease payments for land located in China and used primarily for manufacturing and administrative purposes. We had land use rights in the amount of RMB2.7 million, RMB2.7 million, RMB31.2 million and RMB52.2 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The increase in the six months ended June 30, 2013 was primarily attributable to land use rights held by Yijia Medical, which we acquired in May 2013, and additional land use rights associated with our facilities in Linyi, Shandong. The significant increase in 2012 was due to the acquisition of the land use rights associated with our facilities in Pinggu, Beijing in June 2012.

Property, Plant and Equipment

Our property, plant and equipment primarily consist of buildings, leasehold improvements, furniture and office equipment, machinery and equipment, motor vehicles and construction in progress. We had property, plant and equipment in the amount of RMB45.7 million, RMB104.9 million, RMB115.2 million and RMB174.4 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our property, plant and equipment increased from RMB115.2 million as of December 31, 2012 to RMB174.4 million as of June 30, 2013, primarily attributable to our facilities under construction in Linyi, Shandong province and our acquisition of Bone Medical and Yijia Medical in January and May 2013, respectively. Our property, plant and equipment increased from RMB45.7 million as of December 31, 2010 to RMB104.9 million as of December 31, 2011, primarily due to our acquisition of Fert Technology in April 2011.

Intangible Assets

Our intangible assets primarily consist of goodwill, computer software, trademarks and technology know-how. We had intangible assets in the amount of RMB67,000, RMB198.6 million, RMB207.3 million and RMB320.6 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our intangible assets increased from RMB207.3 million as of December 31, 2012 to RMB320.6 million as of June 30, 2013, primarily due to our acquisition of Bone Medical and Yijia Medical and the resulting recognition of the associated goodwill. Our intangible assets increased from RMB198.6 million as of December 31, 2011 to RMB207.3 million as of December 31, 2012, primarily due to our acquisition of Renli Orthopedic in May 2012, which we subsequently disposed of in September 2013. See “History and Corporate Development — History and Development — History of Our Orthopedic Implant Business — Acquisition and Disposition of Certain Other Subsidiaries.” Our intangible assets increased from RMB67,000 as of December 31, 2010 to RMB198.6 million as of December 31, 2011, primarily due to our acquisition of Fert Technology in April 2011 and the resulting recognition of the associated goodwill.

FINANCIAL INFORMATION

We recognized a significant amount of goodwill in connection with our acquisition of Fert Technology primarily due to (i) our acquired ability to gain access and operate in the fast growing PRC infusion sets market through Fert Technology; (ii) its leading market position in the advanced infusion set market and geographical coverage; (iii) its skilled workforce which benefited the acquired business; and (iv) expected synergies with our existing business, with which we expected to be able to increase the profitability and future return of the acquired business.

In connection with our acquisition of Fert Technology and Bone Medical, we recorded their patents as intangible assets (technology know-how) on our balance sheet based on our assessment of their fair value. We did not capitalize any patents during the Track Record Period primarily because the costs associated with its research and development activities resulting in the patents cannot be reliably measures.

Long-term Prepayments

The following table sets forth the components of our long-term prepayments as of the date indicated.

	As of December 31,			As of
	2010	2011	2012	June 30,
	(RMB'000)			2013
Prepayments for property, plant and equipment	6,444	3,988	16,695	20,499
Prepayment for land use right	—	17,000	—	—
Prepayment for acquisition of subsidiaries.	—	18,000	82,000	—
Prepayment for capital contribution to set up a subsidiary	—	—	10,000	—
Others	—	265	309	277
Total	<u>6,444</u>	<u>39,253</u>	<u>109,004</u>	<u>20,776</u>

Our long-term prepayments increased from RMB39.3 million as of December 31, 2011 to RMB109.0 million as of December 31, 2012, primarily due to a combination of (i) prepayments made for the acquisition of Bone Medical, (ii) prepayments made for the purchase of certain property, plant and equipment to expand our business, and (iii) prepayments made for the capital contribution in Shandong Fert, our subsidiary set up in 2013 to hold our infusion facilities in Linyi, Shandong province. Our long-term prepayments increased from RMB6.4 million as of December 31, 2010 to RMB39.3 million as of December 31, 2011, primarily due to a combination of (i) prepayments made for the acquisition of Renli Orthopedic and (ii) prepayments made for the purchase of the land use right associated with our infusion sets manufacturing facilities.

FINANCIAL INFORMATION

Inventories

Our inventories include raw materials, work in progress and finished goods. The following table sets forth the components of our inventories as of the date indicated (which are stated net of provision) and our turnover of average inventories for the period indicated.

	<u>As of and for the year ended December 31,</u>			<u>As of and for the six months ended June 30,</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(RMB'000 except turnover days)			
Raw materials	3,826	14,946	21,604	25,075
Work in progress	1,644	10,080	14,930	26,763
Finished goods	<u>9,975</u>	<u>29,676</u>	<u>36,460</u>	<u>24,871</u>
Total	<u>15,445</u>	<u>54,702</u>	<u>72,994</u>	<u>76,709</u>
Turnover of average inventories (days) ⁽¹⁾	304	194	207	191

(1) Average inventories equal inventories at the beginning of the period plus inventories at the end of the period, divided by two. Turnover of average inventories equal average inventories divided by cost of sales and multiplied by the number of days in the period.

Our inventories totaled RMB15.4 million, RMB54.7 million, RMB73.0 million and RMB76.7 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The increase during these periods was primarily due to a combination of acquisitions and the organic growth of operations. As of August 31, 2013, RMB22.0 million out of our inventories as of June 30, 2013 were sold.

FINANCIAL INFORMATION

Orthopedic implants

The table below sets forth the components of our inventories for orthopedic implants as of the date indicated, as well as the turnover of average inventories for orthopedic implants for the period indicated.

	<u>As of and for the year ended December 31,</u>			<u>As of and for the six months ended June 30,</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(RMB'000 except turnover days)			
Raw materials	3,826	3,535	7,943	10,210
Work in progress	1,644	2,559	6,525	13,239
Finished goods	<u>9,975</u>	<u>11,719</u>	<u>25,472</u>	<u>21,741</u>
Total	<u>15,445</u>	<u>17,813</u>	<u>39,940</u>	<u>45,190</u>
Turnover of average inventories (days) ⁽¹⁾	304	297	441	362

(1) Average inventories equal inventories at the beginning of the period plus inventories at the end of the period, divided by two. Turnover of average inventories equals average inventories divided by cost of sales and multiplied by the number of days in the period.

As of August 31, 2013, RMB4.0 million out of our inventory balance for the orthopedic implant business as of June 30, 2013 were sold.

Our inventories increased from RMB39.9 million as of December 31, 2012 to RMB45.2 million as of June 30, 2013, primarily due to our business growth and to a lesser extent our acquisition of Bone Medical in January 2013. Our inventory turnover days decreased to 362 days in the six months ended June 30, 2013 from 441 days in 2012 because our sales grew at a higher rate than our inventories and our improved inventory management. In addition, our average inventory turnover days were long in 2012 and the six months ended June 30, 2013 due to a combination of (i) our acquisition of Renli Orthopedic in 2012; (ii) our purchase of joint products from Bone Medical for which we acted as the general distributor in December 2012; (iii) our accumulation of inventories to support our increased production and sales; and (iv) our acquisition of Bone Medical in January 2013. Our business grew significantly in 2012 and we increased our inventories to support our growing production and sales. These factors increased our average inventories, and consequently our average inventory turnover days, in 2012 and the six months ended June 30, 2013. As of December 31, 2012, we recorded inventories attributable to Renli Orthopedic and Bone Medical in the amount of RMB8.1 million and RMB5.8 million, respectively. As of June 30, 2013, we recorded inventories attributable to Renli Orthopedic and Bone Medical in the amount of RMB8.7 million and RMB12.6 million, respectively. We disposed of Renli Orthopedic in September 2013.

FINANCIAL INFORMATION

The increase in our inventories from RMB17.8 million as of December 31, 2011 to RMB39.9 million as of December 31, 2012 and the increase in inventory turnover days from 297 days in 2011 to 441 days in 2012 was primarily due to a combination of (i) our acquisition of Renli Orthopedic in May 2012; (ii) our purchase of joint products from Bone Medical for which we acted as the general distributor in December 2012; and (iii) our accumulation of inventories to support our increased production and sales. We did not distribute Bone Medical’s products in 2011.

The increase in our inventories from RMB15.4 million as of December 31, 2010 to RMB17.8 million as of December 31, 2011 was primarily due to the growth of our orthopedic implant business. Our inventory turnover days for orthopedic implants decreased from 304 days in 2010 to 297 days in 2011, primarily due to the significant increase in sales which led to faster inventory turnover. See also “Business — Inventory Management.”

The table below sets forth the aging analysis for orthopedic implants as of the date indicated.

	As of December 31,			As of and for the six months ended June 30,
	2010	2011	2012	2013
	(RMB'000)			
Within one year	11,510	13,449	31,153	33,187
Over one year but within two years	3,863	3,082	3,544	6,063
Over two years	<u>72</u>	<u>1,282</u>	<u>5,243</u>	<u>5,940</u>
Total	<u>15,445</u>	<u>17,813</u>	<u>39,940</u>	<u>45,190</u>

FINANCIAL INFORMATION

Infusion sets

The table below sets forth a summary of Fert Technology’s inventory balances as of the date indicated, as well as the turnover of average inventories for infusion sets for the period indicated.

	Pre-acquisition		Post-acquisition		
	As of and for the year ended December 31, 2010 (Predecessor Period 2010)	As of and for the period ended April 30, 2011 (Predecessor Period 2011)	As of and for the period ended December 31, 2011 (Successor Period 2011)	As of and for the year ended December 31, 2012	As of and for the six months ended June 30, 2013
	(RMB'000 except turnover days)		(RMB'000 except turnover days)		
Raw materials	12,756	11,588	11,411	13,661	14,865
Work in progress	4,263	5,696	7,521	8,405	13,524
Finished goods	5,041	7,846	17,957	10,988	3,130
Total	22,060	25,130	36,889	33,054	31,519
Turnover of average inventories (days) ⁽¹⁾	150	175	165	144	118

(1) Average inventories equal inventories at the beginning of the period plus inventories at the end of the period, divided by two. Turnover of average inventories equal average inventories divided by cost of sales and multiplied by the number of days during such period.

As of August 31, 2013, our inventories with a total carrying amount of approximately RMB18.0 million, representing part of the ending balance of infusion set business as of June 30, 2013, were sold.

Inventories increased from RMB25.1 million as of April 30, 2011 to RMB36.9 million as of December 31, 2011 primarily because we intentionally increased our inventories in anticipation of stronger market demand. Inventories decreased from RMB36.9 million as of December 31, 2011 to RMB33.1 million as of December 31, 2012, and further to RMB31.5 million as of June 30, 2013, primarily due to high market demand for our products which led to a continual decrease in our finished goods, partially offset by increases in our raw materials and work in progress as we sought to increase production to meet market demand. Accordingly, Fert Technology’s inventory turnover days decreased from 165 days in Successor Period 2011 to 144 days in 2012, and further to 118 days in the six months ended June 30, 2013. See also “Business — Inventory Management.”

FINANCIAL INFORMATION

The table below sets forth the aging analysis for infusion sets as of the date indicated.

	Pre-acquisition		Post-acquisition		
	As of December 31, 2010 (Predecessor Period 2010)	As of April 30, 2011 (Predecessor Period 2011)	As of December 31, 2011 (Successor Period 2011)	As of December 31, 2012	As of June 30, 2013
	(RMB'000)		(RMB'000)		
Within one year	20,910	23,853	35,110	32,213	31,469
Over one year but within two years	658	714	1,002	718	50
Over two years	492	563	777	123	—
Total	22,060	25,130	36,889	33,054	31,519

Trade and Other Receivables

The table below sets forth the components of our trade and other receivable balances as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Trade receivables	24,707	61,779	135,805	198,328
Less: provision for impairment of trade receivables	(1,703)	(2,767)	(4,569)	(9,298)
Trade receivables — net	23,004	59,012	131,236	189,030
Bills receivable	1,255	4,759	9,096	1,156
Prepayments	3,293	1,614	11,623	13,609
Other receivables	3,033	3,382	9,248	10,279
Total	30,585	68,767	161,203	214,074

Trade Receivables

Our trade receivable balances represented the outstanding amounts receivable by us from our customers. Our trading terms with our customers vary depending on a number of factors, including their historical payments, business performance and market positions. See “Business — Sales and Distribution — Distributor Management.”

FINANCIAL INFORMATION

The following table sets forth the aging analysis of our trade receivable balances as well as the trade receivable turnover days for the period indicated.

	<u>As of and for the year ended December 31,</u>			<u>As of and for the six months ended June 30,</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(RMB'000 except turnover days)			
Up to three months	9,057	28,792	84,698	103,610
Three to six months	4,867	11,397	18,951	46,858
Six months to 12 months	6,633	12,051	20,766	23,381
One to two years	2,447	5,752	5,869	14,985
Two to three years	—	1,020	952	196
Total	<u>23,004</u>	<u>59,012</u>	<u>131,236</u>	<u>189,030</u>
Turnover of average trade receivable (days) ⁽¹⁾ . . .	121	89	105	134

(1) Average trade receivables equal trade receivables (net of impairment) at the beginning of the period plus trade receivables at the end of the period, divided by two. Turnover of average trade receivables equals average trade receivables divided by revenue and then multiplied by the number of days in the period.

As of August 31, 2013, RMB46.3 million out of our trade receivables of June 30, 2013, had been collected.

Pursuant to the distribution agreements with our distributors, we granted credit limits to certain distributors of our orthopedic implant products and a combination of credit limits and credit terms to certain distributors of our infusion set products. See “Business — Sales and Distribution — Distribution Management.” As of December 31, 2010, 2011, 2012 and June 30, 2013, the average amount of trade receivables per distributor that were not settled for not exceeding the relevant credit limits was RMB0.1 million, RMB0.2 million, RMB0.3 million and RMB0.4 million, respectively.

We have taken into account the impact on our working capital position when granting the credit limits to the distributors. During the Track Record Period, we did not experience any difficulties in working capital requirement and maintained sufficient cash flow to support our operation through product sales and capital contribution by our shareholders.

FINANCIAL INFORMATION

Orthopedic implants

The table below sets forth the aging analysis of our trade receivables for orthopedic implants as of the date indicated, as well as the turnover of average trade receivables for orthopedic implants for the period indicated.

	As of and for the year ended December 31, 2010 2011 2012 2013				Subsequent settlement of trade receivables outstanding as of June 30, 2013 by August 31, 2013
	(RMB'000 except turnover days)				(unaudited)
Up to three months	9,057	6,143	15,644	40,545	8,759
Three to six months	4,867	11,065	8,631	18,898	1,870
Six to 12 months	6,633	12,051	20,420	16,741	1,851
One to two years	2,447	5,752	5,869	14,985	1,407
Two to three years	—	1,020	952	179	—
Over three years	—	—	—	17	—
Total	<u>23,004</u>	<u>36,031</u>	<u>51,516</u>	<u>91,365</u>	<u>13,887</u>
Turnover of average trade receivable (days)	121	143	164	182	N/A

As of August 31, 2013, RMB13.9 million out of our trade receivables for the orthopedic implant business as of June 30, 2013 had been collected.

Our trade receivables increased from RMB23.0 million as of December 31, 2010 to RMB36.0 million as of December 31, 2011, to RMB51.5 million as of December 31, 2012 and further to RMB91.4 million as of June 30, 2013, primarily due to increased sales. The increase in our trade receivables was also attributable to the following factors: (i) as a general trend in the industry, hospitals have increasingly required longer time to pay suppliers as settlement cycles of the PRC public medical insurance schemes have been increasing in recent years, which in turn affects our distributors’ ability to pay us quickly; (ii) we granted higher credit limits to certain qualified distributors, which primarily include existing distributors with good payment histories, to gain additional market share. Our acquisition of Bone Medical in January 2013 also contributed to the increase in our trade receivables. As of June 30, 2013, we had trade receivables of RMB4.3 million attributable to sales of products produced by Bone Medical; and (iii) the increase in our trade receivables as of June 30, 2013, including the increase in our trade receivables aged over more than one year, also reflected our general practice of increasing collection efforts at year ends. Our trade receivables for orthopedic implants aged over six months totaled RMB27.2 million as of December 31, 2012. As of June

FINANCIAL INFORMATION

30, 2013, RMB7.3 million of such trade receivables outstanding as of December 31, 2012 had been settled and a provision of RMB4.6 million was made for impairment, resulting in a balance of trade receivables aged over one year of RMB15.2 million as of June 30, 2013. Based on our historical business relationship with the relevant customers, their financial condition and the prevailing market condition, we believe that such provision of RMB4.6 million is sufficient. The amount of our trade receivables and trade receivable turnover days from December 31, 2011 to December 31, 2012 were also affected by our acquisition of Renli Orthopedic in May 2012.

For similar reasons as those discussed above, our trade receivable turnover days increased from 121 days in 2010 to 143 days in 2011, to 164 days in 2012, and further to 182 days in the six months ended June 30, 2013.

Infusion sets

The table below sets forth the aging analysis of the trade receivable balances for infusion sets as of the date indicated, as well as the turnover of average trade receivables for infusion sets for the period indicated.

	Pre-acquisition		Post-acquisition			
	As of and for the year ended December 31, 2010 (Predecessor Period 2010)	As of and for the period ended April 30, 2011 (Predecessor Period 2011)	As of and for the period ended December 31, 2011 (Successor Period 2011)	As of and for the year ended December 31, 2012	As of and for the six months ended June 30, 2013	Subsequent settlement of trade receivables outstanding as of June 30, 2013 by August 31, 2013
	(RMB'000 except turnover days)		(RMB'000 except turnover days)			
						(unaudited)
Up to three months . . .	801	1,557	22,649	69,054	63,065	19,132
Three to six months . . .	914	476	332	10,320	27,960	10,608
Six months to 12 months	331	—	—	346	6,640	2,693
One to two years	1,363	—	—	—	—	—
Two to three years	—	—	—	—	—	—
Over three years	—	—	—	—	—	—
Total	<u>3,409</u>	<u>2,033</u>	<u>22,981</u>	<u>79,720</u>	<u>97,665</u>	<u>32,433</u>
Turnover of average trade receivable (days)	19	12	32	80	110	N/A

As of August 31, 2013, RMB32.4 million out of our trade receivables for the infusion set business as of June 30, 2013 had been collected.

FINANCIAL INFORMATION

Our trade receivables increased substantially from RMB23.0 million as of December 31, 2011 to RMB79.7 million as of December 31, 2012, and further to RMB97.7 million as of June 30, 2013, primarily reflecting a significant increase in sales. Fert Technology’s turnover days of trade receivables gradually increased since its acquisition by us in April 2011 primarily reflected a combination of (i) the change in our sales model, including increasing direct sales to hospitals which require significantly longer credit periods than distributors; and (ii) our granting of credit limits to additional qualified distributors to expand our sales. As of December 31, 2011, 2012 and June 30, 2013, the average amount of trade receivables per distributor that were not settled for not exceeding the relevant credit limits was RMB0.8 million, RMB0.3 million and RMB0.3 million.

Prepayments

Our prepayments totaled RMB3.3 million, RMB1.6 million, RMB11.6 million and RMB13.6 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our prepayments increased as of June 30, 2013 compared to as of December 31, 2012 primarily due to increased prepayments to our suppliers generally in line with our business growth. Our prepayments increased from RMB1.6 million as of December 31, 2011 to RMB11.6 million as of December 31, 2012, primarily due to an increase in prepayments in connection with the purchase of joint products from Bone Medical for which we acted as the general distributor.

Other Receivables

Other receivables mainly consist of advances to employees and deposits paid to advances to Fert Device. Other receivables totaled RMB3.0 million, RMB3.4 million, RMB9.2 million and RMB10.3 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our other receivables increased from RMB9.2 million as of December 31, 2012 to RMB10.3 million as of June 30, 2013, primarily due to prepayments of certain [●] expenses and an increase in advances to employees. Our other receivables increased from RMB3.4 million as of December 31, 2011 to RMB9.2 million as of December 31, 2012, primarily due to advances to Fert Device.

We believe that we have made sufficient provision for the unsettled trade and other receivables based on our assessment and impairment provision policy, and no additional provision is necessary for the Track Record Period. For details of our impairment provision policy, see “— Critical Accounting Policies and Estimates — Impairment of Trade and Other Receivables and Impairment Provision Policy.”

FINANCIAL INFORMATION

Receivables from/Payables to Related Parties

The following table sets forth a breakdown of the balances of material transactions with related parties as of the date indicated.

	As of December 31,			As of
	2010	2011	2012	June 30,
	(RMB'000)			2013
Receivables from related parties — current				
ZHANG Wendong	128	8,000	383	—
Zhong Jian Kang Da	—	—	12	1,012
Cross Mark.	1,662	—	—	—
Shenzhen HaoHao	—	—	—	1,534
	<u>1,790</u>	<u>8,000</u>	<u>395</u>	<u>2,546</u>
Payables to related parties — current				
ZHANG Wendong	—	120,000	98,030	—
Zhong Jian Kang Da	—	—	10,123	11,496
Cross Mark.	7,034	—	—	—
Wu Dong	—	—	—	2,389
	<u>7,034</u>	<u>120,000</u>	<u>108,153</u>	<u>13,885</u>
— Non-current				
ZHANG Wendong	—	92,350	—	—

The amounts due to Mr. ZHANG Wendong as of December 31, 2011 were comprised of (i) the balance of a shareholder loan of RMB100.0 million to PW Medtech (Beijing) by Mr. ZHANG Wendong in connection with our acquisition of Fert Technology, which was due in April 2013, and (ii) a consideration of RMB120.0 million arising from our acquisition of PW Medtech (Beijing) from Mr. ZHANG Wendong in September 2011, which consideration was paid in 2012. For more details, see “History and Corporate Development — History of Our Infusion Set Business.”

Amounts due to Zhong Jian Kang Da as of December 31, 2012 totaled RMB10.1 million and were part of the liabilities we assumed in our acquisition of Renli Orthopedic in May 2012. These amounts do not bear interest and are payable on demand.

We have settled all the payables to related parties and all the non-trade receivables from related parties prior to the date of this document.

FINANCIAL INFORMATION

Trade and Other Payables

The following table sets forth a breakdown of our trade and other payables as of the date indicated.

	As of December 31,			As of
	2010	2011	2012	June 30,
	(RMB'000)			2013
Trade payables	3,883	14,678	16,014	24,395
Salary and staff welfare payables	2,964	16,525	18,341	15,087
Advances from customers	10,487	20,222	20,561	13,785
Interest payables	—	—	160	644
Consideration payables for transaction with non-controlling interests	—	—	180,000	10,000
Consideration payable for acquisition of a subsidiary	—	—	—	10,400
Value added tax and other taxes	4,032	5,810	4,170	8,691
Deposits of distributors	—	137	721	1,102
Payables for purchase of land use right. . .	—	—	1,000	9,981
Bills payable.	—	—	230	1,027
[●] expense payable	—	—	—	7,025
Other payables	6,487	3,030	1,518	2,998
	<u>27,853</u>	<u>60,402</u>	<u>242,715</u>	<u>105,135</u>

Trade Payables

Our trade payables increased from RMB16.0 million as of December 31, 2012 to RMB24.4 million as of June 30, 2013, primarily due to the organic expansion of our operations and the consolidation of Bone Medical’s trade payables into our Group following the acquisition in January 2013. Our trade payables increased from RMB14.7 million as of December 31, 2011 to RMB16.0 million as of December 31, 2012, primarily due to organic expansion of operations and the consolidation of Renli Orthopedic’s trade payables into our Group following its acquisition in May 2012. Our trade payables increased from RMB3.9 million as of December 31, 2010 to RMB14.7 million as of December 31, 2011, primarily due to the consolidation of Fert Technology’s trade payables into our Group following its acquisition in April 2011.

FINANCIAL INFORMATION

The following table sets forth the aging analysis of our trade payables as of the date indicated as well as the trade payable turnover days for the period indicated.

	As of December 31,			As of
	2010	2011	2012	June 30,
				2013
	(RMB'000 except turnover days)			
Up to three months	2,287	10,937	13,741	20,286
Three to six months	685	1,359	310	1,065
Six to 12 months	394	30	40	1,941
One to two years	517	514	582	335
Two to three years	—	88	50	325
Over three years	—	1,750	1,291	443
	<u>3,883</u>	<u>14,678</u>	<u>16,014</u>	<u>24,395</u>
Turnover of average trade payable (days) ⁽¹⁾	82	79	50	52

(1) Average trade payables equal trade payables at the beginning of the period plus trade payables at the end of the period, divided by two. Turnover of average trade payables equals average trade payables divided by cost of sales and then multiplied by the number of days in the period.

Our trade payable turnover days decreased from 82 days in 2010 to 79 days in 2011, and further to 50 days in 2012, primarily due to the consolidation of Fert Technology’s trade payables into our Group following its acquisition in April 2011, as turnover of Fert Technology’s trade payables is significantly faster than that of our orthopedic implant business.

Our trade payable turnover days stayed relatively stable at 52 days in the six months ended June 30, 2013.

Consideration Payables

We had consideration payables in the amount of RMB180.0 million as of December 31, 2012. These consideration payables arose out of our acquisition of the 44.37% equity interest in Fert Technology from Langjing Technology. We settled these consideration payables in the second quarter of 2013. For more details, see “History and Corporate Development — History of Our Infusion Set Business.”

FINANCIAL INFORMATION

Current Assets and Liabilities

The following table sets forth the breakdown of our current assets and current liabilities as of the date indicated.

	As of December 31,			As of	
	2010	2011	2012	June 30, 2013	August 31, 2013
			(RMB'000)		(unaudited)
Current assets					
Inventories	15,445	54,702	72,994	76,709	83,886
Amounts due from related parties	1,790	8,000	395	2,546	1,534
Trade and other receivables	30,585	68,767	161,203	214,074	247,106
Restricted cash	11	—	2,657	4,158	3,579
Cash and cash equivalents .	62,750	61,142	212,466	142,192	72,171
Assets of disposal group classified as held for sale	—	—	—	—	41,913
Total current assets	110,581	192,611	449,715	439,679	450,189
Current liabilities					
Amounts due to related parties	7,034	120,000	108,153	13,885	2,139
Trade and other payables . .	27,853	60,402	242,715	105,135	109,183
Current income tax liabilities.	3,554	5,499	6,955	11,435	5,450
Borrowings.	—	—	30,000	97,318	84,605
Liabilities of disposal group classified as held for sale	—	—	—	—	12,250
Total current liabilities. . . .	38,441	185,901	387,823	227,773	213,627
Net current assets	72,140	6,710	61,892	211,906	236,562

FINANCIAL INFORMATION

The assets and liabilities related to Renli Orthopedic have been presented as held for sale following the approval of our Group’s management and shareholders in August 2013 to dispose all of our Group’s equity interests in Renli Orthopedic. The disposal of Renli Orthopedic was subsequently completed in September 2013.

	As of December 31,			As of	
	2010	2011	2012	June 30, 2013	August 31, 2013
			(RMB'000)		(unaudited)
Assets of disposal group classified as held for sale					
Property, plant and equipment	—	—	—	—	6,507
Goodwill	—	—	—	—	12,831
Other non-current assets . .	—	—	—	—	1,599
Inventory	—	—	—	—	8,806
Amounts due from related parties	—	—	—	—	1,012
Trade and other receivable .	—	—	—	—	6,626
Cash and cash equivalent . .	—	—	—	—	4,532
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>41,913</u>
Liabilities of disposal group classified as held for sale					
Trade and other payables . .	—	—	—	—	2,073
Amounts due to related parties	—	—	—	—	10,123
Other non-current liabilities	—	—	—	—	54
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,250</u>

We had net current assets of RMB211.9 million as of June 30, 2013, compared to net current assets of RMB61.9 million as of December 31, 2012. The increase was primarily due to capital contributions of RMB322.1 million by our shareholders, two of our shareholders, and our increased sales.

We had net current assets of RMB61.9 million as of December 31, 2012, compared to net current assets of RMB6.7 million as of December 31, 2011. The increase was primarily due to total capital contributions of RMB285.7 million in cash made by our shareholders.

We had net current assets of RMB6.7 million as of December 31, 2011, compared to net current assets of RMB72.1 million as of December 31, 2010. This decrease was primarily due to amounts due to related parties of RMB120.0 million arising from our acquisition of PW Medtech (Beijing) from Mr. ZHANG Wendong, which was paid in 2012.

FINANCIAL INFORMATION

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We have historically met our working capital and other capital requirements principally with a combination of (i) capital contributions by shareholders and third-party investors, (ii) shareholder loan and (iii) cash generated from our operations. The following table sets forth selected cash flow data from our combined cash flow statements for the period indicated. For more information, see Appendix I — “Accountant’s Report” to this document.

	<u>For the year ended December 31,</u>			<u>For the six months ended June 30,</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
	(RMB'000)			(unaudited)	
Net cash flows from/(used in) operating activities	11,735	15,713	24,906	(327)	31,494
Net cash flows used in investing activities	(24,002)	(246,714)	(117,581)	(8,464)	(28,545)
Net cash flows from/(used in) financing activities	<u>63,336</u>	<u>230,001</u>	<u>244,030</u>	<u>(8,000)</u>	<u>(73,010)</u>
Net increase/(decrease) in cash and cash equivalents	<u>51,069</u>	<u>(1,000)</u>	<u>151,355</u>	<u>(16,791)</u>	<u>(70,061)</u>
Cash and cash equivalents at beginning of year	13,308	62,750	61,142	61,142	212,466
Exchange losses on cash and cash equivalents	(1,627)	(608)	(31)	(31)	(213)
Cash and cash equivalents at end of year	62,750	61,142	212,466	44,320	142,192

Operating Activities

Net cash from operating activities in the six months ended June 30, 2013 was RMB31.5 million, which mainly reflected our profit before income tax of RMB74.3 million, partially offset by an increase of RMB46.7 million in trade and other receivables, a decrease of RMB6.4 million in trade and other payables and an increase of RMB3.8 million in inventories.

Net cash from operating activities for 2012 was RMB24.9 million, which mainly reflected our profit before income tax of RMB119.7 million, partially offset by an increase of RMB88.1 million in trade and other receivables, an increase of RMB10.7 million in inventories, and a decrease of RMB5.5 million in trade and other payables.

FINANCIAL INFORMATION

Net cash from operating activities in 2011 was RMB15.7 million, which mainly reflected our profit before income tax of RMB57.3 million, partially offset by an increase of RMB31.2 million in trade and other receivables, an increase of RMB14.1 million in inventories, and a decrease of RMB4.0 million in trade and other payables.

Net cash from operating activities for 2010 was RMB11.7 million, which mainly reflected our profit before income tax of RMB17.3 million and an increase of RMB5.4 million in trade and other payables, partially offset by an increase of RMB9.1 million in trade and other receivables, and an increase of RMB4.9 million in inventories.

Investing Activities

Net cash used in investing activities in the six months ended June 30, 2013 was RMB28.5 million, primarily due to cash of RMB38.8 million used in the purchase of property, plant and equipment.

Net cash used in investing activities in 2012 was RMB117.6 million, primarily due to cash of RMB61.1 million used in the acquisition of subsidiaries, cash of RMB38.0 million used in the purchase of property, plant and equipment, and cash of RMB10.9 million used in the purchase of land use rights.

Net cash used in investing activities in 2011 was RMB246.7 million, primarily due to cash of RMB229.2 million used in the acquisition of subsidiaries, primarily Fert Technology, cash of RMB20.0 million used in the purchase of property, plant and equipment, and cash of RMB17.0 million used in the purchase of land use rights associated with our infusion sets manufacturing facilities.

Net cash used in investing activities in 2010 was RMB24.0 million, primarily due to cash of approximately the same amount used in the purchase of property, plant and equipment.

Financing Activities

Net cash used in financing activities in the six months ended June 30, 2013 was RMB73.0 million, primarily due to cash of RMB348.4 million paid for increasing our equity interest in Walkman Biomaterial, Fert Technology and Bone Medical, partially offset by RMB322.0 million of cash proceeds from our issue of shares to our shareholders.

Net cash from financing activities in 2012 was RMB244.0 million, primarily due to cash of RMB285.7 million provided by the capital contributions to Health Access and PWM Investment by their then-existing shareholders, an increase of RMB58.3 million provided by the investment in PWM Investment by Sparkle Wealthy, and cash of RMB30.0 million provided by a secured bank loan, partially offset by RMB130.0 million consideration paid to our Controlling Shareholders and non-controlling interests for acquisition of subsidiaries.

FINANCIAL INFORMATION

Net cash from financing activities in 2011 was RMB230.0 million, primarily due to cash of RMB230.0 million provided by our Controlling Shareholders.

Net cash from financing activities in 2010 was RMB63.3 million, primarily due to cash of RMB70.0 million provided by the investment in Walkman Biomaterial by PWM Investment, partially offset by cash of RMB15.0 million used in repayment of borrowings.

INDEBTEDNESS

As of August 31, 2013, the latest practicable date for the purpose of the indebtedness statements, we had total indebtedness of approximately RMB96.9 million. As of the same date, we had banking facilities of approximately RMB19.0 million, of which RMB5.0 million had not been utilized. The following table sets forth the breakdown of our indebtedness as of the date indicated.

	As of December 31,			As of	
	2010	2011	2012	June 30, 2013	August 31, 2013
			(RMB'000)		(unaudited)
Current bank borrowings					
— secured	—	—	30,000	51,000	46,500
— entrusted loan.	—	—	—	36,418	33,105
— unsecured	—	—	—	9,900	5,000
	<u>—</u>	<u>—</u>	<u>30,000</u>	<u>97,318</u>	<u>84,605</u>
Amounts due to related parties, included current and non-current portion. .	7,034	212,350	108,153	13,885	2,139
Amounts due to related parties included in liabilities of disposal group classified as held for sale.	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,123</u>
	<u>7,034</u>	<u>212,350</u>	<u>108,153</u>	<u>13,885</u>	<u>12,262</u>
	<u>7,034</u>	<u>212,350</u>	<u>138,153</u>	<u>111,203</u>	<u>96,867</u>

As of August 31, 2013, amounts due to related parties included in liabilities of disposal group classified as held for sale of RMB12.3 million related to Renli Orthopedic. We held, directly and indirectly, a total of 60% equity interests in Renli Orthopedic as of August 31, 2013 and sold such equity interests to an Independent Third Party in September 2013.

FINANCIAL INFORMATION

Bank Borrowings

As of August 31, 2013, we had bank borrowings of RMB84.6 million, all of which were denominated in Renminbi and repayable within one year. The table below sets forth the weighted average effective interest rates of our borrowings as of the dates indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
Current bank borrowings	—	—	7%	7%

Our borrowing agreement contains standard terms, conditions and covenants that are customary for commercial bank loans in China. Such debt covenants primarily include requirements that we obtain the lenders’ prior consent for certain transactions, such as disposal of material assets, merger or consolidation and liquidation or winding-down. During the Track Record Period and up to the Latest Practicable Date, we had not been in default of these debt covenants that could cause any material adverse impact on our business operations.

We have not experienced any default or withdrawal or request for early repayment of bank borrowings during the Track Record Period.

CAPITAL COMMITMENTS

As of December 31, 2012, we had capital commitments of RMB46.5 million in anticipation of our acquisition of Bone Medical and purchase of property, plant and equipment. The table below sets forth details of our capital commitments as of the date indicated.

	As of December 31,			As of June 30,	As of August 31,
	2010	2011	2012	2013	2013
	(RMB’000)				
Contracted but not provided for:					
Property, plant and equipment	6,440	1,061	23,547	32,749	35,765
Land use right.	—	11,115	—	1,820	—
Acquisition of a subsidiary	—	—	23,000	—	—
	<u>6,440</u>	<u>12,176</u>	<u>46,547</u>	<u>34,569</u>	<u>35,765</u>

OPERATING LEASE COMMITMENTS

We lease a number of offices and warehouses under non-cancellable operating lease arrangements, with lease terms negotiated ranging from one to five years. The majority of these lease agreements are renewable at the end of the lease period at market rate. We are required to

FINANCIAL INFORMATION

give at least one-month notice for the termination of these lease agreements. The table below sets forth our future minimum rental payments under non-cancellable operating lease agreements as of the date indicated.

	As of December 31,			As of	As of
	2010	2011	2012	June 30,	August 31,
				2013	2013
	(RMB'000)				
No later than one year	430	1,373	1,021	3,077	2,796
Later than one year and no later than five years	<u>959</u>	<u>1,871</u>	<u>1,007</u>	<u>8,672</u>	<u>8,572</u>
	<u>1,389</u>	<u>3,244</u>	<u>2,028</u>	<u>11,749</u>	<u>11,368</u>

Except as disclosed in this section, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, loan from government, debt securities or other similar indebtedness, finance lease on hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees on other material contingent liabilities outstanding as of August 31, 2013 (being the latest practicable date for the purpose of this indebtedness statement).

CAPITAL EXPENDITURES

Our capital expenditures were RMB24.0 million, RMB37.0 million, RMB48.9 million and RMB41.8 million in 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. Our capital expenditures during the Track Record Period primarily related to our acquisitions of property, plant and equipment, as well as land use rights.

Following the [●], we will continue to incur capital expenditures to grow our business. Our planned future capital expenditures in the foreseeable future primarily relates to the expansion of our production capacity.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

FINANCIAL INFORMATION

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to a variety of financial risks: market risk (including foreign exchange risk, fair value and cash flow interest rate risk), credit risk, liquidity risk and price risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Risk management is carried out by our finance department and our chief financial officer under policies and guidelines approved by our Board of Directors. The principal components of our risk management policies include: (i) formulation of rules covering the entire risk management process from risk identification, formulation and implementation of risk management solutions, risk monitoring and warning as well as emergency response to materialized risk events; (ii) designation of our legal and finance departments to assist in the formulation, evaluation and implementation of our internal control and risk management policies; and (iii) requiring our departments and subsidiaries to establish their respective risk management implementing rules and engage our legal and finance departments in formulating new operational policies and business plans.

In addition to the overall risk management, our Board of Directors also approves policies and guidelines specifically relating to financial risks. Within such policy framework, it is our finance department’s principal responsibilities to manage exposure to foreign currency movements and interest rate movements, control and monitor credit risks and manage our Group’s liquidity. Set forth below are the details of our management of such financial risks.

Foreign exchange risk

We mainly operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to U.S. dollars. Foreign exchange risk arises from foreign currencies held in certain overseas subsidiaries. Our Group did not hedge against any fluctuation in foreign currency during the Track Record Period. Management may consider entering into currency hedging transactions to manage our exposure to fluctuations in exchange rates in the future. We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency exchange rates. As of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively, if US\$ had strengthened/weakened by 5% against RMB with all other variables held constant, our net profit in 2010, 2011, 2012 and the six months ended June 30, 2012 and 2013 would have increased/decreased by RMB2.1 million, RMB0.6 million, RMB7.1 million, RMB3.2 million and RMB1.1 million, respectively.

Cash flow and fair value interest rate risk

Other than bank balances with variable interest rates, we have no other significant interest-bearing assets. Management does not anticipate significant impact on interest-bearing assets resulting from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

FINANCIAL INFORMATION

Our interest rate risk arises from borrowings, including an interest-free loan received from a related party. Borrowings issued at variable rates expose us to cash flow interest rate risk, which is partially offset by cash, held at variable rates. Borrowings obtained at fixed rates expose us to fair value interest rate risk. We have not hedged our cash flow and fair value interest rate risks.

We adjust the proportion of fixed interest rate debts and variable interest rate debts when the market environment changed. As of December 31, 2010, 2011, 2012, and June 30, 2012, and 2013, our interest-bearing debt at variable rates and fixed rates are as follows:

	As of December 31,			As of June 30,	
	2010	2011	2012	2012	2013
			(RMB'000)		
				(unaudited)	
Debt at fixed rate	—	—	10,000	—	61,318
Debt at floating rate.	—	—	20,000	—	36,000
	—	—	30,000	—	97,318

As of December 31, 2010, 2011, 2012 and June 30, 2012 and 2013, if the floating interest rate on borrowings from third parties had been higher/lower by 50 basis points, the net profit and equity would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	As of December 31,			As of June 30,	
	2010	2011	2012	2012	2013
			(RMB'000)		
				(unaudited)	
Year/period ended:					
(Decrease)/increase					
— Strengthened					
50 basis points	—	—	(20)	—	(71)
— Weakened					
50 basis points	—	—	20	—	71

FINANCIAL INFORMATION

As of December 31, 2010, 2011, 2012 and June 30, 2012 and 2013, if the fixed interest rate on borrowings from third parties had been higher/lower by 50 basis points, the fair value would have changed mainly as a result of higher/lower interest expenses on fixed borrowings. Details of changes are as follows:

	As of December 31,			As of June 30,	
	2010	2011	2012	2012	2013
	(RMB'000)			(unaudited)	
At end of year/period:					
(Decrease)/increase					
— Strengthened					
50 basis points	<u>—</u>	<u>—</u>	<u>(33)</u>	<u>—</u>	<u>(155)</u>
— Weakened					
50 basis points	<u>—</u>	<u>—</u>	<u>40</u>	<u>—</u>	<u>192</u>

The interest-free loan received from a related party in connection with our Reorganization exposes us to fair value interest rate risk and the fair value of the interest-free loan has been disclosed in the Accountant’s Report in Appendix I to this document.

As of December 31, 2010, 2011, 2012 and June 30, 2012 and 2013, if the interest rate on borrowings from a related party had been higher/lower by 50 basis points, the net profit, equity and fair value would have changed mainly as a result of higher/lower interest expenses on the related party borrowings. Details of changes are as follows:

	As at December 31,			As at June 30,	
	2010	2011	2012	2012	2013
	(RMB'000)			(unaudited)	
Year/period ended:					
(Decrease)/increase					
— Strengthened					
50 basis points	<u>—</u>	<u>(143)</u>	<u>(238)</u>	<u>(86)</u>	<u>(115)</u>
— Weakened					
50 basis points	<u>—</u>	<u>146</u>	<u>241</u>	<u>87</u>	<u>117</u>
Fair value					
Year/period ended:					
(Decrease)/increase					
— Strengthened					
50 basis points	<u>—</u>	<u>(576)</u>	<u>(153)</u>	<u>(372)</u>	<u>—</u>
— Weakened					
50 basis points	<u>—</u>	<u>583</u>	<u>154</u>	<u>375</u>	<u>—</u>

FINANCIAL INFORMATION

Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and amounts due from related parties included in the Accountant’s Report in Appendix I to this document represent our maximum exposure to credit risk in relation to our financial assets. The objective of our measures to manage credit risk is to control potential exposure to recoverability problems.

The credit risk of bank balances is limited because the counterparties are banks with good reputations and most of them are state-owned entities, or public companies.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty’s financial position, past history of making payments, and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. We grant credit limits or credit terms to certain customers in consideration of their payment history, business performance and market position. We have monitoring procedures in place to evaluate the performance of our distributors, which include maintaining client credit profiles and periodically assessing client creditworthiness ranging from monthly to annually primarily based on their payment history and overall creditworthiness. In the event of credit deteriorations, we may request our distributors to provide guarantees and/or collateral to secure their payment obligations and may reduce or cancel shipments that have already been ordered. During the Track Record Period, no incident of material credit deterioration occurred and we did not request any guarantee or collateral from our distributors. In addition, we review the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

Our provincial or regional sales managers periodically contact distributors to ensure timely settlement of outstanding trade receivables. We may reject shipment orders placed by distributors who have defaulted on our credit terms, and revoke distributorship and initiate legal proceedings for malicious attempts to default. Follow-up actions will be taken to recover overdue debts.

Liquidity risk

Our policy is to regularly monitor current and expected liquidity requirements and our compliance with debt covenants, and to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet our liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk, as we have sufficient committed facilities to fund our operations.

FINANCIAL INFORMATION

Based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the year-end dates during the Track Record Period) and the earliest date we may be required to pay, our financial liabilities were RMB17.4 million, RMB237.8 million, RMB341.2 million and RMB187.3 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

Price risk

We are exposed to commodity price risk, mainly due to (i) the fluctuations in prices of metal materials, including titanium alloy materials, which are the key raw materials for our orthopedic implant products, and (ii) the fluctuations in prices of PVC granules, which are the key raw materials for our infusion set products. During the Track Record Period, management considers the price risk exposure is not material, and we have the flexibility to pass the increases in raw material costs to our customers.

In 2010, 2011 and 2012 and the six months ended June 30, 2013, if unit prices of our major raw materials, including titanium alloy materials for orthopedic implants and PVC granules for infusion sets, had been higher or lower by 5%, the gross profit of two business segments would have decreased or increased as follows, assuming all other factors remain the same.

	For the year ended December 31,			For the six months ended June 30,
	2010	2011	2012	2013
Orthopedic implants (decrease) or increase	(0.18)%/0.18%	(0.25)%/0.25%	(0.19)%/0.19%	(0.18)%/0.18%
Infusion sets (decrease) or increase	—	(0.55)%/0.55%	(0.44)%/0.44%	(0.42)%/0.42%

Capital risk management

Our objectives when managing capital are (i) to safeguard our ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and (ii) to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, we monitor capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings are current borrowings as shown in the combined balance sheets. Total capital is calculated as ‘total equity’ as shown in the combined balance sheets, plus total borrowings.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

The following table sets forth certain key financial ratios as of the date or for the period indicated.

	As of or for the year ended December 31,			As of or for the six months ended June 30,
	2010	2011	2012	2013
Return on equity ⁽¹⁾	20.3%	30.8%	20.2%	9.8%
Current ratio ⁽²⁾	2.9	1.0	1.2	1.9
Debt to equity ratio ⁽³⁾	29.9%	114.1%	75.6%	32.1%
Gearing ratio ⁽⁴⁾	5.2%	45.6%	20.8%	12.7%

(1) Profit attributable to owners of our Company for the period, divided by average equity attributable to owners of our Company at the beginning of the period plus the number at the end of the period.

(2) Current assets divided by current liabilities.

(3) Total liabilities divided by total equity.

(4) Total borrowings (bank borrowing plus amounts due to related parties of non-trade nature), divided by total capital. Total capital is calculated as total equity plus total borrowings.

The following is a brief analysis of the salient aspects of the above financial ratios:

- Return on equity.* Our return on equity increased from 20.3% in 2010 to 30.8% in 2011, which primarily reflect our acquisition of Fert Technology in April 2011 and our improved business performance with increased profit. Our return on equity decreased from 30.8% in 2011 to 20.2% in 2012, primarily because we received a total of RMB285.7 million in cash capital contribution at the end of 2012, which contributed to a significant increase in equity attributable to owners of our Company, partially offset by improved business performance with increased profit in 2012. Our return on equity was 9.8% in the six months ended June 30, 2013, primarily because we recorded a total of RMB556 million in share premium as a result of share issuances to Cross Mark, Sparkle Wealthy and Right Faith from February to May in 2013, which contributed to a significant increase in equity attributable to owners of our Company, partially offset by our increased profit in the six months ended June 30, 2013.
- Current ratio.* In 2011 and 2012, we applied RMB220.0 million in cash to acquire Fert Technology, which affected our current assets as well as current ratio in these years. Specifically, our current ratio decreased from 2.9 as of December 31, 2010 to 1.0 as of December 31, 2011, primarily due to an increase in our current liabilities, which in turn primarily reflected our amounts due to related parties of RMB120.0

FINANCIAL INFORMATION

million as of December 31, 2011, arising from our acquisition of PW Medtech (Beijing) from Mr. ZHANG Wendong, which was paid in 2012. Our current ratio increased from 1.0 as of December 31, 2011 to 1.2 as of December 31, 2012, primary due to an increase in our current assets partially offset by a smaller increase in our current liabilities. The increase in our current assets primarily reflected capital contributions totaling RMB285.7 million made by our shareholders, and the increase in our current liabilities primarily reflected the consideration payable of RMB180 million for the 44.37% equity interest in Fert Technology that we acquired from Langjing Technology, which was paid in the second quarter of 2013. Our current ratio increased from 1.2 as of December 31, 2012 to 1.9 as of June 30, 2013 due to a decrease in our current liabilities while our current assets remained relatively stable. Our current liabilities decreased from RMB387.8 million as of December 31, 2012 to RMB227.8 million as of June 30, 2013, primarily due to a decrease in payables to related parties and consideration payables.

- *Debt to equity ratio.* Our debt to equity ratio increased from 29.9% as of December 31, 2010 to 114.1% as of December 31, 2011, primarily due to an increase in our liabilities, which in turn reflects amounts of RMB220.0 million due to a related party, arising from our acquisition of Fert Technology, partially offset by an increase in our assets, which in turn reflects increases in our property, plant and equipment and intangible assets as a result of acquisitions. Our debt to equity ratio decreased from 114.1% as of December 31, 2011 to 75.6% as of December 31, 2012, primarily due to an increase in our assets, which in turn reflects capital contributions totaling RMB285.7 million made by our shareholders and an increase in trade receivables as a result of business growth, partially offset by an increase in our liabilities, which in turn reflects consideration of RMB180.0 million payable to Langjing Technology for the acquisition of a 44.37% equity interest in Fert Technology. Our debt to equity ratio decreased from 75.6% as of December 31, 2012 to 32.1% as of June 30, 2013, primarily due to an increase in our assets, which in turn reflected our acquisition of Bone Medical and Yijia Medical, partially offset by a decrease in our liabilities.
- *Gearing ratio.* Our gearing ratio increased from 5.2% as of December 31, 2010 to 45.6% as of December 31, 2011, primarily due to amounts of RMB220.0 million due to a related party, arising from our acquisition of Fert Technology, partially offset by increases in our property, plant and equipment and intangible assets as a result of acquisitions. Our gearing ratio decreased from 45.6% as of December 31, 2011 to 20.8% as of December 31, 2012, primarily due to an increase in our assets, which in turn reflects capital contributions totaling RMB285.7 million made by our shareholders and an increase in trade receivables as a result of our business growth. Our gearing ratio decreased from 20.8% as of December 31, 2012 to 12.7% as of June 30, 2013, primarily due to proceeds of RMB322.1 million from our share

FINANCIAL INFORMATION

issuances from February to May in 2013, which contributed to a significant increase in equity attributable to owners of our Company, partially offset by an increase in bank borrowings as of June 30, 2013.

DISTRIBUTABLE RESERVES

Our Company’s distributable reserves consist of share premium and retained earnings, if any. As of June 30, 2013, we had reserves of RMB550.9 million, representing share premium of RMB556.0 million net of accumulated losses of RMB5.1 million, available for distribution to our Shareholders.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to our Group, including the internally generated funds, the available banking facilities and [●], our Directors are of the opinion that our Group has sufficient working capital for its present requirements — that is for at least the next 12 months from the date of this document.

DIVIDEND POLICY

We will not declare or pay any dividends other than from distributable profit attributable to equity holders. Our shareholders may approve the declaration of dividends in a general meeting, but the amount may not exceed the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends as appear to our Directors to be justified by our profits and may also declare half yearly or at other suitable intervals any dividends which may be payable at a fixed rate if they are of the opinion that the financial conditions and the profits available for distribution justify the payment of dividends.

The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on our articles of association, the Companies Law, applicable laws and regulations and other relevant factors.

DIRECTORS’ CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

As of the date of this document, our Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of our Company since June 30, 2013, the date of the latest audited financial statements of our Company.

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since June 30, 2013, and there have been no events since June 30, 2013 which would materially affect the information shown in the Accountant’s Report, the text of which is set out in Appendix I to this document.

FUTURE PLANS

FUTURE PLANS

Please see “Business — Business Strategy” for a detailed description of our future plans.

APPENDIX I

ACCOUNTANT’S REPORT

The following is the text of a report received from the Company’s [●], [●], Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company [●].

[DRAFT]

[To insert the firm’s letterhead]

[●]

The Directors
PW Medtech Group Limited

[●]

Dear Sirs,

We report on the financial information of PW Medtech Group Limited (the “Company”, previously known as “Pyholding Limited”) and its subsidiaries (together, the “Group”), which comprises the combined balance sheets as at December 31, 2010, 2011, 2012 and June 30, 2013, the balance sheets of the Company as at December 31, 2011, 2012 and June 30, 2013 and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for each of the years ended December 31, 2010, 2011 and 2012 and the six months end June 30, 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 the Company and is set out in Sections I to IV below for inclusion in Appendix I to the document of the Company dated [●] (the “Document”).

The Company was incorporated in the Cayman Islands on May 13, 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1(b) of Section II headed “Reorganisation” below, which was completed on July 11, 2013, the Company became the holding company of the subsidiaries now comprising the Group (the “Reorganisation”).

APPENDIX I

ACCOUNTANT’S REPORT

As at the date of this report, the Company has direct and indirect interests in the subsidiaries, as set out in Note 1(b) of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1(b) of Section II.

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards (“[●]”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with [●]. 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 with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon and on the basis set out in Note 2 of Section II below.

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 the basis of presentation set out in Note 2 of Section II below and in accordance with [●], and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

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 [●].

APPENDIX I

ACCOUNTANT’S REPORT

OPINION

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 2 of Section II below, a true and fair view of the state of affairs of the Company as at December 31, 2011, 2012 and June 30, 2013 and of the combined state of affairs of the Group as at December 31, 2010, 2011 and 2012 and June 30, 2013 and of the Group’s combined results and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the document which comprises the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for the six months ended June 30, 2012 and a summary of significant accounting policies and other explanatory information (the “Stub Period Comparative Financial Information”).

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation set out in Note 2 of Section II below and the accounting policies set out in Note 3 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report and presented on the basis set out in Note 2 of Section II below, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 3 of Section II below.

APPENDIX I

ACCOUNTANT’S REPORT

I FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at December 31, 2010, 2011 and 2012 and June 30, 2013 and for each of the years then ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013 (the “Financial Information”), presented on the basis set out in Note 2 of Section II below:

Combined Balance Sheets

	<i>Notes</i>	As at December 31,			As at
		2010	2011	2012	June 30,
		RMB’000	RMB’000	RMB’000	2013
					RMB’000
Assets					
Non-current assets					
Land use rights	7	2,732	2,672	31,161	52,237
Property, plant and equipment	8	45,735	104,945	115,177	174,387
Intangible assets	9	67	198,572	207,331	320,588
Available-for-sale financial assets . .	10	—	100	—	—
Investment in structured products . .	11	—	—	3,000	—
Deferred income tax assets	21	1,408	4,007	5,925	6,957
Long-term prepayments	12	6,444	39,253	109,004	20,776
		<u>56,386</u>	<u>349,549</u>	<u>471,598</u>	<u>574,945</u>
Current assets					
Inventories	13	15,445	54,702	72,994	76,709
Amounts due from related parties . .	32	1,790	8,000	395	2,546
Trade and other receivables	14	30,585	68,767	161,203	214,074
Restricted cash	15	11	—	2,657	4,158
Cash and cash equivalents	16	62,750	61,142	212,466	142,192
		<u>110,581</u>	<u>192,611</u>	<u>449,715</u>	<u>439,679</u>
Total assets		<u>166,967</u>	<u>542,160</u>	<u>921,313</u>	<u>1,014,624</u>

APPENDIX I

ACCOUNTANT’S REPORT

		As at December 31,			As at
		2010	2011	2012	June 30,
	Notes	RMB’000	RMB’000	RMB’000	2013
					RMB’000
Equity					
Equity attributable to owners of the Company					
Combined capital	17	—	1	1	46
Share premium	17	—	—	—	555,987
Other reserves	18	34,090	51,871	265,018	(16,150)
Retained earnings		<u>17,747</u>	<u>39,850</u>	<u>84,518</u>	<u>134,532</u>
		<u>51,837</u>	<u>91,722</u>	<u>349,537</u>	<u>674,415</u>
Non-controlling interests		<u>76,689</u>	<u>161,526</u>	<u>175,164</u>	<u>93,396</u>
Total equity		<u><u>128,526</u></u>	<u><u>253,248</u></u>	<u><u>524,701</u></u>	<u><u>767,811</u></u>
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	21	—	10,661	8,389	16,678
Amounts due to related parties	32	—	92,350	—	—
Deferred income	22	<u>—</u>	<u>—</u>	<u>400</u>	<u>2,362</u>
		<u>—</u>	<u>103,011</u>	<u>8,789</u>	<u>19,040</u>
Current liabilities					
Amounts due to related parties	32	7,034	120,000	108,153	13,885
Trade and other payables	19	27,853	60,402	242,715	105,135
Current income tax liabilities		3,554	5,499	6,955	11,435
Borrowings	20	<u>—</u>	<u>—</u>	<u>30,000</u>	<u>97,318</u>
		<u>38,441</u>	<u>185,901</u>	<u>387,823</u>	<u>227,773</u>
Total liabilities		<u><u>38,441</u></u>	<u><u>288,912</u></u>	<u><u>396,612</u></u>	<u><u>246,813</u></u>
Total equity and liabilities		<u><u>166,967</u></u>	<u><u>542,160</u></u>	<u><u>921,313</u></u>	<u><u>1,014,624</u></u>
Net current assets		<u><u>72,140</u></u>	<u><u>6,710</u></u>	<u><u>61,892</u></u>	<u><u>211,906</u></u>
Total assets less current liabilities .		<u><u>128,526</u></u>	<u><u>356,259</u></u>	<u><u>533,490</u></u>	<u><u>786,851</u></u>

APPENDIX I

ACCOUNTANT’S REPORT

Balance Sheets

		As at December 31,		As at
		2011	2012	June 30,
	Notes	RMB’000	RMB’000	2013
				RMB’000
Assets				
Non-current assets				
Investments in and loans to subsidiaries	27	—	125,710	549,242
Current assets				
Amounts due from subsidiaries	32	—	—	2,371
Trade and other receivables	14	1	24	2,535
Cash and cash equivalents	16	—	106,055	4,488
		1	106,079	9,394
Total assets		1	231,789	558,636
Equity				
Share capital	17	1	1	46
Share premium	17	—	—	555,987
Other reserves	18	—	233,930	—
Accumulated losses		(9)	(2,165)	(5,040)
Total equity		(8)	231,766	550,993
Liabilities				
Current liabilities				
Amounts due to subsidiaries	32	—	—	609
Trade and other payables	19	9	23	7,034
Total liabilities		9	23	7,643
Total equity and liabilities		1	231,789	558,636
Net current (liabilities)/assets		(8)	106,056	1,751
Total assets less current liabilities		(8)	231,766	550,993

- I-7 -

APPENDIX I

ACCOUNTANT’S REPORT

Combined Statements of Comprehensive Income

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Profit for the year/period	14,332	49,346	100,183	44,569	60,240
Other comprehensive income/ (loss):					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Currency translation differences.	2,410	(408)	423	347	1,418
Other comprehensive income/ (loss) for the year/period, net of tax	2,410	(408)	423	347	1,418
Total comprehensive income for the year/period	<u>16,742</u>	<u>48,938</u>	<u>100,606</u>	<u>44,916</u>	<u>61,658</u>
Attributable to:					
— Owners of the Company. . . .	9,527	21,695	45,091	20,488	51,432
— Non-controlling interests . . .	7,215	27,243	55,515	24,428	10,226
	<u>16,742</u>	<u>48,938</u>	<u>100,606</u>	<u>44,916</u>	<u>61,658</u>

APPENDIX I

ACCOUNTANT’S REPORT

Combined Statements of Changes in Equity

	Attributable to owners of the Company				Non-controlling interests	Total equity
	Combined capital	Other reserves	Retained earnings	Total		
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Balance at January 1, 2010	—	7,766	10,630	18,396	15,052	33,448
Comprehensive income						
Profit for the year	—	—	7,117	7,117	7,215	14,332
Other comprehensive income	—	2,410	—	2,410	—	2,410
Total comprehensive income	—	2,410	7,117	9,527	7,215	16,742
Transactions with owners						
Capital contributions to subsidiaries by their then equity owners and the non-controlling interests	—	4,443	—	4,443	3,893	8,336
Changes in ownership interests in subsidiaries without change of control (<i>Note 33(a)(i)</i>)	—	19,471	—	19,471	50,529	70,000
Total transaction with owners	—	23,914	—	23,914	54,422	78,336
Balance at December 31, 2010	—	34,090	17,747	51,837	76,689	128,526
Balance at January 1, 2011	—	34,090	17,747	51,837	76,689	128,526
Comprehensive income						
Profit for the year	—	—	22,103	22,103	27,243	49,346
Other comprehensive loss	—	(408)	—	(408)	—	(408)
Total comprehensive income	—	(408)	22,103	21,695	27,243	48,938
Transactions with owners						
Non-controlling interests arising on business combination (<i>Note 34(a)</i>)	—	—	—	—	57,344	57,344
Difference between the carrying amount and undiscounted amount of interest-free loan received from a related party, net of tax (<i>Note 32(b)</i>)	—	8,439	—	8,439	—	8,439
Issuance of shares (<i>Note 17(b)</i>)	1	—	—	1	—	1
Capital contributions to subsidiaries by their then equity owners and the non-controlling interests	—	9,750	—	9,750	250	10,000
Total transaction with owners	1	18,189	—	18,190	57,594	75,784
Balance at December 31, 2011	<u>1</u>	<u>51,871</u>	<u>39,850</u>	<u>91,722</u>	<u>161,526</u>	<u>253,248</u>

APPENDIX I

ACCOUNTANT’S REPORT

	Attributable to owners of the Company				Non-controlling interests	Total equity
	Combined capital	Other reserves	Retained earnings	Total		
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Balance at January 1, 2012	<u>1</u>	<u>51,871</u>	<u>39,850</u>	<u>91,722</u>	<u>161,526</u>	<u>253,248</u>
Comprehensive income						
Profit for the year	—	—	44,668	44,668	55,515	100,183
Other comprehensive income	<u>—</u>	<u>423</u>	<u>—</u>	<u>423</u>	<u>—</u>	<u>423</u>
Total comprehensive income	<u>—</u>	<u>423</u>	<u>44,668</u>	<u>45,091</u>	<u>55,515</u>	<u>100,606</u>
Transactions with owners						
Non-controlling interests arising on business combination (<i>Note 34(b)</i>)	—	—	—	—	16,817	16,817
Capital contributions by their then equity owners	—	285,685	—	285,685	—	285,685
Changes in ownership interests in subsidiaries without change of control — introduction of certain financial investors (<i>Note 33 (a)(ii)</i>)	—	6,428	—	6,428	51,917	58,345
Changes in ownership interests in subsidiaries without change of control — acquiring additional interests (<i>Note 33 (b)</i>)	—	(69,637)	—	(69,637)	(110,363)	(180,000)
Consideration paid to the then equity owners and the non-controlling interests for acquisition of a subsidiary under common control	<u>—</u>	<u>(9,752)</u>	<u>—</u>	<u>(9,752)</u>	<u>(248)</u>	<u>(10,000)</u>
Total transaction with owners	<u>—</u>	<u>212,724</u>	<u>—</u>	<u>212,724</u>	<u>(41,877)</u>	<u>170,847</u>
Balance at December 31, 2012	<u><u>1</u></u>	<u><u>265,018</u></u>	<u><u>84,518</u></u>	<u><u>349,537</u></u>	<u><u>175,164</u></u>	<u><u>524,701</u></u>

APPENDIX I

ACCOUNTANT’S REPORT

	Attributable to owners of the Company					Non-controlling interests	Total equity
	Combined capital	Share premium	Other reserves	Retained earnings	Total		
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Balance at January 1, 2013	<u>1</u>	<u>—</u>	<u>265,018</u>	<u>84,518</u>	<u>349,537</u>	<u>175,164</u>	<u>524,701</u>
Comprehensive income							
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>50,014</u>	<u>50,014</u>	<u>10,226</u>	<u>60,240</u>
Other comprehensive income	<u>—</u>	<u>—</u>	<u>1,418</u>	<u>—</u>	<u>1,418</u>	<u>—</u>	<u>1,418</u>
Total comprehensive income . . .	<u>—</u>	<u>—</u>	<u>1,418</u>	<u>50,014</u>	<u>51,432</u>	<u>10,226</u>	<u>61,658</u>
Transactions with owners							
Non-controlling interests arising on business combination (Note 34(c))	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>37,790</u>	<u>37,790</u>
Changes in ownership interests in subsidiaries without change of control (Note 33 (c) and (d)) . .	<u>—</u>	<u>—</u>	<u>(48,656)</u>	<u>—</u>	<u>(48,656)</u>	<u>(129,784)</u>	<u>(178,440)</u>
Issuance of ordinary shares (Note 17(d))	<u>45</u>	<u>555,987</u>	<u>(233,930)</u>	<u>—</u>	<u>322,102</u>	<u>—</u>	<u>322,102</u>
Total transaction with owners . .	<u>45</u>	<u>555,987</u>	<u>(282,586)</u>	<u>—</u>	<u>273,446</u>	<u>(91,994)</u>	<u>181,452</u>
Balance at June 30, 2013	<u>46</u>	<u>555,987</u>	<u>(16,150)</u>	<u>134,532</u>	<u>674,415</u>	<u>93,396</u>	<u>767,811</u>

	Attributable to owners of the Company				Non-controlling interests	Total equity
	Combined capital	Other reserves	Retained earnings	Total		
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
(Unaudited)						
Balance at January 1, 2012	<u>1</u>	<u>51,871</u>	<u>39,850</u>	<u>91,722</u>	<u>161,526</u>	<u>253,248</u>
Comprehensive income						
Profit for the period	<u>—</u>	<u>—</u>	<u>20,141</u>	<u>20,141</u>	<u>24,428</u>	<u>44,569</u>
Other comprehensive income	<u>—</u>	<u>347</u>	<u>—</u>	<u>347</u>	<u>—</u>	<u>347</u>
Total comprehensive income . . .	<u>—</u>	<u>347</u>	<u>20,141</u>	<u>20,488</u>	<u>24,428</u>	<u>44,916</u>
Transactions with owners						
Non-controlling interests arising on business combination (Note 34(b))	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16,817</u>	<u>16,817</u>
Consideration paid to the then equity owners and the non-controlling interests for acquisition of a subsidiary under common control	<u>—</u>	<u>(9,752)</u>	<u>—</u>	<u>(9,752)</u>	<u>(248)</u>	<u>(10,000)</u>
Total transaction with owners . .	<u>—</u>	<u>(9,752)</u>	<u>—</u>	<u>(9,752)</u>	<u>16,569</u>	<u>6,817</u>
Balance at June 30, 2012	<u>1</u>	<u>42,466</u>	<u>59,991</u>	<u>102,458</u>	<u>202,523</u>	<u>304,981</u>

APPENDIX I

ACCOUNTANT’S REPORT

Combined Cash Flow Statements

		Year ended December 31,			Six months ended June 30,	
		2010	2011	2012	2012	2013
Notes		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash flows from operating activities						
	29	15,207	26,408	46,332	9,932	43,487
		(720)	—	(340)	—	(1,634)
		(2,752)	(10,695)	(21,086)	(10,259)	(10,359)
Net cash generated from/(used in) operating activities . . .		11,735	15,713	24,906	(327)	31,494
Cash flows from investing activities						
	29(c)	—	(229,235)	(61,093)	20,907	7,237
	12	—	—	(10,000)	—	—
		(23,991)	(19,987)	(38,039)	(26,463)	(38,788)
		—	(17,000)	(10,908)	(10,908)	(3,084)
		—	(3)	—	—	(71)
		—	—	(3,000)	—	—
		—	—	—	—	31
		—	—	—	—	3,000
		—	(8,000)	(1,000)	—	(1,000)
		—	—	9,000	8,000	1,000
		(11)	11	(2,657)	—	(1,501)
		—	27,500	—	—	—
	29(b)	—	—	116	—	2,631
		—	—	—	—	2,000
Net cash used in investing activities		(24,002)	(246,714)	(117,581)	(8,464)	(28,545)

APPENDIX I

ACCOUNTANT’S REPORT

	<i>Notes</i>	Year ended December 31,			Six months ended June 30,	
		2010	2011	2012	2012	2013
		RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Cash flows from financing activities						
Consideration paid to the then equity owners and the non-controlling interests for acquisition of a subsidiary under common control		—	(100,000)	(130,000)	(8,000)	—
Loan provided by a related party		—	100,000	—	—	—
Cash receipt from transaction with non-controlling interests	33(a)	70,000	—	58,345	—	—
Cash paid for acquiring additional interests in subsidiaries without change of control		—	—	—	—	(348,440)
Proceeds from borrowings . . .		—	—	30,000	—	99,000
Repayment of borrowings . . .		(15,000)	—	—	—	(45,582)
Repayment of loan provided by a related party		—	—	—	—	(100,000)
Capital contributions by the then equity owners and non-controlling interests		8,336	230,000	285,685	—	—
Proceeds from issuance of ordinary shares		—	1	—	—	322,012
Net cash generated from/(used in) financing activities . . .		<u>63,336</u>	<u>230,001</u>	<u>244,030</u>	<u>(8,000)</u>	<u>(73,010)</u>
Net increase/(decrease) in cash and cash equivalents.		51,069	(1,000)	151,355	(16,791)	(70,061)
Cash and cash equivalents at beginning of the year/period		13,308	62,750	61,142	61,142	212,466
Exchange losses on cash and cash equivalents		<u>(1,627)</u>	<u>(608)</u>	<u>(31)</u>	<u>(31)</u>	<u>(213)</u>
Cash and cash equivalents at end of the year/period . . .		<u>62,750</u>	<u>61,142</u>	<u>212,466</u>	<u>44,320</u>	<u>142,192</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION OF THE GROUP AND REORGANISATION

(a) General information of the Group

The Company was incorporated in the Cayman Islands on May 13, 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company’s registered office is the Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman, KY1-1208, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries now comprising the group (the “Group”) are principally engaged in the development, manufacturing and sale of (i) infusion set products (the “Infusion Set Business”); and (ii) orthopedic implants (the “Orthopedic Implant Business,” together with the Infusion Set Business, collectively known as the “[●]”) in the People’s Republic of China (the “PRC”).

(b) Reorganisation

The [●] were controlled by Ms. Yufeng Liu (“Ms. Liu”) at the beginning of the Relevant Periods, or since the date when the companies first came under the common control by Ms. Liu, whichever is a shorter period.

Prior to incorporation of the Company and the completion of the reorganization as described below, the [●] Businesses were controlled through two holding companies, PWM Investment Limited (“PWM Investment”) and PW Medtech (Beijing) Limited (previously known as “Beijing Bright Westward Investment Consultancy Co., Ltd.,” hereafter referred to as “PWM Beijing”). PWM Investment is a limited liability company established in Hong Kong, while PWM Beijing is a limited liability company established in the PRC. Both companies are controlled and beneficially owned by Ms. Liu through Cross Mark Limited (“Cross Mark”), a company established in the BVI and wholly owned by Ms. Liu.

In preparation of the [●], a group reorganisation (the “Reorganisation”) was undertaken pursuant to which the group companies engaged in the [●] controlled by PWM Investment and PWM Beijing were transferred to the Company. The other shareholders of the [●] also had transferred their equity interests in the [●] in exchange for the shares of the Company. The Reorganisation involved the following:

- (1) On May 13, 2011, the Company (previously known as “Pyholding Limited”) was incorporated in the Cayman Islands with 100 issued combined capital of US\$1.00 each allotted and issued to Cross Mark.
- (2) On June 29, 2011, Health Access Limited (“Health Access”) was incorporated in Hong Kong with one issued combined capital of HK\$1.00 allotted and issued to the Company.
- (3) On September 15, 2011, Cross Mark transferred the whole equity interests in PWM Beijing, which owned the Infusion Set Business, to Health Access at a cash consideration of RMB220,000,000. Upon completion of the transfer, PWM Beijing became an indirect wholly owned subsidiary of the Company.
- (4) Pursuant to an instrument of transfer on January 12, 2012, PWM Beijing acquired 97.5% and 2.5% equity interests in Beijing Zhong Jie Tian Gong Medical Technology Co., Ltd. (“Zhong Jie Tian Gong”) from Ms. Liu and an individual with an aggregated cash consideration of RMB10,000,000. Upon completion of the transfer, Beijing Zhong Jie Tian Gong became an indirect wholly owned subsidiary of the Company.

APPENDIX I

ACCOUNTANT’S REPORT

- (5) Pursuant to an instrument of transfer on July 11, 2013, the Company acquired 100% equity interests in PWM Investment, which contain the Orthopedic Implant Business from each of its existing shareholders, namely, Cross Mark, WP X Asia Medical Devices holding Limited (“WP X”) and Sparkle Wealthy Limited (“Sparkle Wealthy”) and the consideration is satisfied by the Company issuing and allotting 21,658,670 new shares.
- (6) After the completion of the Reorganisation and common control transaction as described above, the Company becomes the holding company of the subsidiaries now comprising the Group.

Upon completion of the Reorganisation and as of the date of this report, the Company has direct or indirect interests in the following subsidiaries:

									Principal activities or place of operation				
Company name	Place of incorporation/ establishment	Date of incorporation/ establishment	Registered/Issued and paid-up capital	Effective equity interests held						Statutory auditors			
								As at the date of this report					
				December 31,			June 30,						
				2010	2011	2012	2013			2010	2011	2012	
Directly owned:													
PWM Investment	Hong Kong/Limited liability company	October 30, 2009	10,000 ordinary shares of HK\$1 each	53.3%	53.3%	51.7%	51.7%	100%	Investment holding	(i)	(i)	(i)	
Health Access	Hong Kong/Limited liability company	June 29, 2011	10,000 ordinary shares of HK\$1 each	n.a	100%	100%	100%	100%	Investment holding	n.a	(x)	(i)	
Indirectly owned:													
Health Forward Holdings Limited	Hong Kong/Limited liability company	January 21, 2010	ordinary shares of HK\$1 each	53.3%	53.3%	51.7%	51.7%	100%	Investment holding	(i)	(i)	(i)	
PWM Beijing (普華和順 (北京) 醫療 科技有限公司)	PRC/Limited liability company	August 10, 2000	RMB54,300,000	—	100%	100%	100%	100%	Investment holding	n.a	(x)	(vi)	
Zhong Jie Tian Gong (北京中傑天工醫療科技 有限公司)	PRC/Limited liability company	September 22, 2011	RMB10,000,000	—	97.5%	100%	100%	100%	Infusion Set Business	n.a	(x)	(vi)	
Beijing Fert Technology Co., Ltd. (北京伏爾特技術 有限公司)	PRC/Limited liability company	September 23, 1997	RMB66,000,000	—	55.625%	100%	100%	100%	Infusion Set Business	(v)	(v)	(vi)	
Tianjin Walkman Biomaterial Co., Ltd. (天津市威曼 生物材料有限公司) (a) . .	PRC/Limited liability company	November 8, 2001	RMB25,742,000	39.19%	39.19%	40.85%	51.7%	100%	Orthopedic Implant Business	(iii)	(iii)	(iii)	
Tianjin Shengge Biology Engineering Co., Ltd. (天津市聖格生物工程 有限公司) (a)	PRC/Limited liability company	March 21, 2006	RMB10,000,000	39.19%	39.19%	40.85%	51.7%	100%	Orthopedic Implant Business	(iii)	(iii)	(iii)	
Anyang Weili Medical Instrument Manufacturing Co., Ltd. (安陽市偉力醫療器械製造 有限責任公司) (a)	PRC/Limited liability company	August 12, 1996	RMB3,000,000	39.19%	39.19%	40.85%	51.7%	100%	Orthopedic Implant Business	(iv)	(iv)	(iv)	
Tianjin Yinger Biotechnology Co., Ltd. (天津市英爾 生物技術有限公司) (a) . .	PRC/Limited liability company	October 22, 2009	RMB8,500,000	—	—	40.85%	51.7%	—	Investment holding	(iii)	(x)	(iii)	
Tianjin Renli Orthopedic Appliances Co., Ltd. (天津市人立骨科器械 有限公司) (a)	PRC/Limited liability company	September 2, 2002	RMB22,666,000	—	—	24.51%	31.2%	—	Orthopedic Implant Business	(ii)	(ii)	(iii)	
Xuzhou Yijia Medical Device Co.,Ltd. (徐州一佳醫療 器械有限公司)	PRC/Limited liability company	June 30, 2003	RMB7,000,000	—	—	—	100%	100%	Infusion Set Business	(vii)	(vii)	(vii)	

APPENDIX I

ACCOUNTANT’S REPORT

Company name	Place of incorporation/ establishment	Date of incorporation/ establishment	Registered/Issued and paid-up capital	Effective equity interests held					Principal activities or place of operation	Statutory auditors		
				December 31,			June 30,	As at the date of this report				
				2010	2011	2012	2013					
Shandong Fert Technology Co., Ltd. (山東伏爾特技術有限公司).	PRC/Limited liability company	January 8, 2013	RMB10,000,000	—	—	—	100%	100%	Infusion Set Business	n.a	n.a	n.a
Shenzhen Bone Medical Device Co., Ltd (深圳市博恩醫療器材有限公司).	PRC/Limited liability company	November 12, 2002	RMB1,346,154	—	—	—	51.7%	100%	Orthopedic Implant Business	(viii)	(ix)	(ix)
Lhasa Tianqiong Investment Management Co., Ltd (拉薩天穹投資管理有限公司).	PRC/Limited liability company	January 30, 2013	RMB7,000,000	—	—	—	100%	100%	Investment holding	n.a	n.a	n.a
Tianjin Yingshang Technological Development Co., Ltd (天津市英尚科技發展有限公司).	PRC/Limited liability company	October 16, 2009	RMB6,000,000	—	—	—	100%	100%	Investment holding	(x)	(x)	(x)

Note: n.a (“Not applicable”)

(a) Cross Mark, the Parent of the Company has the power to govern the financial and operating policy of these companies by securing a majority of voting rights in the meeting of Board of Directors. Therefore, these companies are regarded as subsidiaries of the Group during the Relevant Periods;

(i) FTW & Partners CPA Limited

(ii) RSM China CPA Limited (中瑞岳華會計師事務所有限公司)

(iii) Tianjin Jinbei CPA Limited(天津津北會計師事務所有限公司)

(iv) Henan Tongxin CPA Limited (河南同心會計師事務所有限公司)

(v) Beijing Yonghongsheng CPA Limited (北京永泓勝會計師事務所有限公司)

(vi) Beijing Lante CPA Limited (北京藍特會計師事務所有限公司)

(vii) Xuzhou Gongzheng CPA Limited(徐州公正會計師事務所)

(viii) Shenzhen HuaLong partners CPA General Partner (深圳市華隆會計師事務所)

(ix) Shenzhen WongGa partners CPA General Partner (深圳市皇嘉會計師事務所)

(x) Except for the above mentioned companies, no audited statutory financial statements were prepared as it is not required to issue audited financial statements under the statutory requirement of its respective place of incorporation.

All the companies incorporated in the PRC and Hong Kong have adopted December 31 as their financial year-end date for statutory reporting purpose.

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

APPENDIX I

ACCOUNTANT’S REPORT

2 BASIS OF PRESENTATION

Ms. Liu owned and controlled the companies now comprising the Group immediately before the Reorganisation and continues to own and control these companies after the Reorganisation.

For the purpose of this report, the Financial Information has been prepared on a basis in accordance with the principles of the [●]. The combined balance sheets, the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group for the Relevant Periods have been prepared as if the current group structure had been in existence throughout the Relevant Periods, since their respective dates of incorporation/establishment, or since the date when the companies first came under the control of Ms. Liu, whichever is the shorter period, in a manner similar to the principles of merger accounting under Hong Kong Accounting Guidelines 5 “Merger Accounting for Common Control Combination” issued by the HKICPA.

For companies acquired from third parties during the Relevant Periods, they were included in the Financial Information from the respective dates of acquisition as mentioned in Note 34.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

3 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 throughout the Relevant Periods unless otherwise stated.

3.1 Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“[●]”) issued by the HKICPA and are set out below. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and available-for-sale financial assets.

The preparation of the Financial Information in conformity with [●] requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 5.

New standards, amendments and interpretation to the existing standards that are effective during the Relevant Periods have been adopted by the Group consistently throughout the Relevant Periods unless prohibited by the relevant standard to apply retrospectively.

APPENDIX I

ACCOUNTANT’S REPORT

New standards, amendments and interpretations published by the HKICPA that are not yet effective and have not been early adopted by the Group.

	Effective for annual periods beginning on or after
HKAS 32 “Financial instruments: Presentation — offsetting financial assets and financial liabilities” — Amendment	January 1, 2014
Amendments to [●] 10 and [●] 12 (revised 2011) “Investment entities”	January 1, 2014
Amendments to HKAS 36 Recoverable amount disclosures for non-financial assets . . .	January 1, 2014
HK(IFRIC)-Int 21 “Levies”	January 1, 2014
Amendments to HKAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
[●] 9 “Financial Instruments”	January 1, 2015
[●] 7 and [●] 9 (Amendments) “Mandatory effective date and transition disclosures”	January 1, 2015

The Group is in the process of making an assessment of the impact of these standards, amendments and interpretations on the Group’s financial results in the initial application. The adoption of the above is not expected to have a material effect on the Group’s operating results or financial position.

3.2 Subsidiaries

3.2.1 Consolidation

Subsidiaries are all entities (including structure entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the 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 fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combinations

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

APPENDIX I

ACCOUNTANT’S REPORT

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 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.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(b) *Merger accounting for common control combination*

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party’s perspective. No amount is recognised with respect to goodwill or any excess of an acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party’s interest.

The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of common control combination.

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or businesses are eliminated. Unrealised losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or businesses have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting, are recognised as an expense in the period in which they are incurred.

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

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

3.2.2 *Separate financial statements*

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

APPENDIX I

ACCOUNTANT’S REPORT

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

3.3 Segment reporting

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

3.4 Foreign currency translation

(i) *Functional and presentation currency*

Items included in the combined financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The combined financial statements are presented in RMB, which is the Company’s functional and the 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 combined income statements.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the combined income statements within ‘finance income or cost’. All other foreign exchange gains and losses are presented in the combined income statements within ‘other gains/(losses)-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.

(iii) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (2) income and expenses for each combined income statements are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (3) all resulting exchange differences are recognised in other comprehensive income.

APPENDIX I

ACCOUNTANT’S REPORT

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

3.5 Property, plant and equipment

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

Subsequent costs are included in the assets’ carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the combined 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	10–48 years
— Leasehold improvements	Shorter of remaining lease term or useful lives
— Furniture, fittings and office equipment	3–10 years
— Machinery and equipment	5–10 years
— Motor vehicles	5 years

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within ‘other gains/(losses) — net’ in the combined income statements.

3.6 Intangible assets

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group’s interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

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

APPENDIX I

ACCOUNTANT’S REPORT

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

(b) *Customer relationship*

Customer relationship acquired in a business combination is recognised at fair value at the acquisition date and are amortised using the straight-line method over their estimated useful lives of 6 years.

(c) *Trademark and technology know-how*

Separately acquired trademarks and technology know-how are shown at historical cost. Trademarks and technology know-how acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and technology know-how have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and technology know-how over their estimated useful lives of 15 years.

(d) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

3.7 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.

3.8 Financial assets

3.8.1 *Classification*

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. The Group’s financial assets at fair value through profit or loss refer to “investment in structured products” in the combined balance sheets (Note 11).

APPENDIX I

ACCOUNTANT’S REPORT

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group’s loans and receivables comprise ‘trade and other receivables’, ‘restricted cash’, ‘cash and cash equivalents’ and ‘amount due from related parties’ in the combined balance sheets (Note 14, 15, 16 and 32).

(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.

3.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised and subsequently carried at fair value, and transaction costs are expensed and the fair value adjustments are recognised in the combined 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.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the combined income statements as ‘other gains/(losses)-net’.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the combined income statements as part of other income. Dividends on available-for-sale equity instruments are recognised in the combined income statements as part of other income when the 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 Group has transferred substantially all risks and rewards of ownership.

3.9 Impairment of financial assets

(a) *Asset carried at amortised cost*

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

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

APPENDIX I

ACCOUNTANT’S REPORT

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 combined 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 Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

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

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

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the 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 combined income statements on equity instruments are not reversed through the combined 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 combined income statements.

3.10 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.

3.11 Trade and other receivables

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

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

3.12 Cash and cash equivalents

In the combined cash flow statements, cash and cash equivalents includes cash in hand, and deposits held at call with banks and short-term highly liquid investments with original maturity of three months or less.

APPENDIX I

ACCOUNTANT’S REPORT

3.13 Restricted cash

Restricted cash represents guaranteed deposits held in a separate reserve account to be pledged to the bank for issuance of trade facilities such as bills payable or bankers’ guarantee. Such restricted cash will be released when the Group settle the related trade facilities.

3.14 Combined capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.15 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.

3.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the combined income statements over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

3.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

APPENDIX I

ACCOUNTANT’S REPORT

3.18 Current and deferred income tax

The tax expense for the Relevant Periods comprises current and deferred tax. Tax is recognised in the combined 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 Company’s subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined 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 is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(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.

3.19 Employee benefits

(a) *Pension obligations*

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

APPENDIX I

ACCOUNTANT’S REPORT

expenses as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group’s future obligations to such defined-contribution pension plans even if the staff leaves the Group.

(b) *Housing benefits*

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

(c) *Bonus entitlements*

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

3.20 Provisions and contingent liabilities

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

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

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

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

A contingent liability is not recognised but is disclosed in the Group’s combined 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.

3.21 Revenue recognition

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

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

APPENDIX I

ACCOUNTANT’S REPORT

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

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

(b) *Interest income*

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

(c) *Dividend income*

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

3.22 Government grants

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

Government grants relating to costs are deferred and recognised in the combined 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 combined income statements on a straight-line basis over the expected useful lives of the related assets.

3.23 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 combined income statements on a straight-line basis over the period of the lease.

3.24 Dividend distribution

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

3.25 Research and development

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

APPENDIX I

ACCOUNTANT’S REPORT

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

Risk management is carried out by finance department and Chief Financial Officer (the “CFO”) under policies approved by the board of directors. Group treasury identifies and evaluates in close co-operation with the Group’s operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar (“US\$”). Foreign exchange risk arises from foreign currencies held in certain overseas subsidiaries. The Group does not hedge against any fluctuation in foreign currency during the Relevant Periods. management may consider entering into currency hedging transactions to manage the Group’s exposure towards fluctuations in exchange rates in future.

As at December 31, 2010, 2011, 2012 and June 30, 2012 and 2013, if US\$ had strengthened/weakened by 5% against RMB with all other variables held constant, the net profit and equity would have changed mainly as a result of foreign exchange gains/losses on translation of US\$ denominated cash and cash equivalents.

	As at December 31,			As at June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Year/period ended:					
Increase/(decrease)					
— Strengthened 5%	2,142	605	7,088	3,211	1,061
— Weakened 5%	(2,142)	(605)	(7,088)	(3,211)	(1,061)

(b) Cash flow and fair value interest rate risk

Other than bank balances with variable interest rate, the Group has no other significant interest-bearing assets. Management does not anticipate any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

The Group’s interest rate risk arises from borrowings including interest-free loan received from a related party. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, which is partially offset by cash, held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risks.

APPENDIX I

ACCOUNTANT’S REPORT

The Group adjusts the proportion of fixed interest rate debts and variable interest rate debts when the market environment changed. As at December 31, 2010, 2011, 2012, and June 30, 2012, and 2013, the Group’s interest-bearing debt at variable rates and fixed rates are as follows:

	As at December 31,			As at June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Debt at fixed rate	—	—	10,000	—	61,318
Debt at floating rate.	—	—	20,000	—	36,000
	—	—	30,000	—	97,318

As at December 31, 2010, 2011, 2012 and June 30, 2012 and 2013, if the floating interest rate on borrowings from third parties had been higher/lower by 50 basis points, the net profit and equity would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	As at December 31,			As at June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Year/period ended:					
(Decrease)/increase					
— Strengthened 50 basis points.	—	—	(20)	—	(71)
— Weakened 50 basis points	—	—	20	—	71

As at December 31, 2010, 2011, 2012 and June 30, 2012 and 2013, if the fixed interest rate on borrowings from third parties had been higher/lower by 50 basis points, the fair value would have changed mainly as a result of higher/lower interest expenses on fixed borrowings. Details of changes are as follows:

	As at December 31,			As at June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
At end of year/period:					
(Decrease)/increase					
— Strengthened 50 basis points.	—	—	(33)	—	(155)
— Weakened 50 basis points	—	—	40	—	192

The interest-free loan received from a related party expose the Group to fair value interest risk. The fair value of the interest-free loan are disclosed in Note 32(b).

APPENDIX I

ACCOUNTANT’S REPORT

As at December 31, 2010, 2011, 2012 and June 30, 2012 and 2013, if the interest rate on borrowings from a related party had been higher/lower by 50 basis points, the net profit, equity and fair value would have changed mainly as a result of higher/lower interest expenses on the related party borrowings. Details of changes are as follows:

	As at December 31,			As at June 30,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net profit and equity					
Year/period ended:					
(Decrease)/increase					
— Strengthened 50 basis points	—	(143)	(238)	(86)	(115)
— Weakened 50 basis points	—	146	241	87	117
Fair value					
Year/period ended:					
(Decrease)/increase					
— Strengthened 50 basis points	—	(576)	(153)	(372)	—
— Weakened 50 basis points	—	583	154	375	—

(c) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and amounts due from related parties included in the Financial Information represent the Group’s maximum exposure to credit risk in relation to its financial assets. The objective of the Group’s measures to manage credit risk is to control potential exposure to recoverability problem.

The credit risk of bank balances is limited because the counterparties are banks with good reputation and most of them are the four largest state-owned commercial banks, or public listed companies. Most of the bank deposits of the Group are placed with financial commercial banks with a BBB+ or above Standard and Poor credit rating.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty’s financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure the follow-up action is taken to recover overdue debts. We grant credit limits to certain customers in consideration of their payment history and business performance. Prepayment is usually required for orders placed over credit limits. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

APPENDIX I

ACCOUNTANT’S REPORT

(d) *Liquidity risk*

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

The following table details the remaining contractual maturities at the year end dates during the relevant periods of Group’s financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the year end dates during the Relevant Periods) and the earliest date the Group may required to pay.

	Within 1 year RMB’000	Between 1 and 2 years RMB’000	Total RMB’000
At December 31, 2010			
Amount due to related parties	7,034	—	7,034
Financial liabilities as included in trade and other payables	<u>10,370</u>	<u>—</u>	<u>10,370</u>
	<u>17,404</u>	<u>—</u>	<u>17,404</u>
At December 31, 2011			
Amount due to related parties	120,000	100,000	220,000
Financial liabilities as included in trade and other payables	<u>17,845</u>	<u>—</u>	<u>17,845</u>
	<u>137,845</u>	<u>100,000</u>	<u>237,845</u>
At December 31, 2012			
Amount due to related parties	110,123	—	110,123
Financial liabilities as included in trade and other payables	199,643	—	199,643
Borrowings, including interests	<u>31,470</u>	<u>—</u>	<u>31,470</u>
	<u>341,236</u>	<u>—</u>	<u>341,236</u>
At June 30, 2013			
Amount due to related parties	13,885	—	13,885
Financial liabilities as included in trade and other payables	67,572	—	67,572
Borrowings, including interests	100,905	—	100,905
Financial guarantee	<u>4,900</u>	<u>—</u>	<u>4,900</u>
	<u>187,262</u>	<u>—</u>	<u>187,262</u>

APPENDIX I

ACCOUNTANT’S REPORT

(e) Price risk

The Group exposes to commodity price risk, mainly due to (i) the fluctuations in prices of metal materials, including titanium alloy and medical grade stainless steel, which are the key raw materials to the Group’s products of Orthopedic Implant Business, and (ii) the fluctuations in prices of plastic, which are the key raw materials to the Group’s products of its Infusion Set Business. During the Relevant Periods, the management considers the price risk exposure is not material, and the Group has the flexibility to pass the increases in raw material costs to the Group’s customers.

4.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings are current borrowings as shown in the combined balance sheets plus amounts due to related parties of non — trading nature. Total capital is calculated as ‘total equity’ as shown in the combined balance sheets plus total borrowings.

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Total borrowings	7,034	212,350	138,153	111,203
Total equity	128,526	253,248	524,701	767,811
Total capital	135,560	465,598	662,854	879,014
Gearing ratio (%)	5.19%	45.61%	20.84%	12.65%

4.3 Fair value estimation

(a) The Group adopts the amendment to [●] 7 for financial instruments that are measured in the combined balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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).

APPENDIX I

ACCOUNTANT’S REPORT

(b) *Fair value measurements using significant unobservable inputs (level 3)*

— *Available-for-sale financial assets (Note 10)*

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
At beginning of the year/period	—	—	100	100	—
Acquisition of a subsidiary (Note 34(a))	—	27,600	—	—	—
Disposals	—	(27,500)	(100)	—	—
At end of the year/period	—	100	—	100	—

— *Investment in structured products (Note 11)*

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
At beginning of the year/period.	—	—	—	—	3,000
Addition.	—	—	3,000	—	—
Disposal.	—	—	—	—	(3,000)
At end of the year/period	—	—	3,000	—	—

(c) *Fair value of financial assets and liabilities measured at amortised cost*

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade receivables;
- Deposits, prepayments and other receivables (except for prepayments);
- Cash and cash equivalents (including restricted cash);
- Trade payables;
- Other payables, accruals and other current liabilities (except for advance from customers and value added tax and other taxes);
- Borrowings.

APPENDIX I

ACCOUNTANT’S REPORT

5 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.

5.1 Critical accounting estimates and assumptions

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

(a) *Income taxes*

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

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% PRC withholding tax (“WHT”). If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

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

(b) *Estimated write-downs of inventories*

The 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) *Impairment of trade and other receivables*

Management reviews its trade and other receivables for objective evidence of impairment. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered as objective evidence that a receivable is impaired. In determining this, management makes judgments as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect on the market and economic environment in which the debtor operates in. Where there is objective evidence of impairment, management makes judgments as to whether an impairment loss should be recorded as an expense.

(d) *Impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 3.6(a). The recoverable amounts of cash-generating units (“CGU”) have been determined based on value-in-use calculations. These calculations require the use of estimates.

APPENDIX I

ACCOUNTANT’S REPORT

According to the valuations results produced by the management of the Company based on the assumptions as disclosed in Note 9, management considered that no impairment charge was required against goodwill arising from acquisitions during the Relevant Periods.

In the opinion of the Company’s directors, regarding infusion set business or orthopedic implants business, had the gross margin been 10% lower with other assumptions held constant, or had the terminal growth rate been 1% lower with other assumptions held constant, or had the discount rate been 1% higher with other assumptions held constant, there would be no impairment charge needed to be made against goodwill of the Group for the relevant Period.

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

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

(f) *Control the entities engaged in Orthopedic Implant Business through majority voting rights*

Ms. Liu originally owned over 50% equity interests in Orthopedic Implant Business through Cross Mark. After a series of transactions with the non-controlling interests as described in Note 33(a)(i), Ms. Liu’s effective equity interests were diluted to less than 50% upon the completion of the Reorganisation. However, Ms. Liu still has the ability to control Orthopedic Implant Business through her majority voting rights, including matters relating to:

- management, especially the composition of the senior management;
- business strategies and plans;
- distribution of dividends;
- the election of the directors and supervisors.

Accordingly, these directly or indirectly owned entities engaged in Orthopedic Implant Business are regarded as subsidiaries and fully accounted for in the combined financial statements.

(g) *Sales returns and exchange*

The Group’s distribution agreements do not allow product returns or exchanges without the management’s consent. However, in practice, the Group has historically accepted certain returns and exchanges by distributors of Orthopedic Implant Business. The Group believes that, based on past experience, the percentage of subsequent returns or exchange will be approximately 15% of annual orthopaedic sales. Therefore, the Group has recognised revenue with a corresponding provision against revenue for estimated returns with 15% of annual orthopaedic sales for the Relevant Periods. If the estimate had been changed by is 1% higher/lower (return rate being 16% or 14%), revenue for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2012 and 2013 would have been reduced/increased by RMB934,000, RMB1,173,000, RMB1,410,000, RMB741,872 and RMB1,051,000, respectively.

6 SEGMENT INFORMATION

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

APPENDIX I

ACCOUNTANT’S REPORT

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

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

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

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

Year ended December 31, 2010	Infusion Set Business	Orthopedic Implant Business	Elimination	Total
Revenue from external customers.	—	60,816	—	60,816
Cost of sales.	—	(16,629)	—	(16,629)
Gross profit.	—	44,187	—	44,187
Selling expenses	—	(13,071)	—	(13,071)
Administrative expenses.	—	(10,621)	—	(10,621)
Research and development expenses.	—	(1,153)	—	(1,153)
Other gains — net.	—	30	—	30
Segment profits	—	19,372	—	19,372
Finance income.				38
Finance costs				(2,142)
Finance costs — net.				(2,104)
Profit before tax				17,268
Segment assets.	—	165,559	—	165,559
Deferred tax assets				1,408
Total assets				166,967
Segment liabilities	—	38,441	—	38,441
Other segment information				
Additions to property, plant and equipment (Note 8).	—	21,094	—	21,094
Amortisation of land use right (Note 7) . . .	—	60	—	60
Depreciation of property, plant and equipment (Note 8)	—	2,353	—	2,353
Amortisation of intangible assets (Note 9). .	—	24	—	24

APPENDIX I

ACCOUNTANT’S REPORT

Year ended December 31, 2011	Infusion Set Business	Orthopedic Implant Business	Elimination	Total
Revenue from external customers.	99,888	75,379	—	175,267
Cost of sales.	<u>(45,692)</u>	<u>(20,458)</u>	<u>—</u>	<u>(66,150)</u>
Gross profit.	<u>54,196</u>	<u>54,921</u>	<u>—</u>	<u>109,117</u>
Selling expenses	(5,020)	(18,385)	—	(23,405)
Administrative expenses	(5,903)	(11,805)	—	(17,708)
Research and development expenses.	(4,812)	(2,252)	—	(7,064)
Other gains — net.	<u>824</u>	<u>42</u>	<u>—</u>	<u>866</u>
Segment profits	<u>39,285</u>	<u>22,521</u>	<u>—</u>	<u>61,806</u>
Finance income.				201
Finance costs				<u>(4,679)</u>
Finance costs — net.				<u>(4,478)</u>
Profit before tax				<u>57,328</u>
Segment assets.	<u>358,933</u>	<u>179,220</u>	<u>—</u>	<u>538,153</u>
Deferred tax assets				<u>4,007</u>
Total assets				<u>542,160</u>
Segment liabilities	<u>243,091</u>	<u>35,160</u>	<u>—</u>	<u>278,251</u>
Deferred tax liabilities				<u>10,661</u>
Total liabilities.				<u>288,912</u>
Other segment information				
Additions to property, plant and equipment (Note 8)	6,733	15,710	—	22,443
Amortisation of land use right (Note 7) . . .	—	60	—	60
Depreciation of property, plant and equipment (Note 8)	5,674	3,806	—	9,480
Amortisation of intangible assets (Note 9) . .	2,699	24	—	2,723

APPENDIX I

ACCOUNTANT’S REPORT

<u>Year ended December 31, 2012</u>	<u>Infusion Set Business</u>	<u>Orthopedic Implant Business</u>	<u>Elimination</u>	<u>Total</u>
Revenue from external customers.	233,974	97,567	—	331,541
Cost of sales.	<u>(88,808)</u>	<u>(23,886)</u>	<u>—</u>	<u>(112,694)</u>
Gross profit.	<u>145,166</u>	<u>73,681</u>	<u>—</u>	<u>218,847</u>
Selling expenses	(28,804)	(18,017)	—	(46,821)
Administrative expenses	(18,952)	(16,651)	—	(35,603)
Research and development expenses.	(7,115)	(2,397)	—	(9,512)
Other gains — net.	<u>610</u>	<u>960</u>	<u>—</u>	<u>1,570</u>
Segment profits	<u>90,905</u>	<u>37,576</u>	<u>—</u>	<u>128,481</u>
Finance income.				329
Finance costs				<u>(9,089)</u>
Finance costs — net.				<u>(8,760)</u>
Profit before tax				<u>119,721</u>
Segment assets.	<u>554,397</u>	<u>361,170</u>	<u>(179)</u>	<u>915,388</u>
Deferred tax assets				<u>5,925</u>
Total assets				<u>921,313</u>
Segment liabilities	<u>327,796</u>	<u>60,606</u>	<u>(179)</u>	<u>388,223</u>
Deferred tax liabilities				<u>8,389</u>
Total liabilities.				<u>396,612</u>
Other segment information				
Additions to property, plant and equipment (Note 8)	11,655	13,677	—	25,332
Amortisation of land use right (Note 7) . . .	359	60	—	419
Depreciation of property, plant and equipment (Note 8)	8,882	4,559	—	13,441
Amortisation of intangible assets (Note 9) . .	4,048	24	—	4,072

APPENDIX I

ACCOUNTANT’S REPORT

Six months ended June 30, 2012	Infusion Set Business	Orthopedic Implant Business	Elimination	Total
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue from external customers.	100,205	45,568	—	145,773
Cost of sales.	<u>(42,663)</u>	<u>(11,858)</u>	<u>—</u>	<u>(54,521)</u>
Gross profit.	<u>57,542</u>	<u>33,710</u>	<u>—</u>	<u>91,252</u>
Selling expenses	(10,374)	(7,526)	—	(17,900)
Administrative expenses	(5,902)	(8,766)	—	(14,668)
Research and development expenses.	(3,780)	(871)	—	(4,651)
Other gains — net.	<u>758</u>	<u>929</u>	<u>—</u>	<u>1,687</u>
Segment profits	<u>38,244</u>	<u>17,476</u>	<u>—</u>	<u>55,720</u>
Finance income.				71
Finance costs				<u>(3,377)</u>
Finance costs — net.				<u>(3,306)</u>
Profit before tax				52,414
Segment assets.	<u>399,804</u>	<u>211,614</u>	<u>—</u>	<u>611,418</u>
Deferred tax assets				<u>6,599</u>
Total assets				<u>618,017</u>
Segment liabilities	<u>256,457</u>	<u>38,716</u>	<u>—</u>	<u>295,173</u>
Deferred tax liabilities				<u>8,937</u>
Total liabilities.				<u>304,110</u>
Other segment information				
Additions to property, plant and equipment (<i>Note 8</i>)	5,372	4,475	—	9,847
Amortisation of land use right (<i>Note 7</i>) . . .	51	30	—	81
Depreciation of property, plant and equipment (<i>Note 8</i>)	4,602	2,143	—	6,745
Amortisation of intangible assets (<i>Note 9</i>). .	2,024	12	—	2,036

APPENDIX I

ACCOUNTANT’S REPORT

<u>Six months ended June 30, 2013</u>	<u>Infusion Set Business</u>	<u>Orthopedic Implant Business</u>	<u>Elimination</u>	<u>Total</u>
Revenue from external customers.	147,057	71,693	—	218,750
Cost of sales.	<u>(49,882)</u>	<u>(21,478)</u>	<u>—</u>	<u>(71,360)</u>
Gross profit.	<u>97,175</u>	<u>50,215</u>	<u>—</u>	<u>147,390</u>
Selling expenses	(20,372)	(8,170)	—	(28,542)
Administrative expenses	(16,984)	(16,288)	—	(33,272)
Research and development expenses.	(3,044)	(3,570)	—	(6,614)
Other (losses)/gains — net	<u>(163)</u>	<u>414</u>	<u>—</u>	<u>251</u>
Segment profits	<u>56,612</u>	<u>22,601</u>	<u>—</u>	<u>79,213</u>
Finance income.				247
Finance costs				<u>(5,116)</u>
Finance costs — net				<u>(4,869)</u>
Profit before tax				<u><u>74,344</u></u>
Segment assets.	<u>587,788</u>	<u>419,879</u>	<u>—</u>	<u>1,007,667</u>
Deferred tax assets				<u>6,957</u>
Total assets				<u><u>1,014,624</u></u>
Segment liabilities	<u>169,906</u>	<u>60,229</u>	<u>—</u>	<u>230,135</u>
Deferred tax liabilities				<u>16,678</u>
Total liabilities.				<u><u>246,813</u></u>
Other segment information				
Additions to property, plant and equipment (Note 8)	23,815	26,509	—	50,324
Amortisation of land use right (Note 7)	369	30	—	399
Depreciation of property, plant and equipment (Note 8)	3,918	2,931	—	6,849
Amortisation of intangible assets (Note 9)	2,025	401	—	2,426

APPENDIX I

ACCOUNTANT’S REPORT

(b) Concentration of customers

During the Relevant Periods, revenue derived from sales made to one individual external customer amounted to 10% or more of the Group’s total revenue. These revenues were in the Infusion Set Business segment. The revenue attributed from the customer is as follows:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Infusion Set Business customer					
Fert Medical Device Co., Ltd. . . .	—	78,291	141,624	73,638	31,847

The trade receivable due from Fert Medical Device Co., Ltd. (“Fert Device”) as at December 31, 2010, 2011, 2012 and June 30, 2013 are as follows:

	As at December 31,			As at
	2010	2011	2012	June 30,
	RMB’000	RMB’000	RMB’000	2013
				RMB’000
Infusion Set Business customer				
Fert Device.	—	21,971	33,117	36,554

(c) Geographical segment information

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

7 LAND USE RIGHTS

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

	As at December 31,			As at June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
In the PRC, held on:					
Leases of between 47 to 50 years	2,732	2,672	31,161	31,499	52,237

APPENDIX I

ACCOUNTANT’S REPORT

	As at December 31,			As at June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Opening net book amount	2,792	2,732	2,672	2,672	31,161
Acquisition of subsidiaries (<i>Note 34(d)</i>)	—	—	—	—	9,410
Additions	—	—	28,908	28,908	12,065
Amortisation charge (<i>Note 24</i>).	(60)	(60)	(419)	(81)	(399)
Closing net book amount:	<u>2,732</u>	<u>2,672</u>	<u>31,161</u>	<u>31,499</u>	<u>52,237</u>
Cost	3,002	3,002	31,910	31,910	53,385
Accumulated amortisation.	<u>(270)</u>	<u>(330)</u>	<u>(749)</u>	<u>(411)</u>	<u>(1,148)</u>
	<u>2,732</u>	<u>2,672</u>	<u>31,161</u>	<u>31,499</u>	<u>52,237</u>

As at June 30, 2013, the Group is still in the process of applying for the ownership certificates of certain land with the aggregated carrying amounts amounted to RMB14,987,000.

Amortisation of land use right has been charged to the combined income statements as follows:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Cost of sales.	34	34	239	34	249
Administrative expenses.	<u>26</u>	<u>26</u>	<u>180</u>	<u>47</u>	<u>150</u>
	<u>60</u>	<u>60</u>	<u>419</u>	<u>81</u>	<u>399</u>

APPENDIX I

ACCOUNTANT’S REPORT

8 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Leasehold improvements	Furniture, fittings and office equipment	Machinery and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2010							
Cost.	12,914	456	952	8,048	929	5,969	29,268
Accumulated depreciation	(367)	—	(421)	(1,295)	(191)	—	(2,274)
Net book amount	12,547	456	531	6,753	738	5,969	26,994
Year ended December 31, 2010							
Opening net book amount	12,547	456	531	6,753	738	5,969	26,994
Additions	—	92	284	12,263	726	7,729	21,094
Transfer	1,108	—	—	138	—	(1,246)	—
Depreciation (Note 24)	(586)	(192)	(194)	(1,132)	(249)	—	(2,353)
Closing net book amount.	13,069	356	621	18,022	1,215	12,452	45,735
At December 31, 2010							
Cost.	14,022	548	1,236	20,449	1,655	12,452	50,362
Accumulated depreciation	(953)	(192)	(615)	(2,427)	(440)	—	(4,627)
Net book amount	13,069	356	621	18,022	1,215	12,452	45,735
Year ended December 31, 2011							
Opening net book amount	13,069	356	621	18,022	1,215	12,452	45,735
Additions	1,281	201	1,221	5,485	933	13,322	22,443
Acquisition of a subsidiary (Note 34(a)).	25,313	403	766	18,974	791	—	46,247
Transfer	2,470	—	—	—	—	(2,470)	—
Depreciation (Note 24)	(2,218)	(536)	(425)	(5,793)	(508)	—	(9,480)
Closing net book amount.	39,915	424	2,183	36,688	2,431	23,304	104,945
At December 31, 2011							
Cost.	43,086	1,152	3,223	44,908	3,379	23,304	119,052
Accumulated depreciation	(3,171)	(728)	(1,040)	(8,220)	(948)	—	(14,107)
Net book amount	39,915	424	2,183	36,688	2,431	23,304	104,945

APPENDIX I

ACCOUNTANT’S REPORT

	Buildings and facilities	Leasehold improvements	Furniture, fittings and office equipment	Machinery and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2012							
Opening net book amount	39,915	424	2,183	36,688	2,431	23,304	104,945
Additions	—	5,382	1,668	10,308	2,548	5,426	25,332
Acquisition of a subsidiary (Note 34(b)).	—	496	174	1,130	—	—	1,800
Transfer	24,621	1,136	—	—	—	(25,757)	—
Disposals.	—	—	(7)	(3,452)	—	—	(3,459)
Depreciation (Note 24)	(3,636)	(404)	(830)	(7,606)	(965)	—	(13,441)
Closing net book amount. . . .	60,900	7,034	3,188	37,068	4,014	2,973	115,177
At December 31, 2012							
Cost.	67,707	8,166	4,839	44,755	5,927	2,973	134,367
Accumulated depreciation	(6,807)	(1,132)	(1,651)	(7,687)	(1,913)	—	(19,190)
Net book amount	60,900	7,034	3,188	37,068	4,014	2,973	115,177
Six months ended June 30, 2013							
Opening net book amount	60,900	7,034	3,188	37,068	4,014	2,973	115,177
Additions	—	406	2,235	8,364	611	38,708	50,324
Acquisition of subsidiaries (Note 34(c) and (d))	15,209	—	127	3,635	60	—	19,031
Transfer	774	9,585	—	2,312	—	(12,671)	—
Disposals.	(3,278)	—	—	—	(18)	—	(3,296)
Depreciation (Note 24)	(2,413)	(454)	(588)	(2,787)	(607)	—	(6,849)
Closing net book amount. . . .	71,192	16,571	4,962	48,592	4,060	29,010	174,387
At June 30, 2013							
Cost.	79,411	18,157	7,188	59,066	6,344	29,010	199,176
Accumulated depreciation	(8,219)	(1,586)	(2,226)	(10,474)	(2,284)	—	(24,789)
Net book amount	71,192	16,571	4,962	48,592	4,060	29,010	174,387
(Unaudited)							
Six months ended June 30, 2012							
Opening net book amount	39,915	424	2,183	36,688	2,431	23,304	104,945
Additions	3,152	—	576	4,182	1,434	503	9,847
Acquisition of subsidiaries (Note 34(b)).	—	496	211	1,093	—	—	1,800
Disposals.	—	—	—	(37)	—	—	(37)
Depreciation (Note 24)	(1,784)	(238)	(474)	(3,838)	(411)	—	(6,745)
Closing net book amount. . . .	41,283	682	2,496	38,088	3,454	23,807	109,810

APPENDIX I

ACCOUNTANT’S REPORT

	Buildings and facilities	Leasehold improvements	Furniture, fittings and office equipment	Machinery and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At June 30, 2012							
Cost.	46,238	1,372	4,010	50,145	4,813	23,807	130,385
Accumulated depreciation	(4,955)	(690)	(1,514)	(12,057)	(1,359)	—	(20,575)
Net book amount	41,283	682	2,496	38,088	3,454	23,807	109,810

As at December 31, 2010, 2011, 2012 and June 30, 2013, the Group is still in the process of applying for the building ownership certificates of certain buildings with the aggregated carrying amounts amounted to RMB12,433,000, RMB26,573,000, RMB46,587,000 and RMB55,268,000, respectively.

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

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cost of sales.	1,390	7,446	10,504	5,374	5,341
Administrative expenses.	151	711	1,450	1,138	1,183
Selling and marketing expenses.	812	1,277	1,450	217	319
Research and development expenses.	—	46	37	16	6
	2,353	9,480	13,441	6,745	6,849

As at December 31, 2012 and June 30, 2013, certain buildings with the carrying amount of RMB34,017,000 and RMB33,166,000 were pledged for the Group’s borrowings (Note 20).

The Group has capitalised borrowing costs on qualifying assets as follows:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Capitalised borrowing costs	—	—	—	—	525

Borrowing costs were capitalised at the weighted average rate of its general borrowings of 7%.

APPENDIX I

ACCOUNTANT’S REPORT

9 INTANGIBLE ASSETS

	<u>Goodwill</u>	<u>Computer software</u>	<u>Trademark</u>	<u>Technology know-how</u>	<u>Customer relationship</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
At January 1, 2010						
Cost	—	118	—	—	—	118
Accumulated amortisation.	—	(27)	—	—	—	(27)
Net book amount	<u>—</u>	<u>91</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>91</u>
Year ended December 31, 2010						
Opening net book amount.	—	91	—	—	—	91
Amortisation charge (<i>Note 24</i>).	—	(24)	—	—	—	(24)
Closing net book amount	<u>—</u>	<u>67</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>67</u>
At December 31, 2010						
Cost	—	118	—	—	—	118
Accumulated amortisation.	—	(51)	—	—	—	(51)
Net book amount	<u>—</u>	<u>67</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>67</u>
Year ended December 31, 2011						
Opening net book amount.	—	67	—	—	—	67
Additions	—	3	—	—	—	3
Acquisition of a subsidiary (<i>Note 34(a)</i>)	148,018	—	11,755	36,440	5,012	201,225
Amortisation charge (<i>Note 24</i>).	—	(24)	(522)	(1,620)	(557)	(2,723)
Closing net book amount	<u>148,018</u>	<u>46</u>	<u>11,233</u>	<u>34,820</u>	<u>4,455</u>	<u>198,572</u>
At December 31, 2011						
Cost	148,018	121	11,755	36,440	5,012	201,346
Accumulated amortisation.	—	(75)	(522)	(1,620)	(557)	(2,774)
Net book amount	<u>148,018</u>	<u>46</u>	<u>11,233</u>	<u>34,820</u>	<u>4,455</u>	<u>198,572</u>

APPENDIX I

ACCOUNTANT’S REPORT

	<u>Goodwill</u>	<u>Computer software</u>	<u>Trademark</u>	<u>Technology know-how</u>	<u>Customer relationship</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Year ended December 31, 2012						
Opening net book amount.	148,018	46	11,233	34,820	4,455	198,572
Acquisition of a subsidiary (Note 34(b))	12,831	—	—	—	—	12,831
Amortisation charge (Note 24).	—	(24)	(784)	(2,429)	(835)	(4,072)
Closing net book amount	<u>160,849</u>	<u>22</u>	<u>10,449</u>	<u>32,391</u>	<u>3,620</u>	<u>207,331</u>
At December 31, 2012						
Cost	160,849	121	11,755	36,440	5,012	214,177
Accumulated amortisation.	—	(99)	(1,306)	(4,049)	(1,392)	(6,846)
Net book amount	<u>160,849</u>	<u>22</u>	<u>10,449</u>	<u>32,391</u>	<u>3,620</u>	<u>207,331</u>
Six months ended June 30, 2013						
Opening net book amount.	160,849	22	10,449	32,391	3,620	207,331
Acquisition of subsidiaries (Note 34(c) and (d)).	101,709	—	—	13,903	—	115,612
Additions	—	71	—	—	—	71
Amortisation charge (Note 24).	—	(14)	(392)	(1,602)	(418)	(2,426)
Closing net book amount	<u>262,558</u>	<u>79</u>	<u>10,057</u>	<u>44,692</u>	<u>3,202</u>	<u>320,588</u>
At June 30, 2013						
Cost	262,558	192	11,755	50,343	5,012	329,860
Accumulated amortisation.	—	(113)	(1,698)	(5,651)	(1,810)	(9,272)
Net book amount	<u>262,558</u>	<u>79</u>	<u>10,057</u>	<u>44,692</u>	<u>3,202</u>	<u>320,588</u>
(Unaudited)						
Six months ended June 30, 2012						
Opening net book amount.	148,018	46	11,233	34,820	4,455	198,572
Acquisition of a subsidiary (Note 34(b))	12,831	—	—	—	—	12,831
Amortisation charge (Note 24).	—	(11)	(392)	(1,215)	(418)	(2,036)
Closing net book amount	<u>160,849</u>	<u>35</u>	<u>10,841</u>	<u>33,605</u>	<u>4,037</u>	<u>209,367</u>
At June 30, 2012						
Cost	160,849	121	11,755	36,440	5,012	214,177
Accumulated amortisation.	—	(86)	(914)	(2,835)	(975)	(4,810)
Net book amount	<u>160,849</u>	<u>35</u>	<u>10,841</u>	<u>33,605</u>	<u>4,037</u>	<u>209,367</u>

APPENDIX I

ACCOUNTANT’S REPORT

Amortisation of Intangible assets has been charged to the combined income statements as follows:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Cost of sales	—	1,620	2,429	1,214	1,602
Administrative expenses	24	24	24	12	14
Selling expenses	—	1,079	1,619	810	810
	<u>24</u>	<u>2,723</u>	<u>4,072</u>	<u>2,036</u>	<u>2,426</u>

Impairment tests for goodwill

Goodwill acquired through business combinations has been primarily allocated to the Infusion Set Business and Orthopedic Implant Business as below:

	Infusion Set Business	Orthopedic Implants Business	Total
	RMB’000	RMB’000	RMB’000
As at December 31, 2010	—	—	—
As at December 31, 2011	148,018	—	148,018
As at December 31, 2012	148,018	12,831	160,849
As at June 30, 2013	160,754	101,804	262,558

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

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the businesses in which the CGU operates.

The key assumptions used for value-in-use calculations as at December 31, 2011 and 2012 and June 30, 2013 are as follows:

	Infusion Set Business			Orthopedic Implant Business		
	As at December 31	June 30		As at December 31	June 30	
	2011	2012	2013	2011	2012	2013
Gross margin	60.0%	60.0%	60.0%	n.a	70.0%	70.0%
Terminal growth rate						
for free cash flow	2.5%	2.5%	2.5%	n.a	2.5%	2.5%
Discount rate	17.9%	17.9%	17.6%	n.a	17.9%	17.6%

These assumptions have been used for the analysis of the CGU within the operating segment.

Management determined budgeted gross margin based on past performance and its expectations of market development, taking into consideration of the Group’s specific synergies and reflecting the Group’s strategy and intention in operating the business. The discount rates used are pre-tax and reflect specific risks relating to the operating segment.

APPENDIX I

ACCOUNTANT’S REPORT

Management does not foresee any significant change in the key assumptions used in the value-in-use calculation that will cause the recoverable amount of goodwill to be less than its carrying amount.

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
At beginning of the year/period.	—	—	100	100	—
Acquisition of a subsidiary (Note 34(a))	—	27,600	—	—	—
Disposals	—	(27,500)	(100)	—	—
At end of the year/period	<u>—</u>	<u>100</u>	<u>—</u>	<u>100</u>	<u>—</u>

Available-for-sale financial assets as at December 31, 2011 represent the 10% equity interests in Fert Device, of which the Group has neither control nor significant influence.

The Group acquired 55.625% equity interests in Fert Technology through PWM Beijing on April 30, 2011 (Note 34(a)). Upon completion of the acquisition, 10% equity interests of Fert Device was held by PWM Beijing, a then wholly owned subsidiary, and 50% equity interests of Fert Device was held by Fert Technology. The Group has no intention to operate Fert Device and has a view to dispose of its equity interests before the acquisition. Accordingly, the Group’s equity interests in Fert Device were classified as available-for-sale financial assets on the acquisition date. The 50% equity interests of Fert Device held by Fert Technology was subsequently disposed to an independent third party on July 15, 2011. The remaining 10% equity interests in Fert Device held by PWM Beijing was subsequently disposed to an independent third party during the year ended December 31, 2012.

11 INVESTMENT IN STRUCTURED PRODUCTS

	Year ended December 31,			Six months ended June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period.	—	—	—	3,000
Addition.	—	—	3,000	—
Disposal.	—	—	—	(3,000)
At end of the year/period	<u>—</u>	<u>—</u>	<u>3,000</u>	<u>—</u>

The investment in structured products is interests in a wealth management product managed by a high credit listed commercial bank in PRC. The investment in structured products is classified as financial assets at fair value through profit and loss. The investment in structure products was acquired by the Group in November 2012 and subsequently disposed in May 2013. The interest income earned was recorded in finance income with the amount of RMB31,000 (Note 26).

APPENDIX I

ACCOUNTANT’S REPORT

12 LONG-TERM PREPAYMENTS

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Prepayments for property, plant and equipment . .	6,444	3,988	16,695	20,499
Prepayments for land use rights.	—	17,000	—	—
Prepayments for acquisition of subsidiaries (i). . .	—	18,000	82,000	—
Prepayments for capital contribution to set up a subsidiary.	—	—	10,000	—
Others	—	265	309	277
	<u>6,444</u>	<u>39,253</u>	<u>109,004</u>	<u>20,776</u>

- (i) As at December 31, 2011 and 2012, prepayments for acquisition of subsidiaries represent prepayments for acquisition of Tianjin Renli Orthopedic Appliances Company Limited (“Tianjin Renli”) (Note 34(b)) and Shenzhen Bone Medical Device Co., Ltd. (“Shenzhen Bone”) (Note 34(c)), respectively.

13 INVENTORIES

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Raw materials.	3,826	14,946	21,604	25,075
Work in progress.	1,644	10,080	14,930	26,763
Finished goods	9,975	29,676	36,460	24,871
	<u>15,445</u>	<u>54,702</u>	<u>72,994</u>	<u>76,709</u>

The cost of inventories recognised as expense and included in ‘cost of sales’ amounted to RMB5,261,000, RMB29,364,000, RMB59,155,000, RMB26,958,000 and RMB31,568,000 for the years ended December 31, 2010, 2011, 2012 and for the six months ended June 30, 2012 and 2013, respectively.

As at December 31, 2010, 2011, 2012 and June 30, 2013, the ageing analysis of the inventories are as follows:

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Within 12 months	11,510	48,559	63,366	64,656
1 year to 2 years	3,863	4,084	4,262	6,113
Over 2 years.	72	2,059	5,366	5,940
	<u>15,445</u>	<u>54,702</u>	<u>72,994</u>	<u>76,709</u>

APPENDIX I

ACCOUNTANT'S REPORT

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

	Year ended December 31,			As at June 30,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
At beginning of the year/period.	3,102	4,804	6,204	6,204	7,528
Provision for impairment of inventories (Note 24)	1,702	1,400	1,324	660	1,382
At end of the year/period	<u>4,804</u>	<u>6,204</u>	<u>7,528</u>	<u>6,864</u>	<u>8,910</u>

14 TRADE AND OTHER RECEIVABLES

Group

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables (a)	24,707	61,779	135,805	198,328
Less: provision for impairment	<u>(1,703)</u>	<u>(2,767)</u>	<u>(4,569)</u>	<u>(9,298)</u>
Trade receivables — net.	23,004	59,012	131,236	189,030
Bills receivable (b)	1,255	4,759	9,096	1,156
Prepayments	3,293	1,614	11,623	13,609
Other receivables (c)	<u>3,033</u>	<u>3,382</u>	<u>9,248</u>	<u>10,279</u>
	<u>30,585</u>	<u>68,767</u>	<u>161,203</u>	<u>214,074</u>

As at December 31, 2010, 2011, 2012 and June 30, 2013, except for the prepayments which are not financial assets, the fair value of the trade and other receivables approximated its carrying amounts. As at December 31, 2010, 2011, 2012 and June 30, 2013, the carrying amount of the trade and other receivables is denominated in RMB.

- (a) As at December 31, 2010, 2011, 2012 and June 30, 2013, the ageing analysis of the trade receivables based on invoice date are as follows:

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 3 months.	9,057	28,792	84,698	103,610
3 to 6 months	4,867	11,397	18,951	46,858
6 months to 12 months.	6,633	12,051	20,766	23,381
1 year to 2 years	2,447	5,752	5,869	14,985
2 years to 3 years	<u>—</u>	<u>1,020</u>	<u>952</u>	<u>196</u>
	<u>23,004</u>	<u>59,012</u>	<u>131,236</u>	<u>189,030</u>

APPENDIX I

ACCOUNTANT’S REPORT

The credit terms agreed with customers were within 180 days. No interests are charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of the goods. This provision has been determined by reference to past collection experience. As at December 31, 2010, 2011, 2012 and June 30, 2013, trade receivables of RMB9,080,000, RMB18,823,000, RMB27,587,000 and RMB25,520,000 were past due but not impaired, respectively. These relate to a number of independent customers for whom there is no significant financial difficulty based on the past experience, the overdue amounts can be fully recovered. The ageing of the past due but not impaired trade receivables are as follows:

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 12 months	6,633	12,051	20,766	23,381
1 year to 2 years	2,447	5,752	5,869	1,943
2 years to 3 years	—	1,020	952	196
	<u>9,080</u>	<u>18,823</u>	<u>27,587</u>	<u>25,520</u>

As of December 31, 2010, 2011, 2012 and June 30, 2013, trade receivables of RMB1,703,000, RMB2,767,000, RMB4,569,000 and RMB9,298,000 were past due and impaired, respectively. The impairment provision was RMB1,703,000, RMB2,767,000, RMB4,569,000 and RMB9,298,000 as at December 31, 2010, 2011, 2012 and June 30, 2013, respectively. It was assessed that a portion of the receivables is expected to be recovered. The individually impaired receivables mainly relate to certain customers, which are in unexpected difficult economic situations.

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

	Year ended December 31,			As at June 30,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
At beginning of the year/period.	—	1,703	2,767	2,767	4,569
Provision for impairment of receivables (Note 24)	<u>1,703</u>	<u>1,064</u>	<u>1,802</u>	<u>1,254</u>	<u>4,729</u>
At end of the year/period	<u>1,703</u>	<u>2,767</u>	<u>4,569</u>	<u>4,021</u>	<u>9,298</u>

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

APPENDIX I

ACCOUNTANT’S REPORT

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

	As at December 31,			As at
	2010	2011	2012	June 30,
	RMB’000	RMB’000	RMB’000	2013
Receivables due from Fert Device	—	—	4,000	—
Advances to employees	1,509	1,581	3,001	4,199
Deposits	1,440	1,461	1,452	2,190
[●].	—	—	—	2,507
Others	84	340	795	1,383
	<u>3,033</u>	<u>3,382</u>	<u>9,248</u>	<u>10,279</u>

The other classes within trade and other receivables do not contain impaired assets.

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

Company

	As at December 31,		As at
	2011	2012	June 30,
	RMB’000	RMB’000	2013
[●].	—	—	2,507
Others	1	24	28
	<u>1</u>	<u>24</u>	<u>2,535</u>

15 RESTRICTED CASH

	As at December 31,			As at
	2010	2011	2012	June 30,
	RMB’000	RMB’000	RMB’000	2013
Restricted bank deposit	<u>11</u>	<u>—</u>	<u>2,657</u>	<u>4,158</u>

The restricted cash represents guaranteed deposits held in a separate reserve account to be pledged to the bank for issuance of trade facilities such as bills payable or as security deposits under bank borrowing agreements (Note 20). The carrying amount of the restricted cash is denominated in RMB.

APPENDIX I

ACCOUNTANT’S REPORT

16 CASH AND CASH EQUIVALENTS

Group

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	24	45	165	333
Cash at banks	<u>62,726</u>	<u>61,097</u>	<u>212,301</u>	<u>141,859</u>
	<u>62,750</u>	<u>61,142</u>	<u>212,466</u>	<u>142,192</u>

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

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	8,699	48,630	70,101	118,592
US\$.	<u>54,051</u>	<u>12,512</u>	<u>142,365</u>	<u>23,600</u>
	<u>62,750</u>	<u>61,142</u>	<u>212,466</u>	<u>142,192</u>

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

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

Company

	As at December 31,		As at June 30,
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Cash at banks	<u>—</u>	<u>106,055</u>	<u>4,488</u>

The carrying amount of the cash and cash equivalents are denominated in US\$.

APPENDIX I

ACCOUNTANT'S REPORT

17 COMBINED CAPITAL, SHARE CAPITAL OF THE COMPANY AND SHARE PREMIUM

Group

The combined capital represents the aggregated share capital of the companies now comprising the Group, after elimination of investments in subsidiaries.

Company

	Number of ordinary shares	Nominal value of ordinary shares US\$'000	Equivalent nominal value of ordinary share RMB'000	Share premium RMB'000	Total RMB'000
<i>Authorised:</i>					
Ordinary shares of US\$1 each (a)	50,000	50	315	—	315
Ordinary shares of US\$0.0001 each, subsequent to share split (c)	500,000,000	50	315	—	315
Balance at January 1, 2011.	—	—	—	—	—
Ordinary shares of US\$1 each issued and allotted upon incorporation in the Cayman Islands (b)	100	0.1	1	—	1
Balance at December 31, 2011 and 2012	<u>100</u>	<u>0.1</u>	<u>1</u>	<u>—</u>	<u>1</u>
Balance at January 1, 2013.	100	0.1	1	—	1
Share split (c)	999,900	—	—	—	—
Issuance of ordinary shares (d)	71,615,675	7.2	45	555,987	556,032
Balance at June 30, 2013	<u>72,615,675</u>	<u>7.3</u>	<u>46</u>	<u>555,987</u>	<u>556,033</u>

- (a) The Company was incorporated in the Cayman Islands on May 13, 2011 with an authorised capital of US\$ 50,000 divided into 50,000 shares of a nominal value of US\$1 each. Since the Company had not been legally incorporated as at December 31, 2010, there was no combined capital presented as at December 31, 2010.
- (b) Upon the incorporation of the Company, 100 ordinary shares of a nominal value of US\$1 each were issued to its shareholder, Cross Mark, at cash consideration of US\$100 (equivalent to approximately RMB1,000).
- (c) On January 22, 2013, the board of directors of the Company approved a share split of the Company's combined capital at a ratio of 1 to 10,000. Immediately after this split, the Company re-classified authorised capital into 500,000,000 ordinary shares of par value of US\$0.0001 each.
- (d) During the period from February 4, 2013 to May 29, 2013, pursuant to the written resolutions of all the shareholders of the Company, the Company issued 71,615,675 shares with a nominal value of US\$0.0001 each to its existing shareholders. Among these 71,615,675 shares, 37,000,000 shares were subscribed for at a total cash consideration of US\$37,000,000 (equivalent to RMB233,930,000). The cash contribution of US\$37,000,000 (equivalent to RMB233,930,000) was received before December 31, 2012 and recorded as other reserves as at December 31, 2012. On February 4, 2013, upon the issuance of the shares, such other reserves were transferred to combined capital and share premium. The other 34,615,675 shares were subscribed for at a total cash consideration of US\$52,737,000 (equivalent to RMB322,102,000) received during the six months ended June 30, 2013. The newly issued shares have the same characteristics with those previously issued.

APPENDIX I

ACCOUNTANT'S REPORT

18 OTHER RESERVES

Group

	Other Reserves			
	Merger Reserve (i)	Translation Reserve	Capital reserve (ii)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2010.	7,766	—	—	7,766
Currency translation differences.	—	2,410	—	2,410
Capital contributions to subsidiaries by their then equity owners and the non-controlling interests	4,443	—	—	4,443
Changes in ownership interests in subsidiaries without change of control (<i>Note 33(a)(i)</i>)	—	—	19,471	19,471
Balance at December 31, 2010.	<u>12,209</u>	<u>2,410</u>	<u>19,471</u>	<u>34,090</u>
Currency translation differences.	—	(408)	—	(408)
Difference between the carrying amount and undiscounted amount of interest-free loan received from a related party, net of tax (<i>Note 32(b)</i>)	—	—	8,439	8,439
Capital contributions to subsidiaries by their then equity owners and the non-controlling interests	<u>9,750</u>	—	—	<u>9,750</u>
Balance at December 31, 2011.	<u>21,959</u>	<u>2,002</u>	<u>27,910</u>	<u>51,871</u>
Currency translation differences.	—	423	—	423
Capital contributions by their then equity owners.	285,685	—	—	285,685
Changes in ownership interests in subsidiaries without change of control — introduction of certain financial investors (<i>Note 33 (a)(ii)</i>) . . .	—	—	6,428	6,428
Changes in ownership interests in subsidiaries without change of control -acquiring additional interests (<i>Note 33 (b)</i>)	—	—	(69,637)	(69,637)
Consideration paid to the then equity owners and the non-controlling interests for acquisition of a subsidiary under common control.	<u>(9,750)</u>	—	<u>(2)</u>	<u>(9,752)</u>
Balance at December 31, 2012.	<u>297,894</u>	<u>2,425</u>	<u>(35,301)</u>	<u>265,018</u>
Currency translation differences.	—	1,418	—	1,418
Changes in ownership interests in subsidiaries without change of control -acquiring additional interests (<i>Note 33 (c) and (d)</i>)	—	—	(48,656)	(48,656)
Issuance of shares by way of capitalisation of other reserves (<i>Note 17(d)</i>)	<u>(233,930)</u>	—	—	<u>(233,930)</u>
Balance at June 30, 2013	<u>63,964</u>	<u>3,843</u>	<u>(83,957)</u>	<u>(16,150)</u>
(Unaudited)				
Six month ended June 30, 2012				
Opening book amount	21,959	2,002	27,910	51,871
Currency translation differences.	—	347	—	347
Consideration paid to the then equity owners and the non-controlling interests for acquisition of a subsidiary under common control	<u>(9,750)</u>	—	<u>(2)</u>	<u>(9,752)</u>
Closing book amount	<u>12,209</u>	<u>2,349</u>	<u>27,908</u>	<u>42,466</u>

APPENDIX I

ACCOUNTANT’S REPORT

- (i) The Company was incorporated during the year ended December 31, 2011 and the Reorganisation was not completed prior to December 31, 2012. The merger reserve represents: (1) the total consideration paid for the acquisition of subsidiaries under common control upon the Reorganisation; and (2) the cash contribution to the Group by the then equity owners.
- (ii) Capital reserve mainly represents the differences between the considerations paid/received and the relevant carrying value of the net assets of the subsidiaries acquired/disposed of for the transactions with non-controlling interests (Note 33), and the difference between the carrying amount and undiscounted amount of interest-free loan received from a related party, net of tax.

Company

As at December 31, 2012, the existing shareholders made cash contribution to subscribe for 37,000,000 shares of the company at a consideration of US\$37,000,000 (equivalent to RMB233,930,000). The amount was included, as “other reserves” which was transferred to share premium and combined capital accounts when the existing shares were issued on February 4, 2013.

19 TRADE AND OTHER PAYABLES

Group

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Trade payables	3,883	14,678	16,014	24,395
Salary and staff welfare payables	2,964	16,525	18,341	15,087
Advances from customers	10,487	20,222	20,561	13,785
Interest payables	—	—	160	644
Consideration payable for transaction with non-controlling interests (<i>Note 33(b)</i>)	—	—	180,000	—
Consideration payable for transaction with non-controlling interests (<i>Note 33(c)</i>)	—	—	—	10,000
Consideration payable for acquisition of a subsidiary (<i>Note 34(d)</i>)	—	—	—	10,400
Value added tax and other taxes	4,032	5,810	4,170	8,691
Deposits	—	137	721	1,102
Payables for purchase of land use rights	—	—	1,000	9,981
Bills payable	—	—	230	1,027
[●]	—	—	—	7,025
Other payables	6,487	3,030	1,518	2,998
	<u>27,853</u>	<u>60,402</u>	<u>242,715</u>	<u>105,135</u>

As at December 31, 2010, 2011, 2012 and June 30, 2013, except for the advance from customers which are not financial liabilities, all trade and other payables of the Group were non-interest bearing, and their fair value approximate their carrying amounts due to their short maturities.

APPENDIX I

ACCOUNTANT’S REPORT

At December 31, 2010, 2011, 2012 and June 30, 2013, the ageing analysis of the trade payables based on invoice date are as follows:

	As at December 31,			As at
	2010	2011	2012	June 30,
	RMB’000	RMB’000	RMB’000	2013
				RMB’000
Up to 3 months	2,287	10,937	13,741	20,286
3 to 6 months	685	1,359	310	1,065
6 months to 12 months	394	30	40	1,941
1 year to 2 years	517	514	582	335
2 years to 3 years	—	88	50	325
Over 3 years	—	1,750	1,291	443
	<u>3,883</u>	<u>14,678</u>	<u>16,014</u>	<u>24,395</u>

The ageing of bills payable is within 180 days, which is within the credit term.

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

Company

	As at December 31,		As at
	2011	2012	June 30,
	RMB’000	RMB’000	2013
			RMB’000
[●].	—	—	7,025
Others	<u>9</u>	<u>23</u>	<u>9</u>
	<u>9</u>	<u>23</u>	<u>7,034</u>

20 BORROWINGS

	As at December 31,			As at
	2010	2011	2012	June 30,
	RMB’000	RMB’000	RMB’000	2013
				RMB’000
Current bank borrowings — secured/guaranteed (a)	—	—	30,000	51,000
— entrusted loan (b)	—	—	—	36,418
— unsecured	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,900</u>
	<u>—</u>	<u>—</u>	<u>30,000</u>	<u>97,318</u>

APPENDIX I

ACCOUNTANT’S REPORT

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

	Borrowings	
	As at	As at
	December 31, 2012	June 30, 2013
	RMB’000	RMB’000
Secured by the pledge of buildings with an aggregate carrying amount of RMB6,595,000 at December 31, 2012 and RMB6,430,000 at June 30, 2013 . .	10,000	15,000
Jointly guaranteed by Wu Dong, a senior management of the Group, and his family member and subsequently released in August 2013.	—	4,000
Secured by the pledge of buildings with an aggregate carrying amount of RMB26,736,000, and		
Jointly guaranteed by Zhang Wendong, a family member of Ms Liu, and his family member and expected to be released [●], and		
Pledged by the Group’s restricted cash with the amount of RMB2,800,000 . . .	—	14,000
Secured by the pledge of buildings with an aggregate carrying amount of RMB27,422,000 at December 31, 2012 and RMB26,736,000 at June 30, 2013, and		
Guaranteed by Fert Device and subsequently released in September 2013, and		
Jointly guaranteed by Zhang Wendong, a family member of Ms Liu, and his family member and subsequently released in September 2013.	20,000	18,000
	<u>30,000</u>	<u>51,000</u>

- (b) On May 15, 2013, PWM Beijing, one of the Group’s subsidiaries, entered into an entrusted loan agreement to borrow from Beijing Hui Da Tong Li Medical Equipment Co, Ltd. (北京惠達通利醫療器械有限公司), an independent third party, through a domestic commercial bank. The entrusted loan is unsecured and will be due within one year.

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

The maturity of the borrowings is as follows:

	As at December 31,			As at
	2010	2011	2012	June 30,
	RMB’000	RMB’000	RMB’000	2013
				RMB’000
On demand or within 1 year	—	—	30,000	97,318

APPENDIX I

ACCOUNTANT’S REPORT

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

	As at December 31,			As at June 30,
	2010	2011	2012	2013
Current bank borrowings	—	—	7%	7%

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

21 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balance after offsetting is as follows:

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Deferred tax assets:				
— Deferred tax asset to be recovered after more than 12 months	—	150	150	150
— Deferred tax asset to be recovered within 12 months	1,408	3,857	5,775	6,807
	1,408	4,007	5,925	6,957
Deferred tax liabilities:				
— Deferred tax liability to be recovered after more than 12 months	—	(8,749)	(7,897)	(16,678)
— Deferred tax liability to be recovered within 12 months	—	(1,912)	(492)	—
	—	(10,661)	(8,389)	(16,678)
Deferred tax assets/(liabilities) — net	1,408	(6,654)	(2,464)	(9,721)

APPENDIX I

ACCOUNTANT’S REPORT

Movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Deferred tax assets

	Provision for impairment of receivables	Write-down of inventories to the realisable value	Salary and staff welfare payable	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2010	—	465	266	—	731
Credited to combined income statements.	255	255	147	20	677
At December 31, 2010	255	720	413	20	1,408
At January 1, 2011	255	720	413	20	1,408
Credited to combined income statements.	160	210	837	37	1,244
Acquisition of a subsidiary (<i>Note 34 (a)</i>)	—	—	1,204	151	1,355
At December 31, 2011	415	930	2,454	208	4,007
At January 1, 2012	415	930	2,454	208	4,007
Credited to combined income statements.	270	199	51	151	671
Acquisition of a subsidiary (<i>Note 34 (b)</i>)	351	878	17	1	1,247
At December 31, 2012	1,036	2,007	2,522	360	5,925
At January 1, 2013	1,036	2,007	2,522	360	5,925
Credited to/(charged to) combined income statements	709	207	(1,844)	663	(265)
Acquisition of a subsidiary (<i>Note 34 (c)</i>)	—	1,297	—	—	1,297
At June 30, 2013	1,745	3,511	678	1,023	6,957
(Unaudited)					
At January 1, 2012	415	930	2,454	208	4,007
Credited to/(charged to) combined income statements	188	99	(203)	1,261	1,345
Acquisition of a subsidiary (<i>Note 34 (b)</i>)	351	878	17	1	1,247
At June 30, 2012	954	1,907	2,268	1,470	6,599

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of related tax benefits through future taxable profits is probable. The Group did not recognise deferred income tax assets for tax losses carried forward with the amount of RMB64,000, RMB312,000, RMB266,000 and RMB1,372,000 as at December 31, 2010, 2011, 2012 and June 30, 2013. These tax losses will be expired in 2013 to 2018.

APPENDIX I

ACCOUNTANT’S REPORT

Deferred tax liabilities

	Fair value surplus arising from acquisition of subsidiaries	Deferred tax liabilities arising from the difference between the carrying amount and undiscounted amount of interest-free loan received from a related party	Total
	RMB’000	RMB’000	RMB’000
At January 1, 2010 and December 31, 2010	—	—	—
At January 1, 2011	—	—	—
Acquisition of a subsidiary (<i>Note 34 (a)</i>)	(9,995)	—	(9,995)
Charged directly to equity	—	(2,813)	(2,813)
Credited to combined income statements.	1,247	900	2,147
At December 31, 2011	(8,748)	(1,913)	(10,661)
At January 1, 2012	(8,748)	(1,913)	(10,661)
Acquisition of a subsidiary (<i>Note 34 (b)</i>)	(61)	—	(61)
Credited to combined income statements.	912	1,421	2,333
At December 31, 2012	(7,897)	(492)	(8,389)
At January 1, 2013	(7,897)	(492)	(8,389)
Acquisition of subsidiaries (<i>Note 34 (c) and (d)</i>)	(9,289)	—	(9,289)
Credited to combined income statements.	508	492	1,000
At June 30, 2013.	(16,678)	—	(16,678)
(Unaudited)			
At January 1, 2012	(8,748)	(1,913)	(10,661)
Acquisition of a subsidiary (<i>Note 34 (b)</i>)	(61)	—	(61)
Credited to combined income statements.	1,085	700	1,785
At June 30, 2012.	(7,724)	(1,213)	(8,937)

APPENDIX I

ACCOUNTANT’S REPORT

22 DEFERRED INCOME

Deferred income represents government grants relating to acquisition of property, planted equipment. These government grants are deferred and recognised in the combined income statements over the period necessary to match them with the costs that they are intended to compensate. The movement of deferred income during the Relevant Periods are as follows:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
At beginning of year/period . . .	—	—	—	—	400
Additions	—	—	421	421	2,000
Credited to combined income statements.	—	—	(21)	—	(38)
At end of year/period	<u>—</u>	<u>—</u>	<u>400</u>	<u>421</u>	<u>2,362</u>

23 OTHER GAINS — NET

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Government grants	4	321	4,714	1,028	182
— relating to costs:	4	321	4,693	1,028	144
— relating to assets:	—	—	21	—	38
Loss on disposal of property, plant and equipment.	—	—	(3,343)	(37)	(665)
Others	<u>26</u>	<u>545</u>	<u>199</u>	<u>696</u>	<u>734</u>
	<u>30</u>	<u>866</u>	<u>1,570</u>	<u>1,687</u>	<u>251</u>

APPENDIX I

ACCOUNTANT’S REPORT

24 EXPENSES BY NATURE

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Raw materials and consumable used (<i>Note 13</i>)	8,478	48,117	72,113	30,987	33,385
Changes in inventories of finished goods and work in progress (<i>Note 13</i>)	(3,217)	(18,753)	(12,958)	(4,029)	(1,817)
Employee benefits expenses (<i>Note 25</i>)	14,986	36,551	55,839	23,818	44,568
Depreciation of property, plant and equipment (<i>Note 8</i>)	2,353	9,480	13,441	6,745	6,849
Advertising, promotions and business development costs	7,703	12,478	28,853	11,659	11,799
Office and communication expenses	806	1,698	3,624	1,737	2,559
Direct research costs	213	4,220	4,948	1,679	3,310
Travelling and entertainment expenses	3,186	4,248	7,593	2,602	3,664
Taxes and levies	411	1,364	4,412	3,107	3,457
Provision for impairment of receivables (<i>Note 14</i>)	1,703	1,064	1,802	1,254	4,729
Write-down of inventories to realisable value (<i>Note 13</i>)	1,702	1,400	1,324	660	1,382
Low-value consumables	—	1,363	2,283	1,783	3,925
Operating lease payments	549	1,103	1,838	809	2,156
Transportation costs	1,106	2,253	4,095	1,679	3,034
Amortisation of land use rights (<i>Note 7</i>)	60	60	419	81	399
Amortisation of intangible assets (<i>Note 9</i>)	24	2,723	4,072	2,036	2,426
Professional fee	170	383	2,874	1,403	1,873
[●]	—	—	—	—	7,519
Auditors’ remuneration	31	44	150	129	165
Utilities	1,055	3,529	5,787	2,629	3,859
Others	155	1,002	2,121	972	547
Total cost of sales, selling expenses, administrative expenses and research and development expenses	41,474	114,327	204,630	91,740	139,788

APPENDIX I

ACCOUNTANT’S REPORT

25 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS’ EMOLUMENTS)

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Wages, salaries and bonuses	12,321	30,107	47,826	21,165	36,403
Staff welfare	687	1,474	1,697	745	2,745
Social security costs and housing fund	1,978	4,970	6,316	1,908	5,420
	<u>14,986</u>	<u>36,551</u>	<u>55,839</u>	<u>23,818</u>	<u>44,568</u>

(a) Directors and chief executive’s emoluments

The emoluments of each director and the chief executive during the Relevant Periods are set out below:

For the year ended December 31, 2010

Name of directors	Fees	Wages, salaries and bonuses	Staff welfare	Social security and housing fund	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Chief executive officer and executive director					
— Mr. Jiang Liwei (i)	—	—	—	—	—
Non-executive directors					
— Mr. Lin Junshan (i)	—	—	—	—	—
— Ms. Yue’e Zhang (ii)	—	—	—	—	—
— Mr. Feng Dai (i)	—	—	—	—	—
Independent non-executive directors					
— Mr. Chen Geng (iii)	—	—	—	—	—
— Mr. Wang Xiaogang (iii) . . .	—	—	—	—	—
— Mr. Zhang Xingdong (iii) . . .	—	—	—	—	—

APPENDIX I

ACCOUNTANT’S REPORT

For the year ended December 31, 2011

<u>Name of directors</u>	<u>Fees</u>	<u>Wages, salaries and bonuses</u>	<u>Staff welfare</u>	<u>Social security and housing fund</u>	<u>Total</u>
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Chief executive officer and executive director					
— Mr. Jiang Liwei (i)	—	—	—	—	—
Non-executive directors					
— Mr. Lin Junshan (ii)	—	—	—	—	—
— Ms. Yue’e Zhang (ii)	—	—	—	—	—
— Mr. Feng Dai (i)	—	—	—	—	—
Independent non-executive directors					
— Mr. Chen Geng (iii)	—	—	—	—	—
— Mr. Wang Xiaogang (iii)	—	—	—	—	—
— Mr. Zhang Xingdong (iii)	—	—	—	—	—

For the year ended December 31, 2012

<u>Name of directors</u>	<u>Fees</u>	<u>Wages, salaries and bonuses</u>	<u>Staff welfare</u>	<u>Social security and housing fund</u>	<u>Total</u>
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Chief executive officer and executive director					
— Mr. Jiang Liwei (i)	—	—	—	—	—
Non-executive directors					
— Mr. Lin Junshan (i)	—	—	—	—	—
— Ms. Yue’e Zhang (ii)	—	—	—	—	—
— Mr. Feng Dai (i)	—	—	—	—	—
Independent non-executive directors					
— Mr. Chen Geng (iii)	—	—	—	—	—
— Mr. Wang Xiaogang (iii)	—	—	—	—	—
— Mr. Zhang Xingdong (iii)	—	—	—	—	—

APPENDIX I

ACCOUNTANT’S REPORT

For the six months ended June 30, 2012

<u>Name of directors</u>	<u>Fees</u>	<u>Wages, salaries and bonuses</u>	<u>Staff welfare</u>	<u>Social security and housing fund</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
Chief executive officer and executive director					
— Mr. Jiang Liwei (i)	—	—	—	—	—
Non-executive directors					
—Mr. Lin Junshan (i)	—	—	—	—	—
— Ms. Yue’e Zhang (ii).	—	—	—	—	—
— Mr. Feng Dai (i)	—	—	—	—	—
Independent non-executive directors					
— Mr. Chen Geng (iii)	—	—	—	—	—
— Mr. Wang Xiaogang (iii) . . .	—	—	—	—	—
— Mr. Zhang Xingdong (iii). . .	—	—	—	—	—

For the six months ended June 30, 2013

<u>Name of directors</u>	<u>Fees</u>	<u>Wages, salaries and bonuses</u>	<u>Staff welfare</u>	<u>Social security and housing fund</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Chief executive officer and executive director					
— Mr. Jiang Liwei (i)	250	500	—	38	788
Non-executive directors					
—Mr. Lin Junshan (i)	150	—	—	—	150
— Ms. Yue’e Zhang (ii).	—	—	—	—	—
— Mr. Feng Dai (i)	—	—	—	—	—
Independent non-executive directors					
— Mr. Chen Geng (iii)	—	—	—	—	—
— Mr. Wang Xiaogang (iii) . . .	—	—	—	—	—
— Mr. Zhang Xingdong (iii). . .	—	—	—	—	—

- (i) Mr. Jiang Liwei, Mr. Lin Junshan and Mr. Feng Dai were appointed as directors or chief executive officers since June 2013.
- (ii) Ms. Yue’e Zhang was appointed as director since May 2011. She had not received or was not entitled to receive any emoluments during the Relevant Periods.

APPENDIX I

ACCOUNTANT’S REPORT

- (iii) Mr. Chen Geng, Mr. Wang Xiaogang and Mr. Zhang Xingdong were appointed as directors since October 2013. They had not received or were not entitled to receive any emoluments during the Relevant Periods.

(b) Five highest paid individuals

For the Relevant Periods, the five highest paid individuals do not include any director or chief executive. The emoluments payable to the five highest paid individuals during the Relevant periods are as follows:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Wages, salaries and bonuses	1,213	1,357	1,655	828	1,465
Social security costs and housing fund.	85	34	72	36	58
	<u>1,298</u>	<u>1,391</u>	<u>1,727</u>	<u>864</u>	<u>1,523</u>

The emoluments of these individuals fell within the following bands:

	Number of individuals				
	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
Emolument bands					
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, none of the directors or the chief executive of the Company and the five highest paid individuals of the Group (i) received any emolument from the Group as an inducement to join or upon joining the Group; (ii) received any compensation for loss of office as a director or management of any member of the Group; or (iii) waived or has agreed to waive any emoluments.

APPENDIX I

ACCOUNTANT’S REPORT

26 FINANCE COSTS — NET

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Finance income:					
— Interest income on short-term bank deposits .	(38)	(201)	(329)	(71)	(216)
— Interest income on Investment in structured products	—	—	—	—	(31)
Total finance income	(38)	(201)	(329)	(71)	(247)
Finance costs:					
— Interest expense on bank borrowings.	720	—	500	—	2,118
— Less: bank borrowings cost capitalised	—	—	—	—	(525)
— Accretion of interest-free loan received from a related party (<i>Note 32(b)</i>).	—	3,602	5,680	2,798	1,970
— Net foreign exchange losses	1,422	1,077	2,909	579	1,553
Total finance cost.	2,142	4,679	9,089	3,377	5,116
Finance costs — net	2,104	4,478	8,760	3,306	4,869

27 INVESTMENTS IN AND LOANS TO SUBSIDIARIES — COMPANY

	Year ended December 31,		As at
	2011	2012	June 30,
	RMB’000	RMB’000	2013
Unlisted equity investment-cost (<i>i</i>).	—	—	—
Loans to subsidiaries (<i>ii</i>)	—	125,710	549,242
	—	125,710	549,242

(i) The details of the subsidiaries are included in Note 1(b) of Section II.

(ii) Loans to subsidiaries are unsecured, interest-free and investment in nature, denominated in RMB.

APPENDIX I

ACCOUNTANT’S REPORT

28 INCOME TAX EXPENSE

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Current income tax	3,613	11,373	22,542	10,975	14,839
Deferred income tax (<i>Note 21</i>) . .	(677)	(3,391)	(3,004)	(3,130)	(735)
Income tax expense	2,936	7,982	19,538	7,845	14,104

Below are the major tax jurisdictions that the Group operates during the Relevant Periods:

(a) Cayman Island profits tax

The Company has not been subject to any taxation in the Cayman Islands.

(b) Hong Kong profit tax

Companies incorporated in Hong Kong are subject to the Hong Kong profit tax at a rate of 16.5% during the Relevant Periods.

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

Except for Fert Technology and Walkman Biomaterial, the CIT of the Group in respect of its operations in mainland China is calculated at the tax rate of 25% on the estimated assessable profits for each of the Relevant Periods, based on the existing legislation interpretation and practices in respect thereof.

Fert Technology and Walkman Biomaterial were qualified as “High and New Technology Enterprises” under the CIT Law. Therefore, they were entitled to a preferential income tax rate of 15% on their estimated assessable profits during the Relevant Periods. They will continue to enjoy the preferential tax rate in the subsequent periods, provided that they continue to be qualified as “High and New Technology Enterprises” during such periods.

(d) WHT

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

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

APPENDIX I

ACCOUNTANT’S REPORT

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

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Profit before income tax	<u>17,268</u>	<u>57,328</u>	<u>119,721</u>	<u>52,414</u>	<u>74,344</u>
Tax calculated at statutory tax rates applicable to profits in the respective countries	4,317	14,332	29,931	13,104	18,586
Tax effects of					
— Preferential income tax rates applicable to subsidiaries .	(1,731)	(6,472)	(11,156)	(6,041)	(5,813)
— Tax losses for which no deferred income tax asset was recognised	64	312	266	893	1,372
— Additional deductible allowance for research and development expenses (a)	—	(301)	(551)	(284)	(228)
— Deemed income for tax purpose	—	—	527	—	—
— Expenses not deductible for tax purpose	<u>286</u>	<u>111</u>	<u>521</u>	<u>173</u>	<u>187</u>
Tax charge	<u>2,936</u>	<u>7,982</u>	<u>19,538</u>	<u>7,845</u>	<u>14,104</u>

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

APPENDIX I

ACCOUNTANT’S REPORT

29 CASH GENERATED FROM OPERATIONS

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

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before income tax	17,268	57,328	119,721	52,414	74,344
Adjustments for:					
— Depreciation of property, plant and equipment (<i>Note 8</i>)	2,353	9,480	13,441	6,745	6,849
— Amortisation of land use rights (<i>Note 7</i>)	60	60	419	81	399
— Amortisation of intangible assets (<i>Note 9</i>)	24	2,723	4,072	2,036	2,426
— Finance costs (<i>Note 26</i>)	720	3,602	6,180	2,798	3,563
— Loss on disposal of property, plant and equipment (<i>Note 23</i>)	—	—	3,343	37	665
— Provision for impairment of receivables (<i>Note 14</i>)	1,703	1,064	1,802	1,254	4,729
— Provision for write-down of inventories (<i>Note 13</i>)	1,702	1,400	1,324	660	1,382
	<u>23,830</u>	<u>75,657</u>	<u>150,302</u>	<u>66,025</u>	<u>94,357</u>
Change in working capital					
— (Increase)/decrease in inventories	(4,911)	(14,127)	(10,741)	1,472	3,802
— Increase in trade and other receivables	(9,071)	(31,157)	(88,103)	(60,800)	(46,690)
— Increase in amounts due from related parties	—	—	(12)	—	(1,534)
— Increase/(decrease) in deferred income	—	—	400	—	(38)
— Increase/(decrease) in trade and other payables	5,359	(3,965)	(5,514)	3,235	(6,410)
	<u>5,359</u>	<u>(3,965)</u>	<u>(5,514)</u>	<u>3,235</u>	<u>(6,410)</u>
Cash generated from operations . . .	<u>15,207</u>	<u>26,408</u>	<u>46,332</u>	<u>9,932</u>	<u>43,487</u>

APPENDIX I

ACCOUNTANT’S REPORT

- (b) In the combined cash flow statements, proceeds from disposal of properties, plant and equipment comprise:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Net book amount (<i>Note 8</i>)	—	—	3,459	37	3,296
Loss on disposal of property, plant and equipment (<i>Note 23</i>) . .	—	—	(3,343)	(37)	(665)
Proceeds from disposal. . .	—	—	116	—	2,631

- (c) In the combined cash flow statements, acquisition of subsidiaries — net of cash acquired comprise:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Cash consideration paid (<i>Note 34</i>)	—	220,000	—	—	30,000
Cash and cash equivalents in the subsidiaries acquired (<i>Note 34</i>)	—	(8,765)	(20,907)	(20,907)	(37,237)
Cash prepaid in respect of acquiring subsidiaries (<i>Note 12</i>)	—	18,000	82,000	—	—
	—	229,235	61,093	(20,907)	(7,237)

30 CONTINGENCIES

As at June 30, 2013, Xuzhou Yijia, a wholly owned subsidiary of the Group, provided a financial guarantee with a maximum exposure of RMB4,900,000 to an independent third party in respect of its short-term bank borrowings. The financial guarantee contract period started at December 26, 2012 and will be ended by December 26, 2015. The financial guarantee was subsequently released in August 2013.

APPENDIX I

ACCOUNTANT’S REPORT

31 COMMITMENTS

(a) Capital commitments

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

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Property, plant and equipment	6,440	1,061	23,547	32,749
Land use rights	—	11,115	—	1,820
Acquisition of a subsidiary (<i>Note 34(a)</i>) . . .	—	—	23,000	—
	<u>6,440</u>	<u>12,176</u>	<u>46,547</u>	<u>34,569</u>

(b) Operating lease commitments

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The non-cancellable lease terms are between 1 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at the market rate. The Group is required to give at least a month notice for the termination of these agreements. The lease expenditure and related management fee, water and electricity (if necessary) charged to the combined income statements during the Relevant Periods are disclosed in Note 24.

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

Group

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
No later than 1 year	430	1,373	1,021	3,077
Later than 1 year and no later than 5 years .	<u>959</u>	<u>1,871</u>	<u>1,007</u>	<u>8,672</u>
	<u>1,389</u>	<u>3,244</u>	<u>2,028</u>	<u>11,749</u>

APPENDIX I

ACCOUNTANT’S REPORT

32 RELATED PARTY TRANSACTIONS

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

The directors of the Company are of the view that the following companies were related parties that had transactions or balances with the Group during the Relevant Periods:

<u>Name of related parties</u>	<u>Relationship with the Group</u>	<u>Period covered</u>
Cross Mark	Parent of the Company	Started from January 1, 2010
Zhang Wendong	A family member of Ms. Liu	Started from January 1, 2010
Tianjin Pharmaceutical Holdings Zhongjian Kangda Medical Devices Co.,Ltd. (天津醫藥集團 眾健康達醫療器械有限公司, “Zhong Jian Kang Da”)	Significant influence to a major subsidiary of the Group	Started from May 31, 2012 (date of acquisition of Tianjin Renli)
Wu Dong	Senior management of Shenzhen Bone	Started from January 31, 2013 (date of acquisition of Shenzhen Bone)
Shenzhen HaoHao Medical Equipment Co.,Ltd. (深圳市昊昊醫療器材有限公司, “Shenzhen HaoHao”)	Controlled by Wu Dong	Started from January 31, 2013 (date of acquisition of Shenzhen Bone)

APPENDIX I

ACCOUNTANT’S REPORT

(a) Related party transactions

Saved as disclosed, elsewhere in the report during the Relevant Periods, the following transactions were carried out between the Group and related parties. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Continued related party transactions					
Sales to related parties:					
Shenzhen HaoHao	—	—	—	—	3,458
Discontinued related party transactions					
Sales to related parties:					
Zhong Jian Kang Da	—	—	127	—	—
Financial guaranteed provided by related parties					
Zhang Wendong	—	—	20,000	—	32,000
Wu Dong	—	—	—	—	4,000
	—	—	20,000	—	36,000
Loans provided to related parties:					
Zhang Wendong	—	8,000	—	—	—
Zhong Jian Kang Da	—	—	1,000	—	1,000
	—	8,000	1,000	—	1,000
Loans provided by a related party:					
Zhang Wendong	—	100,000	—	—	—

APPENDIX I

ACCOUNTANT'S REPORT

(b) Balances with related parties

Group

	At December 31,			As at June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties — current				
Trade receivable				
Zhong Jian Kang Da	—	—	12	12
Shenzhen HaoHao	—	—	—	1,534
	—	—	12	1,546
Non- trade receivable				
Zhang Wendong	128	8,000	383	—
Zhong Jian Kang Da	—	—	—	1,000
Cross Mark.	1,662	—	—	—
	1,790	8,000	383	1,000
Total.	1,790	8,000	395	2,546

Except for the amounts due from Zhang Jian Kang Da, all the other amounts due from related parties are non-trade receivables and will be settled upon demand of the Group.

The amounts due from Zhong Jian Kang Da are trade in nature. The ageing is within one year, which is within the Group's credit term.

The outstanding amount due from related parties of non-trade nature are subsequently settled in September 2013.

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

	At December 31,			As at June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties				
— Current				
Zhang Wendong	—	120,000	98,030	—
Zhong Jian Kang Da	—	—	10,123	11,496
Cross Mark.	7,034	—	—	—
Wu Dong	—	—	—	2,389
	7,034	120,000	108,153	13,885
— Non-current				
Zhang Wendong	—	92,350	—	—

APPENDIX I

ACCOUNTANT’S REPORT

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

Except for the interest-free loan received from Mr. Zhang Wendong with the amount of RMB100,000,000 as described below, all the other amounts due to related parties will be settled upon demand of these related parties.

The outstanding amount due to related parties are expected to be settled prior to the [●].

Interest-free loan received from Mr. Zhang Wendong

The movements of the interest-free loan during the Relevant Periods are as follows,

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Beginning of the					
year/period	—	—	92,350	92,350	98,030
Addition (i)	—	88,748	—	—	—
Accretion (Note 26)	—	3,602	5,680	2,798	1,970
Repayment	—	—	—	—	(100,000)
End of the year/					
period	—	92,350	98,030	95,148	—
Less: current portion	—	—	(98,030)	—	—
Non-current portion	—	92,350	—	95,148	—

- (i) Mr. Zhang Wendong provided an interest-free loan of RMB100,000,000 to the Group in April 2011 to finance the Reorganisation. The interest-free loan was denominated in RMB and due for repayment in April 2013. The interest-free loan was initially recognised at its fair value of RMB88,748,000, the difference between the fair value and undiscounted amount, net of tax, with the amount of RMB8,439,000 was recorded in equity. The interest-free loan was subsequently recorded at amortised cost using effective interest method and the amortisation amount was charged to the “finance costs” in the combined income statements.

As at December 31, 2011 and 2012, the fair value of interest-free loan approximates their carrying amount, as the impact of discounting is not significant. The fair value is calculated based on cash flows discounted using 6.15%.

Company

Amounts due from subsidiaries are non-trade receivable and will be settled upon demand of the Company. Amounts due to subsidiaries are interest free, non-trade payables and will be settled upon demand of these subsidiaries.

APPENDIX I

ACCOUNTANT’S REPORT

33 TRANSACTIONS WITH NON-CONTROLLING INTERESTS(“NCI”)

(a) Introduction of certain financial investors

In order to seek the alliance with strategic investors for additional capital access and market experience, the Company introduced several financial investors to both the Orthopedic Implant Business and the Infusion Set Business. The details during the Relevant Periods are summarised as follows:

(i) Introduction of WP X

Before September 2010, Cross Mark held 55% equity interests in Walkman Biomaterial through Health Forward Limited (“Health Forward”), a wholly owned subsidiary of the Group. In September 2010, PWM Investment, a subsidiary wholly owned by WP X at that time, made a cash contribution of RMB70,000,000. Immediately after completion of the cash contribution, the Group acquired 53.3% equity interest in PWM Investment in exchange of the 100% equity interest in Health Forward. As a result, the Group’s equity interest in Walkman Biomaterial was diluted from 55% to 39.19%. As the Group still has the power to govern the financial and operating policy of Walkman Biomaterial by securing a majority of voting rights in the meeting of board of directors, Walkman Biomaterial is regarded as a subsidiary of the Group. Accordingly, the transaction is accounted for as equity transaction.

The Group recognised an increase in non-controlling interests of RMB50,529,000 and an increase in equity attributable to owners of the Company of RMB19,471,000. The effect of changes in the ownership interest of Walkman Biomaterial on the equity attributable to owners of the Company during the year ended December 31, 2010 is summarised as follows:

	RMB’000
Consideration received from the transaction with non-controlling interests.	70,000
Carrying amount of non-controlling interests increased	<u>(50,529)</u>
Gain on disposal within equity	<u>19,471</u>

(ii) Introduction of Sparkle Wealthy

In September 2012, Sparkle Wealthy acquired an additional 3% equity interest of PWM Investment at a cash consideration of RMB6,014,000. In September and December 2012, the then-existing non-controlling interests of that subsidiary of the Group, namely, WP X and Sparkle Wealthy made capital contributions to PWM Investment on a pro rata basis to their then shareholding percentages with an aggregate amount of approximately RMB52,331,000. Subsequently in October 2012, PWM Investment made a follow-on investment in Walkman Biomaterial with a capital contribution in US\$ equivalent to RMB105,000,000. After these transactions, the Group’s effective equity interests in Walkman Biomaterial were changed to 40.85%. As the Group still has the power to govern the financial and operating policy of Walkman Biomaterial by securing a majority of voting rights in the meeting of board of directors, Walkman Biomaterial is regarded as a subsidiary of the Group. Accordingly, the transaction is accounted for as an equity transaction.

The Group recognised an increase in non-controlling interests of RMB51,917,000. The effect of changes in the ownership interest of Walkman Biomaterial on the equity attributable to owners of the Company during the year ended December 31, 2012 is summarised as follows:

	RMB’000
Consideration received from the transaction with non-controlling interests.	58,345
Carrying amount of non-controlling interests increased	<u>(51,917)</u>
Gain on disposal within equity	<u>6,428</u>

APPENDIX I

ACCOUNTANT'S REPORT

(b) Acquiring additional interests of Fert Technology

The Group originally held 55.625% equity interest in Fert Technology. In December 2012, Health Access, a wholly owned subsidiary of the Group acquired the remaining 44.375% equity interest from Langjing Technology, an independent third party at a cash consideration of RMB180,000,000. The cash consideration was paid in May 2013.

The carrying amount of the non-controlling interests in Fert technology on the date of acquisition was RMB110,363,000. The Group recognised a decrease in non-controlling interests of RMB110,363,000 and a decrease in equity attributable to owners of the Company of RMB69,637,000. The effect of changes in the ownership interest of Fert Technology on the equity attributable to owners of the Company during the year ended December 31, 2012 is summarised as follows:

	RMB'000
Consideration payable to non-controlling interests	(180,000)
Carrying amount of non-controlling interests acquired	<u>110,363</u>
Excess of consideration paid recognised within equity	<u>(69,637)</u>

(c) Acquiring additional interests of Walkman Biomaterial

PWM Investment, a subsidiary of the group, originally held 79.02% equity interest in Walkman Biomaterial. In May 2013, PWM Investment acquired the remaining 20.98% equity interest non-controlling interests owners at a cash consideration of RMB120,000,000, of which RMB10,000,000 was not paid and recorded as other payable and withholding tax (Note 19) as at June 30, 2013.

The carrying amount of the non-controlling interests in Walkman Biomaterial on the date of acquisition was RMB82,712,000. The Group recognised a decrease in non-controlling interests of RMB82,712,000 and a decrease in equity attributable to owners of the Company of RMB37,288,000. The effect of changes in the ownership interest of Walkman Biomaterial on the equity attributable to owners of the Company during the six months ended June 30, 2013 is summarised as follows:

	RMB'000
Consideration paid/payable to non-controlling interests	(120,000)
Carrying amount of non-controlling interests acquired	<u>82,712</u>
Excess of consideration paid recognised within equity	<u>(37,288)</u>

(d) Acquiring additional interests of Shenzhen Bone

PWM Investment and Walkman Biomaterial originally held 60% equity interest in Shenzhen Bone. In June 2013, PWM Investment, a subsidiary of the Group, acquired the remaining 40% equity interest from Mr. Wu Dong and Mrs. Xie Yunxia at a cash consideration of RMB58,440,000.

The carrying amount of the non-controlling interests in Shenzhen Bone on the date of acquisition was RMB47,072,000. The Group recognised a decrease in non-controlling interests of RMB47,072,000 and a decrease in equity attributable to owners of the Company of RMB11,368,000. The effect of changes in the ownership interest of Shenzhen Bone on the equity attributable to owners of the Company during the six months ended June 30, 2013 is summarised as follows:

	RMB'000
Consideration paid/payable to non-controlling interests	(58,440)
Carrying amount of non-controlling interests acquired	<u>47,072</u>
Excess of consideration paid recognised within equity	<u>(11,368)</u>

APPENDIX I

ACCOUNTANT’S REPORT

34 BUSINESS COMBINATION

(a) Acquisition of Fert Technology

On April 30, 2011, Cross Mark acquired 55.625% equity interests in Fert Technology through PWM Beijing at a cash consideration of RMB220,000,000 and obtained control by securing a majority of voting right. Cross Mark subsequently transferred the whole equity interests in PWM Beijing to Health Access, a wholly owned subsidiary of the Group, at the same cash consideration on September 30, 2011(Note1(b)(3)).

Through the acquisition, the Group gains access to the fast growing high-end advanced technological Chinese infusion markets. It also expects to reduce costs through economies of scale. The goodwill of RMB148,018,000 arising from the acquisition is attributable to a pre-existing, well-positioned business in the innovation-intensive, high-growth infusion set market where the company would gain competitiveness through early entry into geographical areas where currently there is no coverage. It is also associated with a highly skilled workforce, buyer-specific synergies and established reputation. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs have been charged to administrative expenses in the combined income statements for the year ended December 31, 2011. The fair value of the acquired identifiable intangible assets include trademark and technology know-how.

Valuation information about the fair value measurement using significant unobservable inputs (Level 3) adopted by the valuation of the intangible assets (other than goodwill) were as follows:

<u>Approach</u>	<u>Unobservable inputs</u>	<u>Range of unobservable inputs</u>	<u>Relationship of unobservable inputs to fair value</u>
Income approach	Gross margin	40%	The higher the gross margin, the higher the fair value
	Terminal growth rate for free cash flow	2.5%	The higher the growth rate, the higher the fair value
	Discount rate	17.6% or 18.6%	The higher the discount rate, the lower the fair value

The Company applied market participant’s view in developing the assumptions used in fair value measurement of the identifiable intangible assets in the business combination. Under market participant’s view, an entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use under current market conditions at the acquisition date.

The revenue included in the combined income statements since acquisition date contributed by Fert Technology was RMB99,888,000. Fert Technology also contributed profit of RMB31,357,000 over the same period. Had Fert Technology been consolidated from January 1, 2011, the combined income statements would show pro-forma revenue of RMB211,743,000 and net profit of RMB65,854,000 for the year ended December 31, 2011.

APPENDIX I

ACCOUNTANT’S REPORT

The following table summarises the consideration paid for Fert Technology, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	RMB’000
Consideration:	
At April 30, 2011	
— Cash consideration	220,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (<i>Note 8</i>)	46,247
Intangible assets — trademarks (<i>Note 9</i>)	11,755
Intangible assets — technology know-how (<i>Note 9</i>)	36,440
Intangible assets — customer relationship (<i>Note 9</i>)	5,012
Long-term prepayments	2,224
Available-for-sale financial assets (<i>Note 10</i>)	27,600
Inventories	25,130
Trade and other receivables	7,025
Deferred income tax assets (<i>Note 21</i>)	1,355
Cash and cash equivalents	8,765
Current income tax liabilities	(1,267)
Current liabilities	(30,965)
Deferred income tax liabilities (<i>Note 21</i>)	(9,995)
Total identifiable net assets.	129,326
Non-controlling interest	(57,344)
Goodwill (<i>Note 9</i>)	148,018
Total.	220,000

(b) Acquisition of Tianjin Renli

On May 31, 2012, Walkman Biomaterial, a subsidiary of the Group, acquired 60% equity interest in Tianjin Renli with a cash consideration of RMB18,000,000, which was paid and recorded as long term prepayment (*Note 12*) as at December 31, 2011.

According to the Articles of Association of Tianjin Renli, the strategic, operating and capital decisions are generally made by majority vote of the board members. The Company has control over the composition of Tianjin Renli’s board, which has five members, three appointed by the Company, and two appointed by minority shareholders. Accordingly, Tianjin Renli is regarded as a subsidiary of the Company under [●] 10 “Consolidation Financial Statements” regardless of the shareholding ratio.

As a result of the acquisition, the Group is expected to increase its presence in the orthopedic implants markets. It also expects to reduce costs through economies of scale. The goodwill of RMB12,831,000 arising from the acquisition is attributable to the economies of scale expected from expanding of the business scope of the Orthopedic Implant Business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs have been charged to administrative expenses in the combined income statements for the year ended December 31, 2012.

APPENDIX I

ACCOUNTANT’S REPORT

The revenue included in the combined income statements since May 2012 contributed by Tianjin Renli was RMB2,521,000. Tianjin Renli also contributed losses of RMB1,320,000 over the same period. Had Tianjin Renli been consolidated from January 1, 2012, the combined income statements would show pro-forma revenue of RMB333,579,000 and net profit of RMB97,064,000 for the year ended December 31, 2012.

The following table summarises the consideration for acquisition of Fert Technology, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	RMB’000
Consideration:	
At May 31, 2012	
— Cash consideration	18,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (<i>Note 8</i>)	1,800
Inventories	7,551
Long-term prepayments	178
Trade and other receivables	4,333
Deferred income tax assets (<i>Note 21</i>)	1,247
Cash and cash equivalents	20,907
Current liabilities	(13,969)
Deferred income tax liabilities (<i>Note 21</i>).	(61)
Total identifiable net assets.	21,986
Non-controlling interest	(16,817)
Goodwill (<i>Note 9</i>)	12,831
Total.	18,000

(c) Acquisition of Shenzhen Bone

On January 31, 2013, PWM Investment and Walkman Biomaterial acquired an aggregated 60% equity interest in Shenzhen Bone with a cash consideration of RMB105,000,000, of which RMB82,000,000 was paid and recorded as a long-term prepayment (*Note 12*) as at December 31, 2012.

Valuation information about the fair value measurement using significant unobservable inputs (Level 3) adopted by the valuation of the intangible assets (other than goodwill) were as follows:

<u>Approach</u>	<u>Unobservable inputs</u>	<u>Range of unobservable inputs</u>	<u>Relationship of unobservable inputs to fair value</u>
Income approach	Gross margin	54%	The higher the gross margin, the higher the fair value
	Terminal growth rate for free cash flow	2.5%	The higher the growth rate, the higher the fair value
	Discount rate	19.3%	The higher the discount rate, the lower the fair value

APPENDIX I

ACCOUNTANT’S REPORT

The Company applied market participant’s view in developing the assumptions used in fair value measurement of the identifiable intangible assets in the business combination. Under market participant’s view, an entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use under current market conditions at the acquisition date.

As a result of the acquisition, the Group is expected to further expand its orthopedic implant product portfolio. It also expects to reduce costs through economies of scale. The goodwill of RMB88,973,000 arising from the acquisition is attributable to acquired customer base and economies of scale expected from consolidating the operations of the existing Orthopedic Implant Business and Bone Medical. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for Shenzhen Bone, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	RMB’000
Consideration:	
At January 31, 2013	
— Cash consideration	105,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (<i>Note 8</i>)	491
Intangible assets — technology know-how (<i>Note 9</i>)	13,903
Long-term prepayment for property, plant and equipment	15,340
Inventories	8,899
Deferred income tax assets (<i>Note 21</i>)	1,297
Trade and other receivables	1,452
Cash and cash equivalents	37,237
Current liabilities	(17,299)
Current borrowings	(4,000)
Deferred income tax liabilities (<i>Note 21</i>)	(3,503)
Total identifiable net assets.	53,817
Non-controlling interest	(37,790)
Goodwill (<i>Note 9</i>)	88,973
Total.	105,000

(d) Acquisition of Xuzhou Yijia Medical Device Co., Ltd. (徐州一佳醫療器械有限公司, “Xuzhou Yijia”)

On May 31, 2013, Fert Technology acquired 100% equity interest in Xuzhou Yijia, a company engaged in Infusion Set Business, at a cash consideration of RMB20,000,000, of which RMB7,000,000 was paid in April 30, 2013 and RMB13,000,000 was recorded as other payable(*Note 19*) as at June, 30, 2013.

As a result of the acquisition, the Group is expected to further expand its production capacity of Infusion Set. It also expects to reduce costs through economies of scale. The goodwill of RMB12,736,000 arising from the acquisition is attributable to acquired economies of scale expected from consolidating the production and operation of the existing land use right, building and production line. None of the goodwill recognised is expected to be deductible for income tax purposes.

APPENDIX I

ACCOUNTANT’S REPORT

The following table summarises the consideration paid for Xuzhou Yijia, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	RMB’000
Consideration:	
At May 31, 2013	
— Cash consideration	20,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (<i>Note 8</i>)	18,540
Land use rights (<i>Note 7</i>).	9,410
Current liabilities	(5,000)
Current borrowings	(9,900)
Deferred income tax liabilities (<i>Note 21</i>).	(5,786)
Total identifiable net assets.	7,264
Goodwill (<i>Note 9</i>)	12,736
Total.	20,000

As at May 31, 2013, Xuzhou Yijia is still in the process of applying the ownership certificates of certain land with the aggregated carrying amounts amounted to RMB6,987,000.

35 INTERESTS IN SUBSIDIARIES

(a) Information about principal subsidiaries

Set out below are the Group’s principal subsidiaries at December 31, 2010, 2011, 2012 and June 30, 2012 and 2013. Unless otherwise stated, the subsidiaries as listed below have combined capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their place of principal place of business.

	% of ownership interest held by the Company					% of ownership interest held by the NCI				
	December 31,			June 30,		December 31,			June 30,	
	2010	2011	2012	2012	2013	2010	2011	2012	2012	2013
Walkman Biomaterial	39.19%	39.19%	40.85%	39.19%	51.70%	60.81%	60.81%	59.15%	60.81%	48.30%
Shenzhen Bone	n.a	n.a	n.a	n.a	51.70%	n.a	n.a	n.a	n.a	48.30%
Fert Technology	n.a	55.63%	100.00%	55.63%	100.00%	n.a	44.37%	0.00%	44.37%	0.00%

(b) Significant restrictions

No significant restrictions on the ability to access or use the assets and settle the liabilities of the Group.

APPENDIX I

ACCOUNTANT’S REPORT

(c) Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group:

Summarised balance sheets

	Walkman Biomaterial			
	December 31,			June 30,
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Current assets	107,696	115,938	165,664	15,000
Other assets	26,978	41,837	39,966	244,521
Current liabilities	29,409	33,415	45,591	9,286
Other liabilities	—	—	400	89,036
Net assets.	105,265	124,360	159,639	161,199
Carrying amount of NCI.	64,015	75,629	94,421	53,756

	Shenzhen Bone			
	December 31,			June 30,
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Current assets	n.a	n.a	n.a	20,550
Other assets	n.a	n.a	n.a	43,323
Current liabilities	n.a	n.a	n.a	701
Other liabilities	n.a	n.a	n.a	11,800
Net assets.	n.a	n.a	n.a	51,372
Carrying amount of NCI.	n.a	n.a	n.a	24,813

	Fert Technology			
	December 31,			June 30,
	2010	2011	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000
Current assets	n.a	178,164	170,264	277,030
Other assets	n.a	32,626	77,477	89,745
Current liabilities	n.a	44,308	35,678	144,892
Other liabilities	n.a	—	—	1,984
Net assets.	n.a	166,482	212,063	219,899
Carrying amount of NCI.	n.a	73,868	—	—

APPENDIX I

ACCOUNTANT’S REPORT

Summarised income statements and cash flows statements

	Walkman Biomaterial				
	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Revenue	60,816	75,379	95,046	45,225	74,328
Profit for the year/period	14,578	19,096	32,718	15,020	25,018
Total comprehensive income for the year/period	—	—	—	—	—
Profit attributable to non-controlling interests	7,215	11,613	19,793	9,134	14,345
Net cash generated from/ (used in) operating activities	11,735	(5,355)	(7,062)	(12,348)	(10,635)
Net cash used in investing activities	(17,396)	(16,977)	(21,020)	(2,144)	(9,991)
Net cash generated from/ (used in) financing activities	40,486	—	32,560	(7,378)	5,000
Net increase/(decrease) in cash and cash equivalents	34,825	(22,332)	4,478	(21,870)	(15,626)
Shenzhen Bone					
	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Revenue	n.a	n.a	n.a	n.a	12,265
Loss for the year/period	n.a	n.a	n.a	n.a	(2,112)
Total comprehensive income for the year/period	n.a	n.a	n.a	n.a	—
Loss attributable to non-controlling interests	n.a	n.a	n.a	n.a	(1,609)
Net cash used in operating activities	n.a	n.a	n.a	n.a	(8,686)
Net cash used in investing activities	n.a	n.a	n.a	n.a	(13,185)
Net cash used in financing activities	n.a	n.a	n.a	n.a	(11,174)
Net decrease in cash and cash equivalents	n.a	n.a	n.a	n.a	(33,045)

APPENDIX I

ACCOUNTANT’S REPORT

	Fert Technology				
	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Revenue	n.a	99,888	233,974	100,205	147,057
Profit for the year/period	n.a	36,676	82,802	35,157	53,556
Total comprehensive income for the year/period	n.a	—	—	—	—
Profit attributable to non-controlling interests	n.a	16,274	36,743	15,600	—
Net cash generated from operating activities	n.a	20,567	34,231	19,014	55,315
Net cash generated from/ (used in) investing activities	n.a	12,784	(23,449)	(13,750)	(25,447)
Net cash used in financing activities	n.a	(25,291)	4,313	(13,000)	(7,812)
Net increase/(decrease) in cash and cash equivalents	n.a	8,060	15,095	(7,736)	22,056

36 EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the presentation of the results for the Relevant Periods on a combined basis as disclosed in Note 2 above.

37 EVENT SUBSEQUENT TO BALANCE SHEET DATE

- (a) On July 11, 2013, the Group completed the Reorganisation in preparing for [●] (Note 1(b)).
- (b) On July 3, 2013, the Company’s [●] Share Option Scheme was approved by the board of directors. The board of directors may, under the [●] Share Option Scheme, grant options to the employees, directors or other selected participants of the Group. Approximately 70,891,722 share options were granted under the [●] Share Option Scheme up to the date of this report.
- (c) Pursuant to the written resolutions of all the Shareholders of the Company on October 14, 2013, the issue of 1,105,725,655 shares will be made upon capitalisation of an amount of approximately US\$111,000 (equivalent to RMB685,000) standing to the credit of the share premium account of the Company.
- (d) In September 2013, according to the agreements entered into with an independent third party, the Group disposed the whole equity interests in Tianjin Renli for a cash consideration of RMB19,400,000. The disposal resulted in a gain of approximately RMB1,400,000. Up to the date of this report, the Group has received RMB3,880,000 of the cash consideration and the remaining portion is expected to be received in year 2014.

APPENDIX I

ACCOUNTANT’S REPORT

The revenue and net loss contributed by Tianjin Renli during the Relevant Periods are as follows:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Revenue	—	—	2,521	343	2,356
Loss for the year/period . . .	—	—	(1,320)	(406)	(3,256)

III PRE-ACQUISITION FINANCIAL INFORMATION OF FERT TECHNOLOGY

Fert Technology

The following is the financial information of Fert Technology for the year ended December 31, 2010 and for the period from January 1, 2011 to April 30, 2011, date of acquisition by the Group.

Company Balance Sheets of Fert Technology

	Note	As at December 31, 2010	As at April 30, 2011
		RMB’000	RMB’000
Assets			
Non-current assets			
Property, plant and equipment	(a)	36,861	36,819
Deferred income tax assets		1,285	1,355
Long-term prepayments		2,198	2,224
		<u>40,344</u>	<u>40,398</u>
Current assets			
Inventories	(b)	22,060	25,130
Trade and other receivables		4,482	7,026
Cash and cash equivalents		15,777	8,765
Investment in a jointly controlled entity .		<u>500</u>	<u>500</u>
		<u>42,819</u>	<u>41,421</u>
Total assets		<u>83,163</u>	<u>81,819</u>

APPENDIX I

ACCOUNTANT’S REPORT

	As at December 31, 2010 RMB’000	As at April 30, 2011 RMB’000
Equity		
Paid in capital.	16,000	16,000
Retained earnings	<u>28,681</u>	<u>33,585</u>
Total equity.	<u>44,681</u>	<u>49,585</u>
Current liabilities		
Trade and other payables	36,140	30,967
Current income tax liabilities	<u>2,342</u>	<u>1,267</u>
	<u>38,482</u>	<u>32,234</u>
Total liabilities.	<u>38,482</u>	<u>32,234</u>
Total equity and liabilities	<u>83,163</u>	<u>81,819</u>
Net current assets	<u>4,337</u>	<u>9,187</u>
Total assets less current liabilities	<u>44,681</u>	<u>49,585</u>

APPENDIX I

ACCOUNTANT’S REPORT

Company Income Statements of Fert Technology

		Year ended December 31, 2010	Period from January 1, 2011 to April 30, 2011
	Note	RMB’000	RMB’000
Revenue	(c)	<u>88,809</u>	<u>36,476</u>
Cost of sales	(d)	<u>(51,457)</u>	<u>(16,419)</u>
Gross profit.		37,352	20,057
Selling expenses	(d)	(1,193)	(1,327)
Administrative expenses	(d)	(5,694)	(1,162)
Research and development expenses.	(d)	(3,638)	(839)
Other gains — net	(e)	<u>464</u>	<u>2,603</u>
Operating profit.		27,291	19,332
Finance income — net		<u>101</u>	<u>24</u>
Profit before income tax.		27,392	19,356
Income tax expense		<u>(4,203)</u>	<u>(2,848)</u>
Profit for the year/period		<u><u>23,189</u></u>	<u><u>16,508</u></u>

APPENDIX I

ACCOUNTANT’S REPORT

Company Statements of Comprehensive Income of Fert Technology

	Year ended December 31, 2010 <u>RMB’000</u>	Period from January 1, 2011 to April 30, 2011 <u>RMB’000</u>
Profit for the year/period	<u>23,189</u>	<u>16,508</u>
Other comprehensive income:		
Other comprehensive income for the year/period, net of tax	<u>—</u>	<u>—</u>
Total comprehensive income for the year/period	<u><u>23,189</u></u>	<u><u>16,508</u></u>

APPENDIX I

ACCOUNTANT’S REPORT

Company Statement of Changes in Equity of Fert Technology

	<u>Paid-in capital</u>	<u>Retained earnings</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Balance at January 1, 2010.	<u>16,000</u>	<u>7,092</u>	<u>23,092</u>
Profit for the year	—	23,189	23,189
Dividends declared	<u>—</u>	<u>(1,600)</u>	<u>(1,600)</u>
Balance at December 31, 2010.	<u>16,000</u>	<u>28,681</u>	<u>44,681</u>
Balance at January 1, 2011.	<u>16,000</u>	<u>28,681</u>	<u>44,681</u>
Profit for the period.	—	16,508	16,508
Dividends declared	<u>—</u>	<u>(11,604)</u>	<u>(11,604)</u>
Balance at April 30, 2011	<u>16,000</u>	<u>33,585</u>	<u>49,585</u>

APPENDIX I

ACCOUNTANT’S REPORT

Company Cash Flow Statements of Fert Technology

	Year ended December 31, 2010 <u>RMB’000</u>	Period from January 1, 2011 to April 30, 2011 <u>RMB’000</u>
Cash flows from operating activities		
Profit before tax	<u>27,392</u>	<u>19,356</u>
Adjustments for:		
Depreciation of property, plant and equipment.	5,071	1,821
Dividend income	—	(2,600)
Increase in inventories	(1,560)	(3,070)
Decrease/(increase) in trade and other receivables	2,512	(2,544)
Decrease in trade and other payables	<u>(24,014)</u>	<u>(5,225)</u>
Cash generated from operations	9,401	7,738
Income tax paid	<u>(1,868)</u>	<u>(3,993)</u>
Net cash generated from operating activities	<u>7,533</u>	<u>3,745</u>
Cash flows from investing activities		
Purchases of property, plant and equipment.	(7,251)	(1,753)
Dividends received	<u>—</u>	<u>2,600</u>
Net cash (used in)/generated from investing activities . . .	<u>(7,251)</u>	<u>847</u>
Cash flows from financing activities		
Dividends paid to the then equity owners	<u>(1,600)</u>	<u>(11,604)</u>
Net cash used in financing activities	<u>(1,600)</u>	<u>(11,604)</u>
Net decrease in cash and cash equivalents	(1,318)	(7,012)
Cash and cash equivalents at beginning of year/period . . .	<u>17,095</u>	<u>15,777</u>
Cash and cash equivalents at end of year/period	<u>15,777</u>	<u>8,765</u>

APPENDIX I

ACCOUNTANT’S REPORT

Notes to Company Balance Sheets of Fert Technology

(a) *Property, plant and equipment of Fert Technology*

	<u>Buildings and facilities</u>	<u>Leasehold improvements</u>	<u>Furniture, fittings and office equipment</u>	<u>Machinery equipment</u>	<u>Motor vehicles</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
At January 1, 2010						
Cost.	19,106	1,688	763	18,613	1,570	41,740
Accumulated depreciation	(1,023)	(1,030)	(505)	(2,618)	(1,160)	(6,336)
Net book amount	18,083	658	258	15,995	410	35,404
For the year ended December 31, 2010						
Opening net book amount	18,083	658	258	15,995	410	35,404
Additions	3,494	—	508	2,371	155	6,528
Depreciation.	(1,230)	(192)	(80)	(3,437)	(132)	(5,071)
Closing net book amount.	20,347	466	686	14,929	433	36,861
At December 31, 2010						
Cost.	22,600	1,688	1,271	20,984	1,725	48,268
Accumulated depreciation	(2,253)	(1,222)	(585)	(6,055)	(1,292)	(11,407)
Net book amount	20,347	466	686	14,929	433	36,861
For the period ended April 30, 2011						
Opening net book amount	20,347	466	686	14,929	433	36,861
Additions	300	—	137	1,179	163	1,779
Depreciation.	(494)	(64)	(48)	(1,174)	(41)	(1,821)
Closing net book amount.	20,153	402	775	14,934	555	36,819
At April 30, 2011						
Cost.	22,900	1,688	1,408	22,163	1,888	50,047
Accumulated depreciation	(2,747)	(1,286)	(633)	(7,229)	(1,333)	(13,228)
Net book amount	20,153	402	775	14,934	555	36,819

APPENDIX I

ACCOUNTANT’S REPORT

(b) *Inventories of Fert Technology*

	As at December 31, 2010 RMB’000	As at April 30, 2011 RMB’000
Raw materials	12,756	11,588
Work in progress	4,263	5,696
Finished goods	5,041	7,846
Cost of inventories	22,060	25,130

(c) *Revenue of Fert Technology*

	Year ended December 31, 2010 RMB’000	Period from January 1, 2011 to April 30, 2011 RMB’000
Revenue-sales of products		
Infusion set business	88,809	36,476

During the year ended December 31, 2010 and the period from January 1, 2011 to April 30, 2011, the revenue attributed from Fert Device is as follows:

	Year ended December 31, 2010 RMB’000	Period from January 1, 2011 to April 30, 2011 RMB’000
Fert Device.	73,415	27,093

APPENDIX I

ACCOUNTANT’S REPORT

(d) *Expenses by nature of Fert Technology*

	Year ended December 31, 2010	Period from January 1, 2011 to April 30, 2011
	RMB’000	RMB’000
Raw materials and consumable used	30,421	11,733
Changes in inventories of finished goods and work in progress	2,567	(3,498)
Employee benefit expenses	13,473	5,992
Depreciation of property, plant and equipment (a)	5,071	1,821
Office and communication expenses	730	281
Direct research costs	2,323	416
Travelling and entertainment expenses	234	95
Tax surcharges	856	552
Low-value consumables	1,018	443
Operating lease payments	1,072	283
Transportation costs	1,148	468
Utilities	2,729	1,064
Others	340	97
Total cost of sales, selling expenses, administrative expenses and research and development expenses	61,982	19,747

(e) *Other gains — net of Fert Technology*

	Year ended December 31, 2010	Period from January 1, 2011 to April 30, 2011
	RMB’000	RMB’000
Dividend income	—	2,600
Government grants	193	—
Others	271	3
	464	2,603

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to June 30, 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 Company or any of the companies now comprising the Group in respect of any period subsequent to June 30, 2013.

Yours faithfully,
[•]

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Islands company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on May 13, 2011 under the Cayman Companies Law. Our Company's constitutional documents consist of its Memorandum and the Articles.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of our Company is limited and that the objects for which our Company is established are unrestricted (and therefore include acting as an investment company), and that our Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) By special resolution our Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on October 14, 2013. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of our Company consists of ordinary shares.

(ii) *Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of our Company shall be issued under the seal of our Company, and shall be signed autographically by one Director and the Secretary, or by two Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of our Company,

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of our Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. Our Company shall not be bound to register more than four persons as joint holders of any share.

(b) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of our Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of our Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and our Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the Board, which may offer, allot, grant

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of our Company or any subsidiary*

While there are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by our Company in general meeting, but if such power or act is regulated by our Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) *Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by our Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

Our Company shall not directly or indirectly make a loan to a Director or a director of any holding company of our Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of our Company or any of their respective associates, or if any one or more of the Directors

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) *Disclosure of interest in contracts with our Company or with any of its subsidiaries*

With the exception of the office of auditor of our Company, a Director may hold any other office or place of profit with our Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with our Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to our Company.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or
- (ee) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company.

(vi) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

Any Director who, at the request of our Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of our Company or with which our Company is associated in business), or may make contributions out of our Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and former employees of our Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(vii) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of our Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting and the minimum length of the period during which such notices to our Company may be given must be at least seven days.

A Director is not required to hold any shares in our Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of our Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and our Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to our Company at the registered office or head office of our Company for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) *Borrowing powers*

Pursuant to the Articles, the Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of our Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of our Company.

(ix) *Register of Directors and officers*

Pursuant to the Cayman Companies Law, our Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of name of such directors or officers.

(x) *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Unless otherwise determined four Directors shall be a quorum. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) *Alterations to the constitutional documents*

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of our Company may only be altered or amended, and the name of our Company may only be changed by our Company by special resolution.

(d) *Variation of rights of existing shares or classes of shares*

Subject to the Cayman Companies Law, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Alteration of capital

Our Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Cayman Companies Law and to confirmation by the court, a company limited by shares may, if so authorized by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) Special resolution — majority required

In accordance with the Articles, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days’ notice, specifying the

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution," by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of our Company duly convened and held, and where relevant as a special resolution so passed.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorized representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of our Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

A resolution put to the vote of a general meeting shall be decided by way of a poll save that the Chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. For purposes of this Article, procedural and administrative matters are those that (i) are not on the agenda of the general meeting or in any supplementary circular that may be issued by our Company to its Shareholders; and (ii) relate to the Chairman's duties to maintain the

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, while allowing all Shareholders a reasonable opportunity to express their views. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by:

- (i) at least two members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (ii) any member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iii) a member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and holding shares in our Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of our Company, such person or persons may be authorized as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where our Company has knowledge that any member is, [●], required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) Annual general meetings

Our Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by [●] at such time and place as may be determined by the Board.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(i) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of our Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of our Company’s affairs and to show and explain its transactions.

The books of accounts of our Company shall be kept at the head office of our Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of our Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorized by the Board or our Company in general meeting.

The Board shall from time to time cause to be prepared and laid before our Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors’ report and a copy of the auditors’ report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), our Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

Our Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors’ remuneration shall be fixed by our Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of our Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by [●].

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by our Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in our Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify our Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Cayman Companies Law and [●], a notice or document may be served or delivered by our Company to any member by electronic means to such address as may from time to time be authorized by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of our Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of Directors in place of those retiring;
- (dd) the appointment of auditors;
- (ee) the fixing of the remuneration of the Directors and of the auditors;
- (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of our Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in [●]) and the number of any securities repurchased by our Company since the granting of such mandate; and
- (gg) the granting of any mandate or authority to the Board to repurchase securities in our Company.

(k) Transfer of shares

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by [●] and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to our principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as [●] may determine to be payable or such lesser sum as the Board may from time to time require is paid to our Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to [●] (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by [●]) and shall also be free from all liens.

(I) Power of our Company to purchase its own shares

Our Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by [●] the Securities and Futures Commission of Hong Kong.

Where our Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(m) Power of any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to the ownership of shares in our Company by a subsidiary.

(n) Dividends and other methods of distribution

Our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

Where the Board or our Company in general meeting has resolved that a dividend should be paid or declared on the share capital of our Company, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, our Company may by ordinary resolution in respect of any one particular dividend of our Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of our Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

Our Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(o) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorized. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favor of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced our Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days’ notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(q) Inspection of corporate records

Members of our Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. However, the members of our Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of our Company [●], any member may inspect any register of members of our Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if our Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(r) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy, holding or representing at least 20% of the total issued shares of our Company and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(s) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of our Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if our Company shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if our Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

In the event that our Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

Our Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, our Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (ii) upon the expiry of the 12 years and three months period (being the three months notice period referred to in sub-paragraph (iii)), our Company has not during that time received any indication of the existence of the member; and
- (iii) our Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

Our Company was incorporated in the Cayman Islands as an exempted company on May 13, 2011 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, our Company must conduct its operations mainly outside the Cayman Islands. Moreover, our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Under Section 37A(1) the Cayman Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorized in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Cayman Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of sections 34 and 37A(7) of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Cayman Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is *ultra vires* the company or illegal;
- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(h) Accounting and auditing requirements

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept and retained with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company, for a minimum period of five years from the date on which they are prepared.

Section 59 of the Cayman Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If our Company keeps its books of account at any place other than at its registered office or at any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor in Cabinet:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to our Company or its operations; and
- (ii) in addition, that no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by our Company:
 - (aa) on or in respect of the shares, debentures or other obligations of our Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

The undertaking for our Company is for a period of twenty years from September 10, 2013.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where our Company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. While a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

APPENDIX III	SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(r) Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, our Company’s legal adviser on Cayman Islands law, has sent to our Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed [●]. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

We were incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on May 13, 2011. Our registered office is situated at the Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands. We have established a principal place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong and have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on September 10, 2013. Mr. JIANG Liwei and Mr. William FU have been appointed as the authorized representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong at the above address.

2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of US\$50,000, divided into 50,000 shares with a par value of US\$1.00 each.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this document:

- (a) On May 13, 2011, one subscriber share of par value US\$1.00 of our Company was issued at par, and the said subscriber share was subsequently transferred to Ms. Yufeng LIU on the same date;
- (b) On May 13, 2011, a total of 99 shares of par value US\$1.00 of our Company shares were issued to Ms. Yufeng LIU for a consideration of US\$99;
- (c) On September 13, 2012, Ms. Yufeng LIU transferred 100 shares of par value US\$1.00 each of our Company to Cross Mark for a consideration of US\$100;
- (d) Pursuant to a special resolution of the shareholder dated January 18, 2013, the authorized share capital of our Company was altered from US\$50,000 divided into 50,000 shares of a par value of US\$1.00 each to US\$50,000 divided into 500,000,000 shares of a nominal or par value of US\$0.0001 each;
- (e) On February 4, 2013, our Company allotted 62,560,163 Shares of par value US\$0.0001 each to Cross Mark for a consideration of US\$62,560,163;
- (f) On February 22, 2013, Cross Mark transferred 3,572,081 Shares of par value US\$0.0001 each to Sparkle Wealthy and 12,317,324 Shares of par value US\$0.0001 each to Right Faith for US\$4,500,000 and US\$15,500,000, respectively;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (g) On March 7, 2013, Cross Mark transferred 15,890,041 Shares of par value US\$0.0001 each to WP X for a consideration of US\$46,274,874;
- (h) In connection with the Reorganization, pursuant to a share subscription agreement dated May 8, 2013, our Company acquired the 100% equity interest in PWM Investment from Cross Mark, WP X and Sparkle Wealthy, and as consideration therefor, our Company allotted and issued 11,197,532 Shares, 9,811,378 Shares and 649,760 Shares to Cross Mark, WP X and Sparkle Wealthy, respectively;
- (i) On May 29, 2013, our Company allotted and issued 3,126,308 Shares of par value US\$0.0001 each to Sparkle Wealthy and 5,929,204 Shares of par value US\$0.0001 each to Right Faith for US\$9,382,381 and US\$17,794,170, respectively; and
- (j) Pursuant to a Shareholders' resolution passed on October 14, 2013, the authorized share capital of our Company was increased from US\$50,000 divided into 500,000,000 shares of par value US\$0.0001 each to US\$500,000 divided into 5,000,000,000 shares of par value US\$0.0001 each.

Save as disclosed above and in this document, there has been no alteration in the share capital of our Company since our incorporation.

3. [●]

4. [●]

5. Our Corporate Reorganization

The companies comprising our Group underwent the Reorganization [●]. Please refer to the section headed "History and Corporate Development" to this document for further details.

6. Changes in the Share Capital of Our Subsidiaries

Our subsidiaries are referred to in the Accountant's Report, the text of which is set out in Appendix I to this document. Save for the subsidiaries mentioned in the Accountant's Report, we do not have any other subsidiaries.

The following alterations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this document:

- (a) on September 17, 2012, PWM Investment issued and allotted 309 shares to Sparkle Wealthy for a consideration of US\$956,235.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (b) on September 27, 2012, PWM Investment issued and allotted 116 and 1,755 shares to Sparkle Wealthy and WP X for US\$515,922 and US\$7,805,519, respectively.
- (c) on October 26, 2012, Walkman Biomaterial increased its registered capital from RMB20.39 million to RMB25.74 million.
- (d) on December 17, 2012, PWM Investment issued and allotted 2003 shares to Cross Mark for a consideration of US\$8,230,389.
- (e) on February 19, 2013, Yingshang Technological increased its registered capital from RMB1 million to RMB6 million.
- (f) on March 29, 2013, Tianqiong Investment increased its registered capital from RMB1 million to RMB7 million.
- (g) on January 25, 2013, Bone Medical increased its registered capital from RMB1 million to RMB1.35 million.
- (h) on May 13, 2013, Walkman Biomaterial increased its registered capital from RMB25.74 million to RMB100 million.
- (i) on June 18, 2013, Fert Technology increased its registered capital from RMB16 million to RMB66 million.

Save as disclosed in this document, there has been no alteration in the share capital or registered capital of our subsidiaries within the two years immediately preceding the date of this document.

7. Further information about our PRC establishments

We have interest in the registered capital of 11 companies in the PRC. A summary of the corporate information as at the Latest Practicable Date is set out as follows:

Name:	PW Medtech (Beijing)
Date of establishment:	August 10, 2000
Place of incorporation:	PRC
Nature:	Limited liability company (solely owned by a Taiwan, Hong Kong or Macau legal person)
Registered Capital:	RMB4.3 million (fully paid up)

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Name: Fert Technology
 Date of establishment: September 23, 1997
 Place of incorporation: PRC
 Nature: Limited liability company
 (sino-foreign joint venture)
 Registered Capital: RMB66 million (approximately RMB46.19 million paid
 as of the Latest Practicable Date)

Name: Zhong Jie Tian Gong
 Date of establishment: September 22, 2011
 Place of incorporation: PRC
 Nature: Limited liability company
 (solely owned by legal person)
 Registered Capital: RMB10 million (fully paid up)

Name: Shandong Fert
 Date of establishment: January 8, 2013
 Place of incorporation: PRC
 Nature: Limited liability company
 (solely owned by legal person)
 Registered Capital: RMB10 million (fully paid up)

Name: Yijia Medical
 Date of establishment: June 30, 2003
 Place of incorporation: PRC
 Nature: Limited liability company
 (solely owned by legal person)
 Registered Capital: RMB7 million (fully paid up)

Name: Walkman Biomaterial
 Date of establishment: November 8, 2001
 Place of incorporation: PRC
 Nature: Limited liability company
 (Taiwan, Hong Kong, Macau and PRC joint venture)
 Registered Capital: RMB100 million (approximately RMB95.75 million paid
 as of the Latest Practicable Date)

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Name: Weili Medical
 Date of establishment: August 12, 1996
 Place of incorporation: PRC
 Nature: One person limited liability company
 Registered Capital: RMB3 million (fully paid up)

Name: Shenge Bioengineering
 Date of establishment: March 21, 2006
 Place of incorporation: PRC
 Nature: Limited liability company
 (solely owned by legal person)
 Registered Capital: RMB10 million (fully paid up)

Name: Yingshang Technological
 Date of establishment: October 16, 2009
 Place of incorporation: PRC
 Nature: Limited liability company
 (solely owned by a legal person)
 Registered Capital: RMB6 million (fully paid up)

Name: Tianqiong Investment
 Date of establishment: January 30, 2013
 Place of incorporation: PRC
 Nature: Limited liability company
 (solely owned by a Taiwan, Hong Kong or Macau legal person)
 Registered Capital: RMB7 million (fully paid up)

Name: Bone Medical
 Date of establishment: November 12, 2002
 Place of incorporation: PRC
 Nature: Limited liability company
 (Sino-foreign joint venture)
 Registered Capital: Approximately RMB1.35 million (fully paid up)

8. [●]

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this document and are or may be material:

- (a) a share transfer agreement dated December 2, 2011 entered into between Ms. WAN Li and Walkman Biomaterial, pursuant to which Ms. WAN Li agreed to transfer her 80% equity interest in Yinger Biotechnology to Walkman Biomaterial;
- (b) a share transfer agreement dated December 2, 2011 entered into between Mr. BI Hongwei and Walkman Biomaterial, pursuant to which Mr. BI Hongwei agreed to transfer his 20% equity interest in Yinger Biotechnology to Walkman Biomaterial;
- (c) a capital contribution agreement dated December 13, 2011 entered into among Walkman Biomaterial, Zhong Jian Kang Da and Renli Orthopedic, pursuant to which Walkman Biomaterial agreed to subscribe for 35% of the registered capital of Renli Orthopedic for a consideration of RMB7,933,100;
- (d) a share transfer agreement dated January 12, 2012 entered into between Mr. HUA Wei and Fert Technology, pursuant to which Mr. HUA Wei agreed to transfer his 2.5% equity interest in Zhong Jie Tian Gong to Fert Technology;
- (e) a share transfer agreement dated January 12, 2012 entered into between Mr. ZHANG Wendong and Fert Technology, pursuant to which Mr. ZHANG Wendong agreed to transfer his 97.5% equity interest in Zhong Jie Tian Gong to Fert Technology;
- (f) a share transfer agreement dated June 6, 2012 entered into between Langjing Technology and Health Access, pursuant to which Langjing Technology agreed to transfer its 44.38% equity interest in Fert Technology to Health Access for a consideration of RMB180 million;
- (g) a share transfer agreement dated July 10, 2012 entered into between PW Medtech (Beijing) (formerly known as Beijing Bright Westward Investment Consultancy Co., Ltd., or Beijing Westward) and Mr. RAN Nianmo, pursuant to which PW Medtech (Beijing) agreed to transfer its 10% equity interest in Fert Device to Mr. RAN Nianmo for a consideration of RMB0.1 million;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (h) 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 RMB105 million into Walkman Biomaterial;
- (i) a share subscription agreement dated September 12, 2012 entered into between Sparkle Wealthy and PWM Investment, pursuant to which Sparkle Wealthy agreed to subscribe for 3% of the enlarged share capital of PWM Investment for US\$0.96 million;
- (j) 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 the enlarged share capital of PWM Investment for US\$0.52 million;
- (k) 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 the enlarged share capital of PWM Investment for US\$7.81 million;
- (l) 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 30.77% and 15.38% equity interest in Bone Medical to PWM Investment and Walkman Biomaterial for a consideration of RMB40 million and RMB20 million, respectively;
- (m) 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 the enlarged share capital of PWM Investment for US\$8.23 million;
- (n) a share purchase agreement dated February 26, 2013 entered into among our Company (formerly known as Pyholding Limited), Cross Mark, Health Access, PW Medtech (Beijing) (formerly known as Beijing Westward), Fert Technology, Ms. Yue’e ZHANG and WP X, pursuant to which Cross Mark agreed to transfer its 25% equity interest in our Company to WP X in settlement of a loan borrowed by Ms. Yue’e ZHANG and subsequently assigned to Cross Mark;
- (o) 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;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (p) 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;
- (q) 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;
- (r) a capital contribution agreement dated March 28, 2013 entered into among Health Access, PW Medtech (Beijing) (formerly known as Beijing Westward) and Fert Technology, pursuant to which Health Access agreed to inject RMB50 million into Fert Technology;
- (s) 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;
- (t) a share transfer agreement dated April 28, 2013 entered into between Fert Technology and certain Independent Third Parties, pursuant to which Fert Technology agreed to acquire the entire equity interest in Yijia Medical from such Independent Third Parties for a consideration of RMB20 million;
- (u) a share subscription agreement dated May 8, 2013 entered into among our Company (formerly known as Pyholding Limited), Cross Mark, WP X and Sparkle Wealthy, pursuant to which our Company agreed to acquire the entire equity interest in PWM Investment from each of Cross Mark, WP X and Sparkle Wealthy in exchange for our ordinary shares;
- (v) 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 39.26% and 0.74% equity interest in Bone Medical to PWM Investment for a consideration of RMB57.35 million and RMB1.09 million, respectively;
- (w) a share subscription agreement dated May 24, 2013 entered into among our Company (formerly known as Pyholding Limited), Right Faith and Sparkle Wealthy, pursuant to which Right Faith and Sparkle Wealthy agreed to subscribe for the enlarged share capital of our Company in the amount of US\$17.79 million and US\$9.38 million, respectively;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (x) a share transfer agreement dated August 20, 2013 entered into between Walkman Biomaterial and an Independent Third Party, pursuant to which Walkman Biomaterial agreed to transfer its 35% equity interest in Renli Orthopedic to such Independent Third Party for a consideration of RMB10.82 million; and
- (y) a share transfer agreement dated August 20, 2013 entered into between Walkman Biomaterial and an Independent Third Party, pursuant to which Walkman Biomaterial agreed to transfer its entire equity interest in Yinger Biotechnology to such Independent Third Party for a consideration of RMB8.58 million.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

2. Intellectual Property Rights of our Group

As of the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

(a) Trademarks

(i) As of the Latest Practicable Date, we have registered the following trademarks in the PRC:

No.	Trademark	Class	Registered Owner	Place Registration	Registration Number	Effective Date	Expiry Date
1.		10	Walkman Biomaterial	PRC	8279026	July 28, 2011	July 27, 2021
2.		10	Walkman Biomaterial	PRC	7571749	December 21, 2010	December 20, 2020
3.		10	Walkman Biomaterial	PRC	10721590	June 7, 2013	June 6, 2023
4.		10	Fert Technology	PRC	1535423	March 7, 2011	March 6, 2021
5.		34	Fert Technology	PRC	5246516	March 28, 2009	March 27, 2019
6.		7	Fert Technology	PRC	5246515	April 14, 2009	April 13, 2019
7.		9	Fert Technology	PRC	5246514	April 21, 2009	April 20, 2019
8.		10	Fert Technology	PRC	5246518	April 14, 2009	April 13, 2019
9.		11	Fert Technology	PRC	5246517	May 28, 2009	May 27, 2019
10.		10	Bone Medical	PRC	3424447	September 14, 2004	September 13, 2014

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (ii) As of the Latest Practicable Date, we have applied for the registration of the following trademark in the PRC:

No.	Trademark	Name of Applicant	Type and Class	Application Date	Application Number	Place of Application
1.		Walkman Biomaterial	10	April 5, 2012	10721589	PRC
2.		Fert Technology	10	May 27, 2013	12655103	PRC
3.		Fert Technology	10	May 27, 2013	12655197	PRC
4.		Fert Technology	10	May 27, 2013	12655016	PRC
5.		PW Medtech	10	August 22, 2013	302713329	Hong Kong
6.		PW Medtech	10	August 22, 2013	302713347	Hong Kong
7.		PW Medtech	10	August 22, 2013	302713338	Hong Kong

(b) Domain Names

- (i) As of the Latest Practicable Date, we have registered the following domain names:

No.	Domain Name	Registered Owner	Date of Registration	Expiry Date
1.	pwmedtech.com	Fert Technology	March 19, 2013	March 19, 2016
2.	fert-pwm.com	Fert Technology	April 18, 2013	April 18, 2017
3.	bone-pwm.com	Fert Technology	April 18, 2013	April 18, 2017
4.	walkman-pwm.com	Fert Technology	April 18, 2013	April 18, 2017
5.	china-puma.com.cn	Fert Technology	March 20, 2013	March 20, 2016
6.	china-pwhs.com	Fert Technology	March 13, 2013	March 14, 2016
7.	china-phhs.com	Fert Technology	March 11, 2013	March 12, 2016
8.	china-walkman.com	Fert Technology	February 3, 2013	February 4, 2016

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

No.	Domain Name	Registered Owner	Date of Registration	Expiry Date
9.	china-walkman.cn	Fert Technology	February 4, 2013	February 4, 2016
10.	china-walkman.com.cn	Fert Technology	February 4, 2013	February 4, 2016
11.	china-fert.com	Fert Technology	March 27, 2001	March 27, 2018
12.	威曼•中国	Walkman Biomaterial	December 26, 2012	December 20, 2017
13.	威曼.cn	Walkman Biomaterial	December 26, 2012	December 20, 2017
14.	威曼生物•中国	Walkman Biomaterial	May 4, 2009	May 4, 2019
15.	Walkman.com.cn	Walkman Biomaterial	April 23, 2004	April 23, 2016
16.	bone-med.com	Bone Medical	March 23, 2005	March 23, 2014

(c) *Utility Patents*

- (i) As of the Latest Practicable Date, we have registered the following utility patents in the PRC:

No.	Registered Owner	Title of Utility	Registration Number	Place of Registration	Effective Date	Expiry Date
1.	Fert Technology	An automatic air vent for infusion	ZL200920222962.6	PRC	September 28, 2009	September 27, 2019
2.	Fert Technology	A type of composite pipe for blood transfusion	ZL200920292428.2	PRC	December 8, 2009	December 7, 2019
3.	Fert Technology	A type of composite pipe for infusion	ZL200820109658.6	PRC	August 6, 2008	August 5, 2018
4.	Fert Technology	A composite opaque medical tubing	ZL200920105980.6	PRC	February 20, 2009	February 19, 2019
5.	Fert Technology	A type of composite drip chamber for infusion	ZL201120239439.1	PRC	July 8, 2011	July 7, 2021
6.	Fert Technology	A type of disposable needle insertion plastic bottle	ZL201120239430.0	PRC	July 8, 2011	July 7, 2021
7.	Fert Technology	A type of composite opaque syringe	ZL201220033535.5	PRC	February 3, 2012	February 2, 2022
8.	Fert Technology	A portable pressure infusion device (bibliographic change)	ZL200920107094.7	PRC	June 12, 2012	May 25, 2019

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

No.	Registered Owner	Title of Utility	Registration Number	Place of Registration	Effective Date	Expiry Date
9.	Fert Technology	An automatic liquid stoppage protective cap	ZL201220724143.3	PRC	December 26, 2012	December 25, 2022
10.	Fert Technology	A flow setting tuning device	ZL201320129832.4	PRC	March 21, 2013	March 20, 2023
11.	Walkman Biomaterial	A split-ball spinal fixation system	ZL200520027807.0	PRC	July 18, 2007	October 19, 2015
12.	Walkman Biomaterial	A split-ball spinal fixation system (sacral plate)	ZL200620025658.9	PRC	February 13, 2008	March 28, 2016
13.	Walkman Biomaterial	A split-ball spinal fixation system (laminar hooks)	ZL200620025659.3	PRC	February 13, 2008	March 28, 2016
14.	Walkman Biomaterial	A type of dynamic elastic spinal fixation device	ZL200820073752.0	PRC	August 19, 2009	January 24, 2018
15.	Walkman Biomaterial	A new type of transverse connector	ZL201220379658.4	PRC	March 13, 2013	August 1, 2022
16.	Walkman Biomaterial	An anti-sinking screw-in hip prosthesis	ZL200620025105.3	PRC	December 12, 2007	January 4, 2016
17.	Walkman Biomaterial	A type of stress-control interlocking intramedullary nail	ZL200620131400.7	PRC	October 24, 2007	August 23, 2016
18.	Walkman Biomaterial	A type of stress-control interlocking intramedullary nail for tibia	ZL200720143754.8	PRC	February 20, 2008	April 4, 2017
19.	Walkman Biomaterial	A new type of U-shaped pedicle screw	ZL201220379659.9	PRC	March 27, 2013	August 1, 2022
20.	Bone Medical	A type of piston for adding bone cement	ZL200820235419.5	PRC	December 23, 2008	December 22, 2018
21.	Bone Medical	A type of funnel for adding bone cement	ZL200820235420.8	PRC	December 23, 2008	December 22, 2018
22.	Bone Medical	A type of catheter to add in bone cement	ZL200820235417.6	PRC	December 23, 2008	December 22, 2018
23.	Bone Medical	A type of casing to add in bone cement	ZL200820235418.0	PRC	December 23, 2008	December 22, 2018

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

No.	Registered Owner	Title of Utility	Registration Number	Place of Registration	Effective Date	Expiry Date
24.	Bone Medical	A type of osteonecrosis supporter device	ZL200920131183.5	PRC	May 7, 2009	May 6, 2019
25.	Shengge Bioengineering	A type of dynamic elastic spinal fixation system	ZL200820073951.1	PRC	February 28, 2008	February 27, 2018

(ii) As of the Latest Practicable Date, Fert Technology has exclusively licensed from the General Hospital of the People’s Liberation Army (中國人民解放軍總醫院) the following patents which are material to our business:

No.	Registered Owner	Title of Utility	Registration Number	Place of Registration	Effective Date	Expiry Date
1.	General Hospital of the People’s Liberation Army	Artificial auditory ossicles	ZL200320105621.0	PRC	December 30, 2011	January 23, 2019
2.	General Hospital of the People’s Liberation Army	Artificial incus	ZL200820079030.6	PRC	December 30, 2011	February 27, 2018

(d) *Invention Patents*

(i) As of the Latest Practicable Date, we have registered the following invention patents in the PRC:

No.	Registered Owner	Title of Invention	Registration Number	Place of Registration	Effective Date	Expiry Date
1.	Walkman Biomaterial	A type of wrist-acetabular prosthetic device	ZL200910069050.4	PRC	August 8, 2012	May 30, 2029
2.	Walkman Biomaterial	An automated micro-interlocking intramedullary nail	ZL00114521.5	PRC	October 8, 2003	April 24, 2020

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(ii) As of the Latest Practicable Date, we have applied for the registration of the following invention patents:

No.	Registrant	Title of Invention	Application Number	Place of Application	Date of Application
1.	Fert Technology	A method for testing the tightness of ventilation windows filter	ZL201210439348.1	PRC	November 7, 2012
2.	Fert Technology	An automatic liquid stoppage protective cap	ZL201210570317.X	PRC	December 26, 2012
3.	Fert Technology	A flow setting tuning device	ZL201310091196.5	PRC	March 21, 2013
4.	Fert Technology	A type of composite opaque syringe	ZL201210023538.5	PRC	February 3, 2012
5.	Fert Technology	An automatic air vent infusion device	ZL200910093070.5	PRC	September 28, 2009
6.	Walkman Biomaterial	An anti-back wire pedicle screw	ZL201220597000.0	PRC	November 14, 2012
7.	Walkman Biomaterial	An easy low-notch universal pedicle screw	ZL201220597038.8	PRC	November 14, 2012
8.	Walkman Biomaterial	An adjustable locking porous mixture device	ZL201320021728.3	PRC	January 16, 2013
9.	Walkman Biomaterial	A universal spinal transverse connector	ZL201320035745.2	PRC	January 24, 2013

(e) *Design Patent*

(i) As of the Latest Practicable Date, we have registered the following design patent in the PRC:

No.	Registered Owner	Title of Design	Registration Number	Place of Registration	Effective Date	Expiry Date
1.	Bone Medical	A bone cement injecting gun	ZL200930162404.0	PRC	January 5, 2009	January 4, 2019

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND [●]

1. [●]

2. Directors’ Service Contracts

Executive Directors

Our executive Director has entered into a service agreement with our Company for an initial term of three years with effect from his date of appointment unless terminated by not less than three months’ notice in writing served by either the executive Director or our Company.

Under his service contract, the executive Director is entitled to a fixed basic salary and an annual bonus subject to the fulfilment of certain performance target, and participation in the [●] Share Option Scheme. In certain other circumstances, the agreement can also be terminated by our Company, including but not limited to certain breaches of our Director’s obligations under the agreement or certain misconducts. The appointment of the executive Director is also subject to the provisions of retirement and rotation of Directors under the Articles. The executive Director is officially stationed in the PRC, but may be required to work in Hong Kong or in other places, as may be determined by the Board from time to time.

The service contract further provides that during the term of the service contract and within six months upon the termination of service, the executive Director cannot engage in any business which is competing or is likely to compete, either directly or indirectly, with the business of our Group.

Non-Executive Directors

Each of our independent non-executive Directors has signed an appointment letter with our Company for a term of three years with effect from their respective date of appointment. Each of our independent non-executive Director is entitled to a fixed director’s fee. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

Save as disclosed above, none of our Directors has proposed or is proposing to enter into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

3. Directors’ Remuneration

Our Directors did not receive any remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) for each of the years ended December 31, 2010, 2011 and 2012.

No remuneration was paid by our Company to our Directors (a) as an inducement to join or upon joining any member of our Group or (b) as a compensation for loss of office as director of any member of our Group or any other office in connection with the management affairs of any member of our Group in respect of each of the three years ended December 31, 2010, 2011 and 2012. Further, none of our Directors waived any remuneration during the same period.

Under the arrangements currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ending December 31, 2013 is estimated to be approximately RMB2.0 million.

Further information regarding our Directors’ remuneration during the Track Record Period can be found in Note 25 to the Accountant’s Report set out in Appendix I in this document.

4. Directors’ Competing Interests

None of our Directors is interested in any business, apart from our Group’s business, which competes or is likely to compete, directly or indirectly, with the business of our Group.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

5. Disclaimers

Save as disclosed in this document:

- (a) [●]
- (b) [●]
- (c) none of our Directors nor any of the persons listed in the section headed “— Other Information — Qualification of Experts” below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors nor any of the persons listed in the section headed “— Other Information — Qualification of Experts” below are materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group;
- (e) save as set out in [●], none of the persons listed in the section headed “— Other Information — Qualification of Experts” below (i) has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for Shares in any member of our Group; or (ii) is legally or beneficially interested in any securities of any member of our Group;
- (f) none of our Directors have entered or have proposed to enter into any service contracts with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (g) none of our Directors or their respective associates (as defined under [●]) or the existing Shareholders (who, to the knowledge of our Directors, own more than 5% of the issued share capital of our Company) has any interest in any of the five largest customers or the five largest suppliers of our Group.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

D. [●] SHARE OPTION SCHEME

Our Company has conditionally approved and adopted the [●] Share Option Scheme pursuant to the resolutions of our Shareholders passed on July 3, 2013 and has amended the same pursuant to the resolutions of our Shareholders passed on October 14, 2013.

Summary of Terms

The purpose of the [●] Share Option Scheme is to attract, retain and motivate employees and Directors, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of our Group, and to allow such employees and Directors to participate in the growth and profitability of our Group. The principal terms of the [●] Share Option Scheme, approved by resolutions of our Shareholders passed on July 3, 2013 and amended by resolutions of our Shareholders on October 14, 2013, are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price per Share of the options granted under the [●] Share Option Scheme shall be determined according to the following formula:

$$\frac{\text{Profit for the year of our Company for the year ended December 31, 2012 as recorded in the audited combined financial statements of our Company as prepared by the Auditors using the basis of presentation in our Company's accountant's report for such financial year}}{\text{Number of Shares in issue [●]}} \times 10$$

- (b) save for the options which have been granted before [●], no further options will be granted under the [●] Share Option Scheme [●]; and
- (c) each option granted under the [●] Share Option Scheme is exercisable subject to the vesting schedule as set out in the relevant grant letter and summarised below.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

The options under the [●] Share Option Scheme shall vest in four (4) equal tranches (being 25% of each Option granted, and each tranche is hereinafter referred to as a “**Tranche**”) on the following four (4) dates (each a “**Vesting Date**” and collectively, the “**Vesting Dates**”), respectively, and in the following manner:

<u>Vesting Dates</u>	<u>Conditions for and proportion of vesting of each relevant Tranche</u>
(1) Day immediately following the expiry of six (6) months after [●] (the “ First Vesting Date ”)	● 70% of this first Tranche shall be vested if there is at least a 25% increase in the EPS for the financial year immediately prior to the First Vesting Date as compared to that in the immediate preceding financial year; and ● the remaining 30% of this first Tranche shall be vested if there is at least a 35% increase in EPS for the financial year immediately prior to the First Vesting Date as compared to that in the immediate preceding financial year.
(2) First anniversary of the First Vesting Date (the “ Second Vesting Date ”)	● 70% of this second Tranche shall be vested if there is at least a 20% increase in the EPS for the financial year immediately prior to the Second Vesting Date as compared to that in the immediate preceding financial year; and ● the remaining 30% of this second Tranche shall be vested if there is at least a 35% increase in EPS for the financial year immediately prior to the Second Vesting Date as compared to that in the immediate preceding financial year.
(3) Second anniversary of the First Vesting Date (the “ Third Vesting Date ”)	● 70% of this third Tranche shall be vested if there is at least a 20% increase in the EPS for the financial year immediately prior to the Third Vesting Date as compared to that in the immediate preceding financial year; and ● the remaining 30% of this third Tranche shall be vested if there is at least a 30% increase in the EPS for the financial year immediately prior to the Third Vesting Date as compared to that in the immediate preceding financial year.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

<u>Vesting Dates</u>	<u>Conditions for and proportion of vesting of each relevant Tranche</u>
(4) Third anniversary of the First Vesting Date (the “ Last Vesting Date ”)	70% of this last Tranche shall be vested if there is at least a 20% increase in the EPS for the financial year immediately prior to the Last Vesting Date as compared to that in the immediate preceding financial year; and - the remaining 30% of this last Tranche shall be vested if there is at least a 25% increase in the EPS for the financial year immediately prior to the Last Vesting Date as compared to that in the immediate preceding financial year.

For the purpose of this section:

“EPS” means, in relation to any particular financial year of our Company and for the purpose of determining whether vesting conditions stipulated above have been fulfilled, the quotient of the Numerator divided by the Denominator.

“Numerator” means, in relation to any particular financial year of our Company and for the purpose of calculating EPS of such financial year, the profit for the year of our Company as recorded in the audited consolidated financial statements of our Company for that financial year; or in the case of the financial year ended December 31, 2012, the profit for the year of our Company as recorded in the audited combined financial statements of our Company as prepared by our Company’s auditors using the basis of presentation in our Company’s accountant’s report for that financial year; PROVIDED THAT, any and all expenses or costs to the Company as a result, arising from or in connection with [●], or this scheme, or the grant, vesting or exercise of any option under this scheme, shall be excluded and disregarded for the purpose of such calculation mentioned herein above.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

"Denominator" means, in relation to any particular financial year of our Company and for the purpose of calculating EPS of such financial year, the total number of Shares in issue and Shares which may be issued upon exercise of any other options, warrants or other securities which may be convertible into Shares as of the end of that relevant financial year on a fully-diluted basis; provided that,

- (a) for the purpose of any calculation to determine any increase in EPS for any financial year from the immediate preceding financial year of our Company (pursuant to the vesting conditions stipulated above); and
- (b) where the denominators with respect to the two (2) relevant financial years are different, wholly or partly due to additional Shares which have already been issued by our Company on [●],

then for the purpose of calculating the EPS of the earlier of the two (2) financial years, the denominator of that year shall be adjusted and deemed to be the same as the denominator for calculating the EPS of the later of the two (2) financial years.

Any resolution of the Board on whether the above-mentioned percentage increase requirements with respect to EPS, is fulfilled for each respective Vesting Date, shall be conclusive. Any proportion of any option under the [●] Share Option Scheme which has already vested on any prior Vesting Date(s) shall continue to be vested and shall be exercisable by the relevant grantee of such option. In the event that our Company fails to fulfill any of the conditions for vesting any proportion of any Tranche of any option under the [●] Share Scheme granted, such proportion of the relevant option due to be vested on the relevant Vesting Date had the conditions been fulfilled, shall neither be vested nor be exercisable on such Vesting Date and shall lapse automatically on the relevant Vesting Date. In the event that it is determined on any Vesting Date that there is no EPS percentage increase at all with respect to the financial year immediately prior to such Vesting Date compared to the immediate preceding financial year, any and every proportion of any option granted under the [●] Share Option Scheme but which has not been vested yet prior to such Vesting Date, shall neither be vested nor be exercisable at all and shall all lapse automatically.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Outstanding Options Granted

As at the date of this document, options to subscribe for an aggregate of 70,891,722 Shares have been conditionally granted by our Company under the [●] Share Option Scheme. The Shares subject to the options granted under the [●] Share Option Scheme represent (i) approximately 4.43% of our issued [●] immediately after [●] (excluding all Shares which may be allotted and issued upon the exercise of any options granted under the [●] Share Option Scheme or to be granted under the Share Option Scheme or the exercise of [●]); and (ii) approximately 4.24% of our issued share capital immediately after [●] (assuming that all options granted under the [●] Share Option Scheme are exercised, but without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or the exercise of [●]).

The options have been conditionally granted based on the performance of the grantees who have made important contributions or are important to the long-term growth and profitability of our Group. A total of 31 employees of our Group, including one executive Director, two non-executive Directors, two independent non-executive Directors and five members of the senior management (excluding the Directors) of our Group (as set out in the section headed “Directors and Senior Management” of this document) have been conditionally granted options under the [●] Share Option Scheme.

All the options under the [●] Share Option were granted to the respective grantees on July 6, 2013. A [●] Share Option will lapse (to the extent not already exercised) if the grantee ceases to be a participant of the [●] Share Option Scheme by reason of the termination of his or her employment on the grounds that he or she has been guilty of misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty or on any other grounds on which an employer would be entitled to terminate his or her employment. No options are held by connected persons of our Company other than those granted to the Directors and the directors of the subsidiaries of our Company, under the [●] Share Option Scheme. If a grantee is a connected person of our Company, such grantee shall not exercise any option granted under the [●] Share Option Scheme to the extent that our [●] will as a result of such exercise be less than the minimum requirements under [●]. Exercise in full of all options granted under the [●] Share Option Scheme would result in an increase in the number of Shares in issue by approximately 4.43% of 1,600,000,000 Shares, being the total number of Shares in issue immediately upon completion of the [●] (assuming there will be no further issue of Shares whether pursuant to [●] or the Share Option Scheme, which may dilute the shareholdings of our Shareholders and may reduce the earnings per Share on a pro rata basis.)

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

The total number of Shares immediately following completion of [●] (assuming [●] any options granted under the Share Option Scheme are not exercised) would be diluted by 4.24% upon the exercise in full of the options granted under the [●] Share Option Scheme.

Further, assuming that (i) 1,600,000,000 Shares were in issue [●] but takes no account of any Shares which may fall to be issued [●] or of any Shares which may be issued upon the exercise of any option which may be granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate; and (ii) all the options granted under the [●] Share Option Scheme in respect of 70,891,722 Shares were exercised in full on January 1, 2012, the pro forma earnings per Share for profit attributable to owners of our Company for the year ended December 31, 2012 would be approximately RMB0.0267.

Summary of grantees

A summary of the grantees who have been granted options under the [●] Share Option Scheme is set out below:

Grantee	Address	Number of Shares to be issued upon full exercise of the option under the [●] Share Option Scheme	Percentage of enlarged issue share capital of our Company after [●] and full exercise of the options granted under the [●] Share Option Scheme
<i>Directors of our Company</i>			
Mr. JIANG Liwei	302, Gate 4, Building 118 District A Wangjing East Park Beijing, PRC	6,369,427	0.38%
Mr. LIN Junshan	1402, Gate 1, Building 10 Jin Yu Guan Lan Beijing, PRC	12,738,854	0.76%
Ms. Yue’e ZHANG	1512 NW 157th Ave Pembroke Pines, FL33028 United States	2,547,771	0.15%
Mr. CHEN Geng	1101, Gate 5, Building 3 Xi Er Qi De Yuan Haidian District Beijing, PRC	1,273,885	0.08%
Mr. WANG Xiaogang	No. 3–1, Long Hu Yan Lan Shan Hou Sha Yu Shunyi District Beijing, PRC	1,273,885	0.08%

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Grantee	Address	Number of Shares to be issued upon full exercise of the option under the [●] Share Option Scheme	Percentage of enlarged issue share capital of our Company after [●] and full exercise of the options granted under the [●] Share Option Scheme
<i>Senior management of our Group</i>			
Mr. WANG Jie	Block 2, Unit 3, Room 1202 Yongjing Four Seasons Community Pingguoyuan South Road Shijingshan District Beijing, PRC	4,458,599	0.27%
Mr. HUA Wei	Block 38, Unit 1, Room 501 Jingkeyuan, Changping District Beijing, PRC	2,547,771	0.15%
Mr. HE Zhibo	Block 6, Unit 4, Room 401 Guotong Jiayuan Changping District Beijing, PRC	6,369,427	0.38%
Mr. CHEN Jun	Block 8, Unit 1, Room 1303 Tianrun Garden Xinyi Jiangsu province, PRC	1,910,828	0.11%
Mr. YE Ting	Block 30, Unit 1, Room 201 Xinxin Jiayuan, Yuanyang Xinganxian Konggang Economic Area Dongli District Tianjin, PRC	2,547,771	0.15%
<i>Director of a subsidiary of our Group not mentioned above</i>			
Ms. HE Lihua	Block 36, Unit 3 Room 312 Haite Garden Shijingshan District Beijing, PRC	1,910,828	0.11%

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Grantee	Address	Number of Shares to be issued upon full exercise of the option under the [●] Share Option Scheme	Percentage of enlarged issue share capital of our Company after [●] and full exercise of the options granted under the [●] Share Option Scheme
<i>other employees of our Group</i>			
Ms. DU Lina	Block 12, Floor 1–3 Unit 12–03, Area 5 Shuiyunfengqing Villa North Qijia Tower Changping District Beijing, PRC	2,229,299	0.13%
Ms. REN Fengmei	Block 12, Floor 1, Unit 202 Xishun Jiayuan, Jinghai County Tianjing, PRC	1,910,828	0.11%
Mr. XIE Honghui	Block 30, Floor 7, Unit 402 Jinke Yuan Changping District Beijing, PRC	1,910,828	0.11%
Mr. BAI Kun	Block 16, Unit 1501 Sunshine Xingqiba Chenyang Road Hedong District Tianjin, PRC	1,910,828	0.11%
Mr. LU Jiang	Block 8, Unit 3, Room 264 Yihai Garden Fuze Yuan Fengtai District Beijing, PRC	636,943	0.04%
Ms. XING Manman	Phase 1, 5th in the 3rd Area No. M42-C Longcheng Garden Huilongguan Area Changping District Beijing, PRC	382,166	0.02%
Ms. WANG Shizhe	Floor 4, Room 502 No. 1 Caifeng South Area Shunyi District Beijing, PRC	382,166	0.02%
Mr. MA Xiaohui	Phase 4 Beijing Xintiandi No. 5 Chaoyang Road Chaoyang District Beijing, PRC	636,943	0.04%

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Grantee	Address	Number of Shares to be issued upon full exercise of the option under the [●] Share Option Scheme	Percentage of enlarged issue share capital of our Company after [●] and full exercise of the options granted under the [●] Share Option Scheme
Mr. DENG An	Courtyard 3, Block 3, Room 1603 No. 188 Huangsha Mudian Road Beijing, PRC	636,943	0.04%
Mr. WANG Jianfeng	Block 2, Unit 2 Floor 10, Room 1003 No. 30 Huilongguan Area Yuzhi East Road Changping District Beijing, PRC	2,229,299	0.13%
Mr. CHEN Rui	Block 3, Floor 4, Unit 1209 Zhenwumiao Lane 2 Xicheng District Beijing, PRC	2,229,299	0.13%
Ms. FAN Xinyu	Block 45, Unit 5, Room 501 No. 21 Andeli North Street Dongcheng District Beijing, PRC	1,910,828	0.11%
Mr. MENG Xiaoming	Lane 1559, No. 59, Room 103 Guangfulin Road Shanghai, PRC	1,910,828	0.11%
Ms. LUO Caihong	Block 12, Unit 1, Room 202 Nongguang East Lane Chaoyang District Beijing, PRC	1,910,828	0.11%
Ms. ZHANG Meng	Block 60, Unit 1, Room 141 Haozhuang Jiayuan Changping Town Changping District Beijing, PRC	1,273,885	0.08%
Ms. ZHANG Heng	Block 1, Floor 2, Room 502 Changlong Garden, South Area Changyang Town Fangshan District Beijing, PRC	955,414	0.06%

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Grantee	Address	Number of Shares to be issued upon full exercise of the option under the [●] Share Option Scheme	Percentage of enlarged issue share capital of our Company after [●] and full exercise of the options granted under the [●] Share Option Scheme
Mr. TIAN Zhenxing	Block 2, Room 1304 No. 491 Zhangba North Road Yanta District Xi'an Shaanxi province, PRC	382,166	0.02%
Mr. YI Shilin	Room 507 No. 389 Donghua East Road Yuxiu District Guangzhou, PRC	1,592,357	0.10%
Ms. BAI Xia	Room 5059, Yilan Hotel No. 5 Baolong 2nd Road Longgang District Shenzhen, PRC	636,643	0.04%
Mr. ZHAO Guanghui	Block 21, Unit 2, Floor 1–2 West Household Guihua Residential Area Huanghe Road Development District Anyang, PRC	1,273,885	0.08%
Total		70,891,722	4.24%

Save and except as set out above, no other options have been granted or agreed to be granted by our Company under the [●] Share Option Scheme. The Directors and the director of a subsidiary of our Group who have been granted options under the [●] Option Scheme, have undertaken to our Company that they will not exercise the options granted to them under the [●] Share Option Scheme if as a result of which our Company would not be able to comply with [●] requirements of [●].

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

E. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme:

1. Purpose of the Share Option Scheme

The purpose of this Share Option Scheme is to attract, retain and motivate employees, Directors and such other Participant, and to provide a means of compensating them through the grant of options pursuant to the terms of the Share Option Scheme (“**Options**”) for their contribution to the growth and profits of our Group, and to allow such employees, Directors and other persons to participate in the growth and profitability of our Group.

2. [●]

3. Eligible Participants

Our Board may, at its discretion, invite any executive, non-executive or independent non-executive Directors or any employees (whether full-time or part-time) of our Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to our Group (“**Participants**”) to take up the Options. The basis of eligibility of any of the class of the Participants to the grant of any Option shall be determined by the Board from time to time on the basis of their contribution to the development and growth of our Group and any Invested Entity.

4 Offer and Grant of Options and payment in relation thereto

No offer of the grant of an Option shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published pursuant to [●]. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified [●]) for the approval of our Company’s results for any year, half-year, quarter-year period or any other interim period (whether or not required [●]), and (ii) the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any interim period (whether or not required [●]), and ending on the date of the results announcement, no Option may be granted.

An offer of the grant of an Option (“**Offer**”) shall be deemed to have been accepted and the Option to which such offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of offer duly signed by the Participant (“**Grantee**”) with the number of Shares in respect of which such offer is

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

accepted clearly stated therein, together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company. Such remittance shall in no circumstances be refundable.

5. Subscription Price

The subscription price (“**Subscription Price**”) shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option), but in any case the Subscription Price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the [●] on the date of grant, which must be a Business Day (“**Offer Date**”), (b) the average closing price of the Shares as stated in the daily quotation sheets of the [●] for the five (5) Business Days immediately preceding the date of grant, and (c) the nominal value of a Share.

6. Maximum number of Shares and entitlement of an eligible Participant

- (a) The overall limit on the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of [●] are applicable) shall not exceed 30% of the Shares in issue from time to time (“**Scheme Limit**”).
- (b) The Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of [●] are applicable) shall not exceed 10% of the aggregate of the Shares in issue on [●] (“**Scheme Mandate Limit**”). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating this Scheme Mandate Limit.
- (c) Our Company may seek approval of our Shareholders in general meeting for refreshing the Scheme Mandate Limited. However, the Scheme Mandate Limited as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of the approval of our Shareholders. Options previously granted under the Share Option Scheme or any other share option schemes of our Company (and to which the provisions of [●] are applicable) (including Options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other share option scheme of our Company) will not be counted for the purpose of calculating the limit as “refreshed.” A circular containing the information required under [●], including the information required [●] and the disclaimer required under [●], shall be sent to our Shareholders in connection with the meeting at which their approval will be sought.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (d) Our Company may seek separate approval by our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit (as refreshed) provided the Grantee(s) of such Option(s) must be specifically identified by our Company before such approval is sought. A circular containing a generic description of the specified Grantees who may be granted such Options, the number and terms of the Options to be granted, the purpose of granting such Options to the Grantees with an explanation as to how the terms of Options serve such purpose and other information required [●] shall be sent to our Shareholders.
- (e) The total number of Shares issued and to be issued upon exercise of the Options granted to each eligible Participant (including exercised, cancelled and outstanding Options) in any 12-month period shall not exceed 1% of the Shares in issue (the “**Individual Limit**”). Any further grant of Options to an eligible Participant which would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such eligible [●] (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant exceeding the Individual Limited shall be subject to our Shareholders’ approval in general meeting with such eligible Participant and his associates ([●]) abstaining from voting. A circular containing the information required under [●] shall be sent to our Shareholders. The number and terms (including the Subscription Price) of the Options to be granted to such eligible Participant must be fixed before our Shareholders’ approval is sought and the date of the meeting of the Board for proposing such further grant of Option should be taken as the date of grant for the purpose of calculating the Subscription Price.

7. [●]

8. Exercise of Options

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each Grantee as being the period during which an Option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular Option is granted in accordance with the Share Option Scheme (“**Option Period**”).

9. Vesting

Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules to which this Scheme may be subject, [●] or regulations of any

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

stock exchange on which the Shares may be listed and quoted. Furthermore, the Shares to be issued and allotted to a Grantee pursuant to the exercise of any Option under this Scheme may or may not, at the discretion of the Board, be subject to any retention period.

10. Performance Target & Minimum Period before Exercise

Unless otherwise determined by our Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is no general requirement for any performance target that needs to be achieved by the Grantee before an Option can be exercised nor any minimum period for which an Option must be held before the Option can be exercised.

11. Options are personal to the Grantee

An Option shall be personal to the Grantee and shall not be assignable or transferable. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favor of any third party over or in relation to any Option, except for the transmission of an Option on the death of the Grantee to his personal representative(s) according to the terms of the Share Option Scheme.

12. Rights on death, or termination of employment, our Directorship, office or appointment

- (a) in the event of the Grantee ceasing to be an employee (whether full time or part time) of our Company or its subsidiaries, including any executive Director ("**Eligible Employee**"), by reason of non-renewal of his or her employment contract upon termination, or retirement, or internal reorganization, or if the Grantee is a Director, the cessation as a Director upon rotation, the Grantee shall be entitled within a period of three (3) months from the date of cessation of employment which shall be the last actual working day with our Company or the relevant subsidiary to exercise any Option in whole or in part (to the extent which has become exercisable but not yet exercised prior to such date of cessation). In the event of the Grantee ceasing to be an Eligible Employee for any reason other than those stated above or his or her death or the termination of his or her employment on one or more of the grounds specified in the Share Option Scheme, the Grantee may exercise the Option in accordance with the provisions of the Share Option Scheme up to his or her entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, or such longer period following the date of cessation as the Board may determine; and

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (b) in the event that the Grantee ceases to be a Participant (as the case may be) by reason of death (provided that none of the events which would be a ground for termination of his or her employment arises prior to his or her death), the legal personal representative(s) of this Grantee shall be entitled within a period of twelve (12) months from the date of death (or such longer period as the Board may determine) to exercise the Option in whole or in part (to the extent which has become exercisable and not already exercised prior to such date of death).

13. Voluntary winding-up of our Company

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or her legal personal representative(s)) shall be entitled to exercise all or any of his or her or its Options (to the extent which has become exercisable and not already exercised) at any time not later than three (3) Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid, which Shares shall rank *pari passu* with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.

14. Rights on take-over

In the event of a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of our Shares (or all such holders other than the offer or and/or any person controlled by the offer or and/or any person acting in association or concert with the offeror), our Company shall use all reasonable endeavours to procure that such offer is extended to all the Grantees on the same terms, *mutatis mutandis*, and assuming that they will become, by exercise in full of the Options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a Grantee shall be entitled to exercise his Option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company in exercise of his Option at any time before the close of such offer (or any revised offer).

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

15. Rights on a compromise or arrangement

In the event of a compromise or arrangement between our Company and its creditors (or any class of them) or between our Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such scheme or arrangement, and thereupon any Grantee (or her legal personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two (2) months thereafter and the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his or her or its Option (to the extent which has become exercisable and not already exercised), but the exercise of the Option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. Our Company may thereafter require such Grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his or her or its Option so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

16. Effects of alterations to capital structure

In the event of any alteration in the capital structure of our Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue or other similar offer of securities to holders of Shares, consolidation, subdivision or reduction or similar reorganisation of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), such corresponding alterations (if any) shall be made in (a) the number or nominal amount of Shares subject to the Option so far as unexercised, and/or (b) the Subscription Price, and/or the method of exercise of the Option, as the auditors or the financial adviser of our Company retained for such purpose shall certify in writing to the Board to be in their opinion fair and reasonable, provided that any alteration shall be made on the basis that the proportion of the issued share capital of our Company to which a Grantee is entitled after such alteration shall remain the same as that to which he or she or it was entitled before such alteration and that the aggregate Subscription Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but so that no such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value and no such adjustment will be required in circumstances where there is an issue of Shares or other securities of our Group as consideration in a transaction.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

17. Lapse of Options

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period;
- (b) the date or the expiry of the periods for exercising the Option;
- (c) the date on which the offer (or as the case may be, revised offer) closes;
- (d) the date of the commencement of the winding-up of our Company;
- (e) the date when the proposed compromise or arrangement becomes effective;
- (f) the date on which the Grantee ceases to be an Eligible Employee by reason of the termination of his or her employment on any one or more of the grounds that he or she voluntarily resigns, or has been guilty of misconduct or has found to have breached the terms of employment during his or her employment (regardless of whether such employment contract has already been terminated) leading to a material loss or damage to our Group, or his or her employment has terminated by reason of the failure of such employment to pass the annual evaluation, or has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at law or pursuant to any applicable laws or under the Grantee’s service contract with our Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that employment of a Grantee has or has not been terminated shall be conclusive and binding on the Grantee;
- (g) the date on which the Grantee commits a breach or the Options are cancelled in accordance with the Share Option Scheme; or
- (h) if the Board at their absolute discretion determines that the Grantee (other than an Eligible Employee) has committed any breach of any contract entered into between the Grantee on the one part and any member of our Group on the other part or that the Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous [●] or has made any arrangement or composition with his or her or its creditors generally, the Board shall determine that the outstanding Options granted to the Grantee

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(whether exercisable or not) shall lapse. In such event, his or her or its Options will lapse automatically and will not in any event be exercisable on or after the date on which the Board has so determined.

18. Ranking of Share allotted upon exercise of Options

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Memorandum and Articles of Association of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue.

19. Duration of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by resolution of our Shareholders.

20. Cancellation of Options granted

Our Board may, with the consent of the relevant Grantee, at any time at its absolute discretion cancel any Option granted but not exercised. An [●] shall lapse automatically and not be exercisable (to the extent not already exercised) on the date on which the [●] is cancelled by our Board as provided above.

21. Termination of the Share Option Scheme

Our Company may terminate the operation of the Share Option Scheme at any time by resolution of the Board or resolution of our Shareholders in general meeting and in such event no further Option will be offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the Options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provision of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

22. Alteration of the provisions of the Share Option Scheme

Subject to the provisions of the Share Option Scheme, the Board may amend any of the provisions of the Share Option Scheme (including with limitation to amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in [●]) at any time (but not so as to affect adversely any rights which have accrued to any Grantee at that date).

F. OTHER INFORMATION

1. Estate duty, tax and other indemnity

The Controlling Shareholders have entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of our present subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 11 of the Laws of Hong Kong) or the equivalent or similar thereof under the laws of any jurisdictions outside Hong Kong) to an member of our Group [●]; and
- (b) tax liabilities (including all fines, penalties, costs, charges, liabilities, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits or gains, earned, accrued or received [●].

The Controlling Shareholders are under no liability under the deed of indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited consolidated accounts of our Company and its subsidiaries as set out in the Accountant's Report set out in Appendix I to this document or in the audited accounts of the relevant members of our Group for the three financial years ended December 31, 2012 and six months ended June 30, 2013;
- (b) to the extent for which any member of our Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the date of deed of indemnity; and

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (c) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities or any other authority in the Cayman Islands or the PRC coming into force after the date of deed of indemnity or to the extent such claim arises or is increased by an increase in the rates of taxation after the date of deed of indemnity with retrospective effect;

Our Directors have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries.

2. Litigation

As of the Latest Practicable Date, save as disclosed in the section headed “Business — Legal Proceedings and Compliance” in this document, no member of our Group was engaged in any litigation, arbitration or administrative proceedings which had a material adverse effect on our financial conditions or results of operations, and no litigation, arbitration or administrative proceedings was known to our Directors to be pending or threatened by or against our Group, that would have a material adverse effect on our financial condition or results of operations.

3. [●]

4. [●]

5. No material adverse change

Our Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2013 (being the date on which our latest audited combined financial statements was made up) up to the Latest Practicable Date.

6. [●]

7. [●]

8. Agency fees or commissions received

Save as disclosed [●] in this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years preceding the date of this document.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

10. Preliminary expenses

The preliminary expenses incurred by our Company in relation to our corporation were approximately HK\$22,700 and have been paid by our Company.

11. [●]

12. [●]

13. [●]

14. [●]

15. Miscellaneous

(a) Save as disclosed in this document:

- (i) within the two years immediately preceding the date of this document, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) within the two years immediately preceding the date of this document, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of our Company or any of our subsidiaries;
- (iv) within the two years immediately preceding the date of this document, no commission has been paid or payable (except commission to [●]) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
- (v) no founder shares, management shares or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (vi) there is no arrangement under which future dividends are waived or agreed to be waived;
- (vii) there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this document;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (viii) our Company has no outstanding convertible debt securities or debentures;
and
- (ix) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange no is any listing or permission to deal being or proposed to be sought.