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

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
Orthopedic implants (trauma and spine)				
Distributors	182	207	214	244
Hospitals	1,257	1,300	1,397	1,444
Infusion sets				
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,

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.

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

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.

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,

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

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
Orthopedic implants (trauma and spine)				
Distributors	182	207	214	244
Hospitals	1,257	1,300	1,397	1,444
Infusion sets				
Distributors	33	28	182	211
Hospitals	602	765	995	1,113

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 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.

- *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.

We plan to apply a significant portion of our proceeds from the Global Offering to these efforts. See "Future Plans and Use of Proceeds — Use of Proceeds."

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.

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. Accordingly, we intend to allocate approximately HK$335.5 million, or 30% of the net proceeds from the Global Offering, towards making strategic acquisitions and forming strategic alliances. 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

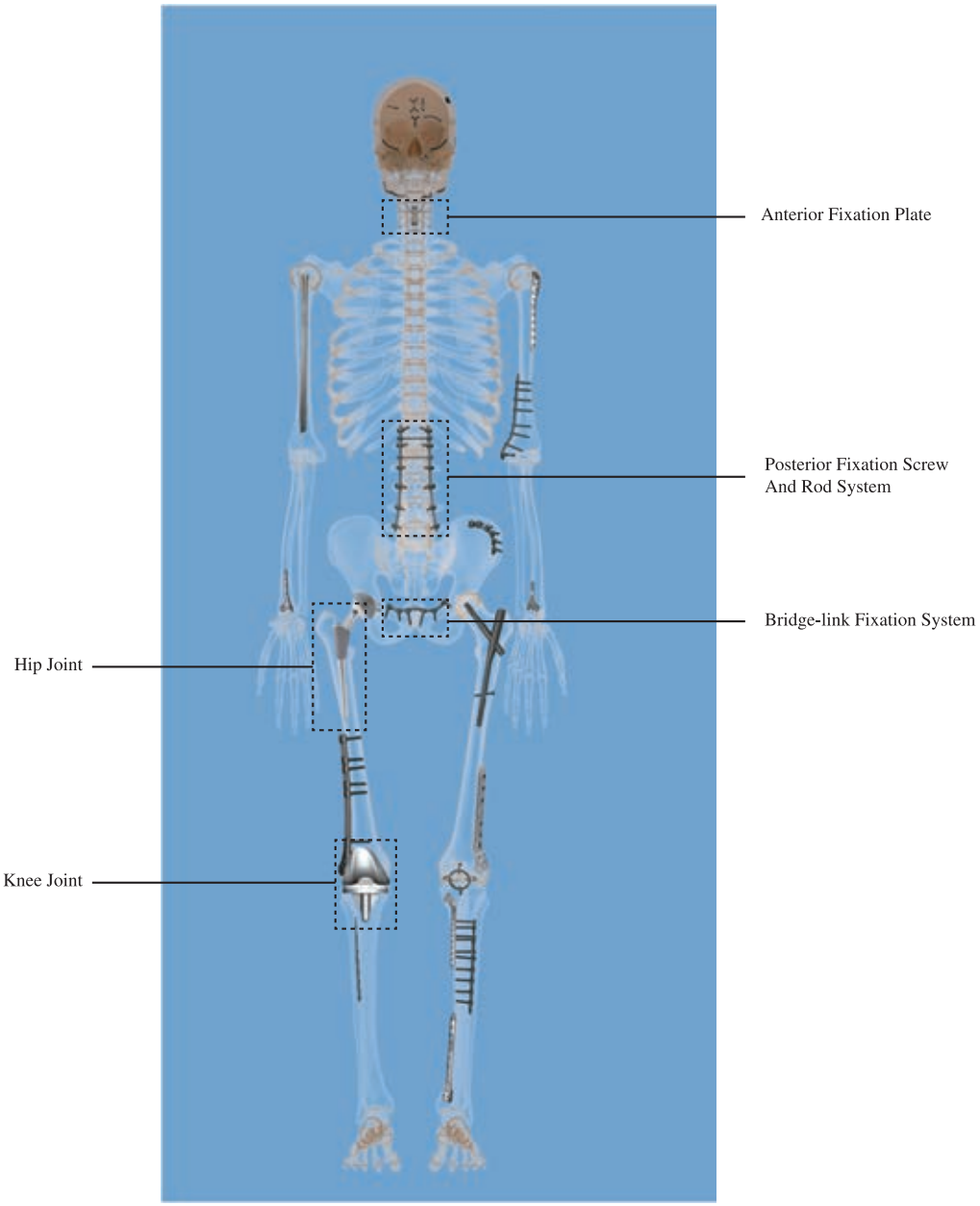
We are the third largest domestic developer, manufacturer and marketer of orthopedic implant products in China (excluding Kanghui and Trauson), with a 1.3% market share in terms of sales revenue for the 12 months ended June 30, 2013, according to the F&S Report. As a result of our recent acquisition 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.

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.

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



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.

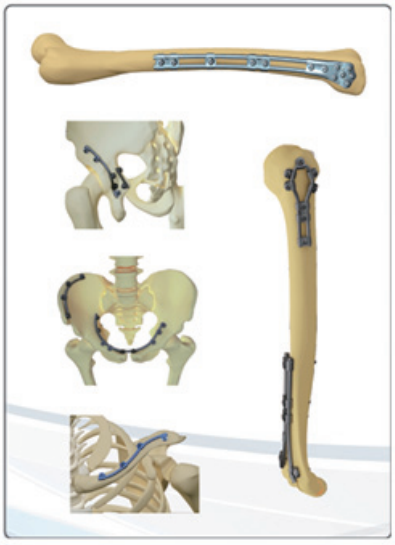
The table below sets forth certain information on our key trauma products.

Product Name	Sample Picture	Application
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

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.



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.

Product Name	Sample Picture	Application
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.

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.

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 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 stand-alone basis.

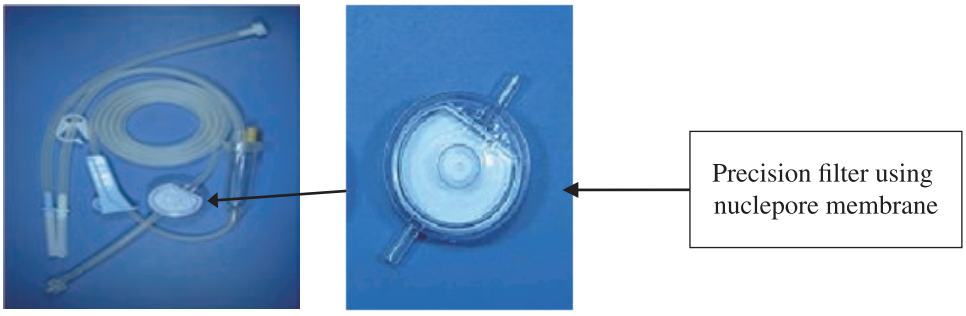
Precision Filter Infusion Sets

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

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.

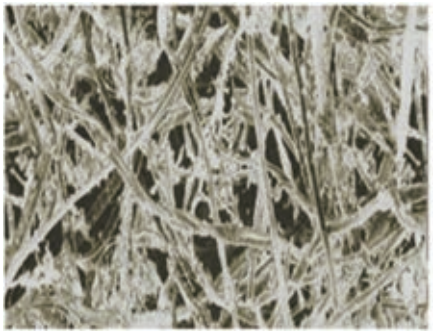
We offer precision filter infusion sets with a wide selection of specifications to filter insoluble particles ranging from as small as two micron to five microns in diameter to meet requirements of different patients and different infusion fluids. Our precision filter infusion sets are designed with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

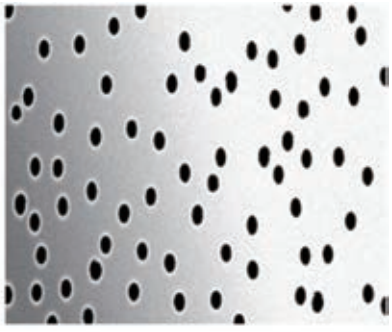


Generally, there are three different types of materials being used for precision filters, including PES membranes, nuclepore membranes and fibrous membranes. Fibrous membranes are the most cost-effective solution, but have irregular pore size, chemical incompatibility and high drug absorption. PES materials 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.

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

Fibrous membrane **Nuclepore membrane**



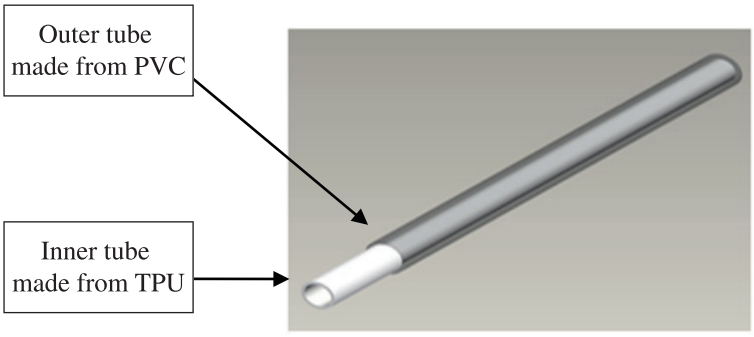


According to the F&S Report, approximately 30 manufacturers in China produce precision filter infusion sets, and three of them use nuclepore membranes in their precision filter infusion sets, including us, four use PES membranes and the remainder use fibrous membranes. Our precision filter infusion sets 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.

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.

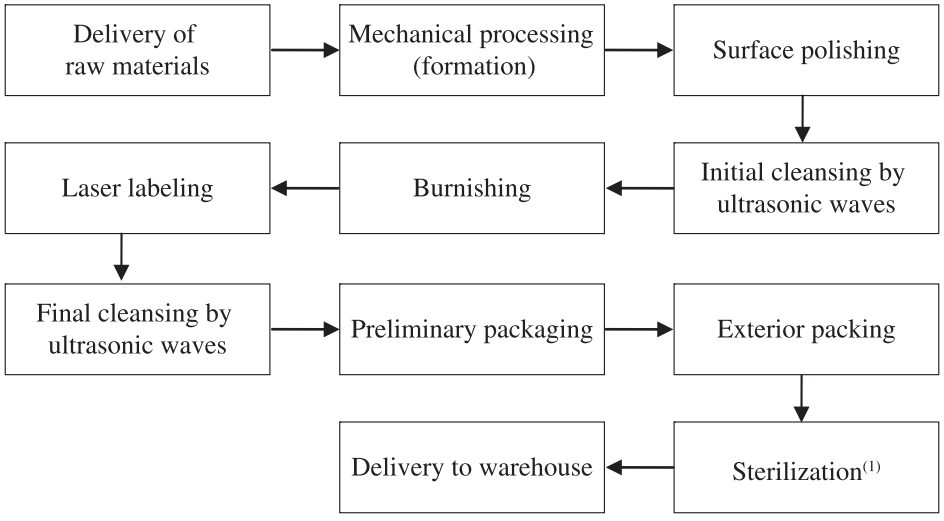
Building around the precision filter feature and non-PVC-based double-layer tubing feature, we have developed a full portfolio of products with a range of features and applications, such as light resistance and auto air venting. We use light-resistant materials in infusion sets to block light and prevent 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.

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

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

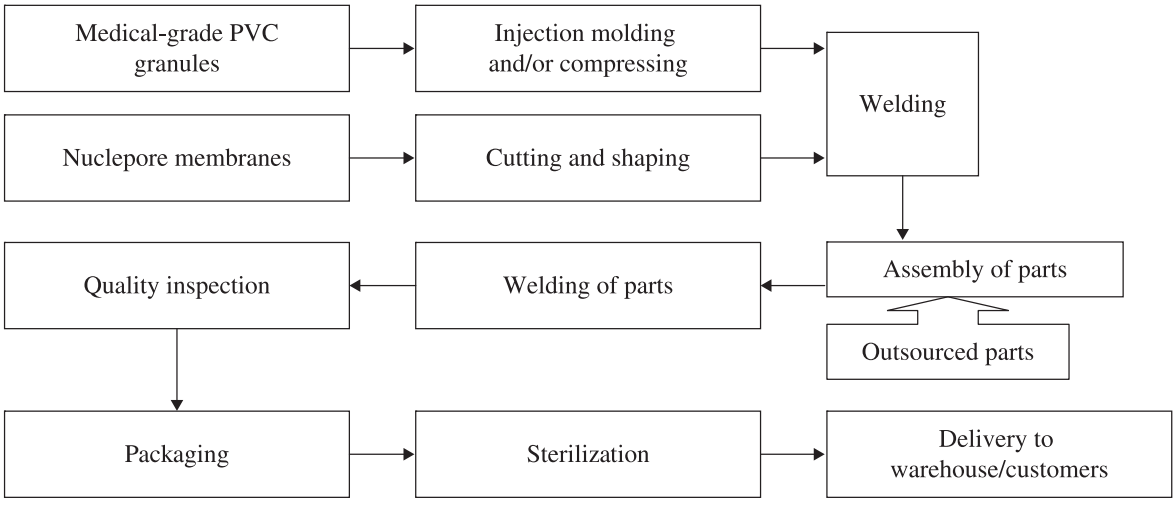
Cleansing, burnishing and labeling. We cleanse, burnish and label the processed products to prepare for packaging. Our cleansing procedure requires two stages of cleansing, with the second cleansing completed within the clean room to minimize bacterial contamination. Other than certain of our joint products, 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.



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.

(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 three individuals who are Independent Third Parties in May 2013.

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 annual capacity[1]	Production volume	Utilization rate	Maximum 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 annual capacity[1]	Production volume	Utilization rate	Maximum annual capacity[1]	Production volume	Utilization rate	Maximum 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.

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 Pingu, 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.

We plan to finance the capital expenditures in relation to our expansion plans solely with net proceeds from the Global Offering. 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.

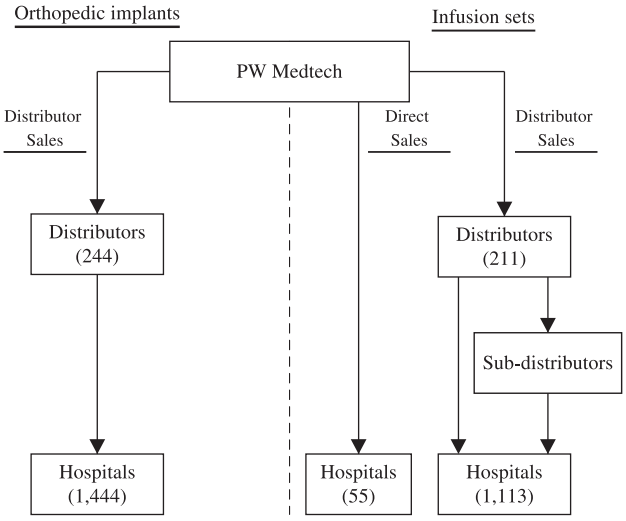
We may face a number of challenges in implementing our expansion plans, such as the availability of skilled labor, procurement of sales orders and raw materials, and maintaining quality control. We intend to continue to enhance our labor productivity by offering appropriate training to our employees 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 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. 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, 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

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.

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.

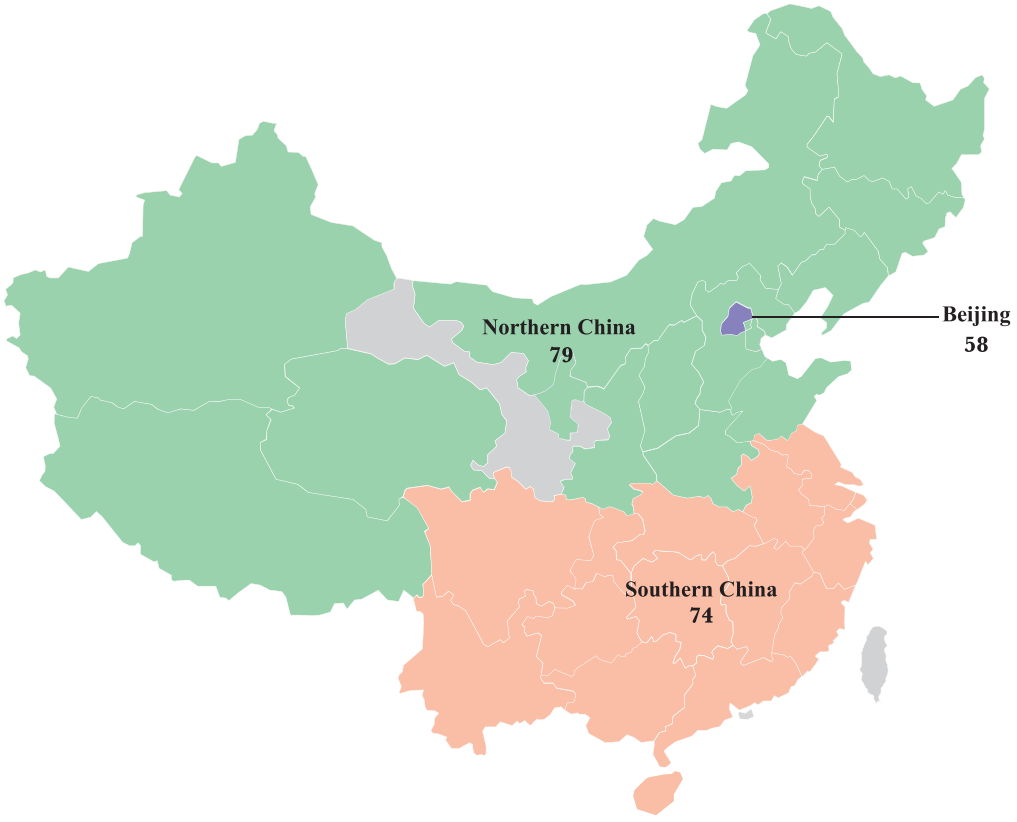
Geographically, Fert Technology divides its distribution network for infusion sets broadly into three regions and the table below sets forth the geographic distribution of its distributors as of the date indicated.

	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.



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.

- *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.

- *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.

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.

- *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

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.

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 and 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 access 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

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

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.

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.

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.

Product Category	Product Name	Application	Launch Date/ Expected Launch Date
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

Product Category	Product Name	Application	Launch Date/ Expected Launch Date
	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.

Product Line	Product	Application
Trauma	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)
Spine	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

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. We intend to use approximately 8% of our net proceeds from the Global Offering, or HK$89.5 million, assuming an Offer Price of HK$2.99 per Share (being the mid-point of the indicative range of the Offer Price), to fund research and development of new products. 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.

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

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.

Product Line	Product	Application	Current Stage
Trauma	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
Spine	Vertebro Plasty Instruments	Vertebral compression fractures	Clinical trial
	PEEK Fusion Cage	Vertebrae disk disease and spinal instability	Producing samples for pre-clinical testing
Joint	Modular Femur Stem Polished Cobalt-chromium-molybdenum Cemented Hip Polished High Nitrogen Stainless Steel Revision Stem Square Stem High Nitrogen Stainless Steel Bone Defect Stem	Treatment of femoral head or femoral neck fracture, arthritis, femoral head necrosis, infection, congenital hip disease, hip revision, etc.	Pre-clinical

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.

- *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.

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

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 additional 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

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.

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 prospectus, 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 filed trademark applications with respect to "普华和顺" and "PW Medtech" in China in May 2013 and in Hong Kong in August 2013 and our applications are currently pending.

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.

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 55 buildings and units with an aggregate gross floor area of 51,103.6 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 the Sole Sponsor, 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 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

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 40 properties in the aggregate gross floor area and/or site area of 24,494.7 square meters. These properties are used primarily as production facilities and offices.

In respect of 27 of our leased properties with an aggregate gross floor area and/or site area of 11,441.1 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."

As of June 30, 2013, each of our properties had a carrying amount below 15% of our combined total assets. On this basis, no property valuation report in respect of our Group's property interests is required in reliance upon the exemption provided by Section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

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.

Function	Number of Employees	Percentage of Total
		%
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	275	18.6
Total	1,481	100.0%

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 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.

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 prospectus, 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 PRC 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.

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.

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.

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.

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 PRC and Hong Kong 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 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.

- *Compliance with Hong Kong securities laws and regulations.* We have appointed Anglo Chinese Corporate Finance Limited as our compliance adviser with effect from the date of Listing to advise on ongoing compliance with Listing Rules issues and other applicable securities laws and regulations in Hong Kong.

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