You should read this section in conjunction with our combined financial information, including the accompanying notes thereto, as set out in Appendix I — "Accountant's Report" to this prospectus. Our combined financial information has been prepared in accordance with HKFRSs, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States.

Prior to May 2011, we were engaged primarily in developing, manufacturing and marketing orthopedic implant products. As a result of our acquisition of Fert Technology on April 30, 2011, we expanded into the infusion set business and began including its financial results into our combined financial statements from May 1, 2011. As a result, our results of operations in the financial periods from May 2011 are not directly comparable with previous periods.

OVERVIEW

PW Medtech is a medical device company focused on fast-growing and high-margin segments of China's medical device industry. We engage in the following two business segments:

- ***Orthopedic implants***: We sell our trauma and spine products under the "Walkman" brand and our joint products under the "Bone (博恩)" brand. We offer a full product portfolio in trauma, spine as well as hip and knee joint implants.

- ***Infusion sets***: As a result of our acquisition of Fert Technology on April 30, 2011, we expanded into the infusion set business. We offer two principal types of advanced infusion sets under the "Fert (伏尔特)" brand through our subsidiary, Fert Technology: (i) precision filter infusion sets, which are designed to effectively prevent insoluble particles in infusion fluids that pose various health risks from entering the blood circulatory system of patients during infusion therapy; and (ii) non-PVC-based infusion sets with double-layer tubing, which eliminates the harmful effects of PVC additives and reduce drug absorption by the infusion sets.

We sell our products primarily through distributors. The following table sets forth the numbers of distributors and hospitals covered by our distribution network as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
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

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

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

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

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations, financial condition and the period-to-period comparability of our financial results are principally affected by the following factors:

- *Sales volume.* Our sales volume is affected by factors such as (i) the scale of our distribution network; (ii) effectiveness of our sales and marketing activities; (iii) completeness of our product portfolio; (iv) market acceptance of relatively new products, which in turn is affected by government regulation and policies; (v) coverage and reimbursement policies of China's social health insurance system; and (vi) macro factors such as economic growth, expansion in public health investment, healthcare reform, and the aging population in China.

- *Pricing.* The average selling prices of our products, which generally increased during the Track Record Period, are affected by a number of factors, including changes in sales model, product mix and price of competing products. See "— Product mix" and "— Change in sales model" below.

- *Product mix.* The changes in our product mix have an impact on our revenue growth and profitability. As a result of our acquisition of Fert Technology, we gained a portfolio of infusion set products, which contributed significantly to our revenue growth in 2011 and 2012, but had lower gross margins than our orthopedic implant products. Furthermore, we expect sales of non-PVC-based infusion sets to become increasingly significant, driven by government policies and increasing health consciousness of the Chinese public. In addition, we acquired Bone Medical in January 2013 and expect that joint products will be an increasingly significant source of revenue. Bone Medical currently has a low production volume and generates limited sales. Consequently, the acquisition of Bone Medical has had a limited impact on our gross margin as well as our inventory level and accounts receivable. We are currently expanding production capacity at our Bone Medical facilities, and upon completion of our current expansion plan by the end of 2016, our production capacity at our these facilities will increase from 8,000 sets to 30,000 sets of hip and knee joint products per year. We expect that Bone Medical's production efficiency will gradually increase along the ramp-up of its production and its gross margin will gradually improve to a level close to those of our trauma and spine products.

- *Change in sales model.* Prior to its acquisition by us in April 2011, Fert Technology sold its products primarily to Fert Device, a medical device distribution company under the control of Fert Technology's ultimate shareholders. Acting as Fert Technology's "general distributor," Fert Device covered substantially all of Fert Technology's market of end-customer hospitals and purchased substantially all of Fert Technology's products and on-sold them to its own sub-distributors and direct-sale hospitals. Fert Device was also responsible for conducting sales and marketing activities to promote Fert Technology's infusion sets. In part to compensate Fert Device for these sales services, Fert Technology charged Fert Device lower prices than it offered its other distributors. Since the acquisition, we have significantly changed Fert Technology's sales model, including reducing Fert Device's role from its general distributor to one of regional distributor which is estimated to contribute to an increase of 5.2 percentage points in Fert Technology's gross margin in 2012. As a result of this effort, we (i) sold directly to an increasing number of Fert Device's sub-distributors and direct-sale hospitals to "cut out the middleman" and increase our margins as well as reduced our reliance on Fert Device; (ii) raised our selling prices for Fert Device to levels similar to what we charge other distributors; (iii) developed additional distributors and expanded our distribution network; and (iv) transitioned to conducting sales and marketing activities on our own instead of relying on Fert Device. In part due to this change in our sales model, the overall average selling price of our infusion sets had continually increased during the Track Record Period, which in turn affected our revenue and gross margins. Moreover, as we transitioned to conducting sales and marketing activities on our own, our selling expenses also increased significantly. In addition, as hospitals generally pay higher purchase prices and require longer credit periods than distributors, increased direct sales to hospitals as a percentage of our revenue have also contributed to the increase in our average selling price as well as an increase in our accounts receivable and average accounts receivable turnover days.

- *Cost of raw materials.* Raw material cost historically has been the principal component of our cost of sales. Titanium alloy, medical grade stainless steel and cobalt-chromium-molybdenum alloy are the principal raw materials for our orthopedic implant products. The principal raw materials for our infusion sets are PVC granules. As revenue of non-PVC-based infusion sets continues to grow as a percentage of our total revenue, we expect cost of TPU granules to constitute an increasing portion of our raw material cost. During the Track Record Period, our purchase prices for raw materials were generally stable except for a significant decline in the purchase price of TPU granules. Cobalt-chromium-molybdenum alloy prices are affected by steel prices, and PVC and TPU prices are affected by oil and gas prices. Accordingly, significant changes in the prices of these commodities may affect our profitability.

- *Production capacity.* In our infusion set segment, the utilization rate of our production facilities has been relatively high during the Track Record Period. In particular, the utilization rate of our infusion set production facilities was 81.5% in the six months ended June 30, 2013, which constrained our sales of infusion sets from growing at a higher rate despite strong market demand for our products. To meet the demand for increased production capacity in the short term, we recently acquired Yijia Medical in Xuzhou, Jiangsu province. In addition, we plan to further expand capacity with two new facilities in Linyi, Shandong province and Pinggu, Beijing. In our orthopedic implant segment, we are currently expanding production capacity for our joint products at our newly-acquired Bone Medical facilities in Shenzhen, Guangdong province. We also plan to expand our facilities in Tianjin beginning in the third quarter of 2014. Our future growth will depend on our ability to continue to expand our production capacity and to maintain high levels of utilization.

- *Acquisitions.* We have built our business today on a strategy of selectively making acquisitions in the past, such as Fert Technology and Bone Medical. Our ability to successfully identify and integrate businesses may affect various aspects of our results of operations, such as write-offs related to the impairment of goodwill and other intangible assets, amortization expenses related to intangible assets, and assumption of legal liabilities.

BASIS OF PRESENTATION

Our Controlling Shareholders owned and controlled the companies now comprising our Group immediately before the Reorganization and continue to own and control these companies after the Reorganization. Our financial information has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The combined balance sheets, the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of our Group for the Track Record Period have been prepared as if the current group structure had been in existence throughout the Track Record Period, since their respective dates of incorporation/establishment, or since the date when the companies first came under the control of our Controlling Shareholders, whichever is the shorter period, in a manner similar to the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the HKICPA. For companies acquired from third parties during the Track Record Period, they were included in the financial information from the respective dates of acquisition as discussed in Note 34 of the Accountant's Report as set out in Appendix I to this prospectus.

Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on combination.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our combined financial information requires us to make significant estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these significant assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future. We have identified below the accounting policies that we believe are the most critical to our combined financial information and that involve the most significant estimates.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of our activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after elimination of sales made within our Group. We recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. We base our estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Sales are recognized when the risk and reward of the goods have been transferred to the customer, which is usually at the date when we have delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Income Taxes

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

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% PRC withholding tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the Track Record Period, we do not have any plan to require our PRC subsidiaries to distribute their retained earnings and intend to retain them to operate and expand our business in the PRC. Accordingly, no deferred income tax liability on PRC withholding tax was accrued as of the end of each reporting period.

Estimated Write-downs of Inventories

We write down inventories to net realizable value based on an assessment of the realizability of inventories. Write-downs on inventories are recorded where events or changes in circumstances occur as a result of which the balances may not be realized. The identification of write-downs requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and write-downs of inventories in the period in which such estimate has been changed.

Impairment of Trade and Other Receivables and Impairment Provision Policy

We regularly review our trade and other receivables for objective evidence of impairment. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered as objective evidence that a receivable is impaired. In determining the impairment, we make judgments as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect on the market and economic environment in which the debtor operates. Where there is objective evidence of impairment, we further make judgments as to whether an impairment loss should be recorded as an expense.

We review the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts. Details of the impairment provision policy on our trade and other receivables are as follows:

- Receivables with amounts that are individually significant are subject to individual assessment for impairment based on some high risk profile criteria such as the historical transactions and subsequent repayment records. If there exists objective evidence that we will not be able to collect the amount under the original terms, a bad debt provision will be provided at the difference between the receivable's carrying amount and the present value of its estimated future cash flows.

- Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics such as long aging with less repayment and transactions records. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

We take the following steps to assess provisions for unsettled trade and other receivables:

- Assess whether objective evidence of impairment exists for trade and other receivables of our Group that are individually significant; and

- Assess the impairment for the insignificant trade and other receivables and significant trade and other receivables with no impairment loss based on their individual assessment on a group basis by grouping the trade and other receivables with similar credit risk characteristics and collectively assess them for impairment.

Impairment of Goodwill

We test annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 3.6(a) of the Accountant's Report as set out in Appendix I to this prospectus. The recoverable amounts of cash-generating units, or CGU, have been determined based on value-in-use calculations. These calculations require the use of estimates.

According to the valuation results produced by management based on the assumptions as disclosed in Note 9 of the Accountant's Report as set out in Appendix I to this prospectus, management considered that no impairment charge was required against goodwill arising from acquisitions during the Track Record Period.

In the opinion of our Directors, regarding our infusion set business or orthopedic implant business, respectively, had the gross margin been 10% lower with other assumptions held constant, or had the terminal growth rate been 1% lower with other assumptions held constant, or had the discount rate been 1% higher with other assumptions held constant, there would be no impairment charge needed to be made against goodwill of our Group for the Track Record Period.

Useful Lives of Property, Plant and Equipment

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

Control of Certain Entities through Majority Voting Rights

The Controlling Shareholders originally owned 55% equity interests in our orthopedic implant business. After a series of transactions, the Controlling Shareholders' effective equity interests were diluted to an ownership of less than 50%. However, the Controlling Shareholders still have the ability to control our orthopedic implant business through their majority voting rights, including those relating to:

- management, especially the composition of the senior management;
- business strategies and plans;
- distribution of dividends; and
- the election of the directors and supervisors.

Accordingly, these directly or indirectly owned entities engaged in our orthopedic implant business are regarded as subsidiaries and fully accounted for as such in the combined financial statements.

Sales Returns and Exchange

Our distribution agreements do not allow product returns or exchanges without our consent. However, in practice, we have historically accepted certain returns and exchanges by distributors of our orthopedic implant business. We believe that, based on past experience, the percentage of subsequent returns or exchanges will be approximately 15% of annual sales in our orthopedic implant segment. Therefore, we have recognized revenue with a corresponding provision against revenue for estimated returns with 15% of annual sales of our orthopedic segment for the Track Record Period. For a sensitivity analysis on the impact of sales returns and exchanges on our revenue, see Note 5.1(g) to the Accountant's Report set out in Appendix I to this prospectus.

DESCRIPTION OF CERTAIN COMBINED INCOME STATEMENT ITEMS

The following table sets forth a summary of our combined income statements for the period indicated. This information should be read together with our combined financial information and related notes, which have been prepared in accordance with HKFRSs and set out in Appendix I — "Accountant's Report" to this prospectus. Our results of operations in any period are not necessarily indicative of results that may be expected for any future period.

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

Business Segments

We conduct our operation in two business segments: orthopedic implants and infusion sets.

Orthopedic Implants

The following table sets forth selected segment results of operations of our orthopedic implants segment for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue
	(RMB'000 except percentages)									
							(unaudited)			
Segment revenue	60,816	100.0%	75,379	100.0%	97,567	100.0%	45,568	100.0%	71,693	100.0%
Cost of sales	(16,629)	(27.3)	(20,458)	(27.1)	(23,886)	(24.5)	(11,858)	(26.0)	(21,478)	(30.0)
Gross profit	44,187	72.7	54,921	72.9	73,681	75.5	33,710	74.0	50,215	70.0
Selling expenses	(13,071)	(21.5)	(18,385)	(24.4)	(18,017)	(18.5)	(7,526)	(16.5)	(8,170)	(11.4)
Administrative expenses	(10,621)	(17.5)	(11,805)	(15.7)	(16,651)	(17.1)	(8,766)	(19.2)	(16,288)	(22.7)
Research and development expenses	(1,153)	(1.9)	(2,252)	(3.0)	(2,397)	(2.5)	(871)	(1.9)	(3,570)	(5.0)
Other gains — net	30	0.0	42	0.1	960	1.0	929	2.0	414	0.6
Segment operating profit	19,372	31.9%	22,521	29.9%	37,576	38.5%	17,476	38.4%	22,601	31.5%

Infusion Sets

We acquired Fert Technology on April 30, 2011. Under HKFRSs, the financial results of Fert Technology have been included in our combined financial information since that date. For purposes of presenting Fert Technology's results of operations, we refer to the fiscal year ended December 31, 2010 as "Predecessor Period 2010," the period from January 1, 2011 to April 30, 2011 as "Predecessor Period 2011," and the period from May 1, 2011 to December 31, 2011 as "Successor Period 2011." The financial results of Fert Technology for Predecessor Period 2010 and Predecessor Period 2011 are derived from Fert Technology's stand-alone pre-acquisition financial information while the financial results of Fert Technology for Successor Period 2011, 2012 and the six months ended June 30, 2012 and 2013 are derived from the segment financial information of our infusion set business. We present these data for information and illustrative purposes only. As we did not control the infusion set business for Predecessor Period 2010 and Predecessor Period 2011, we are not permitted under HKFRSs to include its financial results in our combined financial statements for these periods.

The following table sets forth selected segment results of operations of our infusion set segment for the period indicated.

	Pre-acquisition				Post-acquisition							
	For the year ended 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		For the six months ended June 30, 2013	
	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue
	(RMB'000 except percentages)				(RMB'000 except percentages)							
									(unaudited)			
Segment revenue	88,809	100.0%	36,476	100.0%	99,888	100.0%	233,974	100.0%	100,205	100.0%	147,057	100.0%
Cost of sales	(51,457)	(57.9)	(16,419)	(45.0)	(45,692)	(45.7)	(88,808)	(38.0)	(42,663)	(42.6)	(49,882)	(33.9)
Gross profit	37,352	42.1	20,057	55.0	54,196	54.3	145,166	62.0	57,542	57.4	97,175	66.1
Selling expenses	(1,193)	(1.3)	(1,327)	(3.6)	(5,020)	(5.0)	(28,804)	(12.3)	(10,374)	(10.4)	(20,372)	(13.9)
Administrative expenses	(5,694)	(6.4)	(1,162)	(3.2)	(5,903)	(5.9)	(18,952)	(8.1)	(5,902)	(5.9)	(16,984)	(11.5)
Research and development expenses	(3,638)	(4.1)	(839)	(2.3)	(4,812)	(4.8)	(7,115)	(3.0)	(3,780)	(3.8)	(3,044)	(2.1)
Other gains/(losses) — net	464	0.5	2,603	7.1	824	0.8	610	0.3	758	0.8	(163)	(0.1)
Segment operating profit	27,291	30.7%	19,332	53.0%	39,285	39.3%	90,905	38.9%	38,244	38.2%	56,612	38.5%

In Predecessor Period 2010, Predecessor Period 2011, Successor Period 2011, 2012 and the six months ended June 30, 2012 and 2013, Fert Technology's revenue totaled RMB88.8 million, RMB36.5 million, RMB99.9 million, RMB234.0 million, RMB100.2 million and RMB147.1 million, respectively, and Fert Technology's net profit totaled RMB23.2 million, RMB16.5 million, RMB31.4 million, RMB69.0 million, RMB30.1 million and RMB43.1 million, respectively. A combination of the results of the infusion set business in the successor periods with those of the infusion set business in the predecessor periods would not necessarily reflect our financial results had we acquired the infusion set business at any time during the predecessor periods.

Revenue

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

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

During the Track Record Period, we derived our revenue from sales of orthopedic implant products and infusion sets. As a result of our acquisition of Fert Technology, we have generated revenue from sales of infusion sets since May 2011.

Orthopedic Implants

We divide our orthopedic implant products into four categories — trauma, spine, joint and others. The following table sets forth the components of our orthopedic implants revenue by product category for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB'000 except percentages)									
							(unaudited)			
Trauma products	44,487	73.2%	56,261	74.6%	70,178	71.9%	31,886	70.0%	51,027	71.2%
Spine products	13,229	21.8	15,374	20.4	20,867	21.4	11,100	24.4	11,475	16.0
Joint products	—	—	—	—	—	—	—	—	5,789	8.1
Others	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%

During the Track Record Period, revenue from our orthopedic implant products primarily represented the sale of trauma and spine products. We began sales of joint products following our acquisition of Bone Medical in January 2013. The "others" category during the Track Record Period primarily consisted of trauma and spine instruments, and secondarily sales of joint products manufactured by Bone Medical, for which we acted as the general distributor in 2012.

We offer a wide selection of orthopedic implant products with various specifications, and our selling prices for different products vary significantly. The selling prices for our products were generally stable during the Track Record Period. In 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013, if the average selling price of orthopedic implants products had been higher or lower by 5%, the revenue, gross profit and gross margin of our orthopedic implants segment would have increased or decreased as follows, assuming all other factors remain the same:

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
	(RMB'000, except percentages)				
Revenue	60,816	75,379	97,567	45,568	71,693
+5% increase	3,041	3,769	4,878	2,278	3,585
−5% decrease	(3,041)	(3,769)	(4,878)	(2,278)	(3,585)
Gross profit	44,187	54,921	73,681	33,710	50,215
+5% increase	3,041	3,769	4,878	2,278	3,585
−5% decrease	(3,041)	(3,769)	(4,878)	(2,278)	(3,585)
Gross margin	73%	73%	76%	74%	70%
+5% increase	1%	1%	1%	1%	1%
−5% decrease	(1%)	(1%)	(1%)	(1%)	(1%)

Infusion Sets

Fert Technology primarily offers two types of advanced infusion sets: precision filter infusion sets and non-PVC-based infusion sets. The following table sets forth the components of Fert Technology's revenue by product category for the period indicated.

	Pre-acquisition				Post-acquisition							
	For the year ended December 31, 2010 (Predecessor Period 2010)		For the period from January 1, 2011 to April 30, 2011 (Predecessor Period 2011)		For the period from May 1, 2011 to December 31, 2011 (Successor Period 2011)		For the year ended December 31, 2012		For the six months ended June 30 2012		For the six months ended June 30 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.

The following table sets forth the sales volume and average selling price of our precision filter infusion sets and non-PVC-based infusion sets for the period indicated.

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

The average selling prices of Fert Technology's infusion sets increased during the Track Record Period, primarily reflecting a combination of factors, including (i) the change in Fert Technology's sales model, including transitioning from sales to a single general distributor to increasing sales to multiple distributors and hospitals directly and (ii) an increase in percentage of sales derived from products with additional features which generally command higher prices. In Predecessor Period 2010, Predecessor Period 2011, Successor Period 2011, 2012 and the six months ended June 30, 2012 and 2013, if the average selling price of infusion sets had been higher or lower by 5% or 15%, Fert Technology's revenue, gross profit and gross margin would have increased or decreased as follows, assuming all other factors remain the same:

	For the year ended December 31, 2010 (Predecessor Period 2010)	For the period from January 1, 2011 to April 30, 2011 (Predecessor Period 2011)	For the period from May 1, 2011 to December 31, 2011 (Successor Period 2011)	For the year ended December 31, 2012	For the six months ended June 30, 2012	For the six months ended June 30, 2013
	(RMB'000, except percentages)					
Revenue	88,809	36,476	99,888	233,974	100,205	147,057
+5% increase	4,440	1,824	4,994	11,699	5,010	7,353
−5% decrease	(4,440)	(1,824)	(4,994)	(11,699)	(5,010)	(7,353)
+15% increase	13,321	5,471	14,983	35,096	15,031	22,059
−15% decrease	(13,321)	(5,471)	(14,983)	(35,096)	(15,031)	(22,059)
Gross profit	37,352	20,057	54,196	145,166	57,542	97,175
+5% increase	4,440	1,824	4,994	11,699	5,010	7,353
−5% decrease	(4,400)	(1,824)	(4,994)	(11,699)	(5,010)	(7,353)
+15% increase	13,321	5,471	14,983	35,096	15,031	22,059
−15% decrease	(13,321)	(5,471)	(14,983)	(35,096)	(15,031)	(22,059)
Gross margin	42%	55%	54%	62%	57%	66%
+5% increase	3%	2%	2%	2%	2%	2%
−5% decrease	(3%)	(2%)	(2%)	(2%)	(2%)	(2%)
+15% increase	8%	6%	6%	5%	6%	4%
−15% decrease	(10%)	(8%)	(8%)	(7%)	(8%)	(6%)

Cost of Sales

Our cost of sales consists of material costs, labor costs and other costs. Material costs primarily consist of costs incurred for the purchase of raw materials and consumables used in production and inventory impairment. Labor costs primarily consist of compensation and benefits we provide to our employees. Other costs primarily consist of rental expenses, taxes and surcharges, and depreciation.

Orthopedic Implants

The following table sets forth the components of material costs in our orthopedic implant segment by nature for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB'000 except percentages)									
							(unaudited)			
Titanium alloy materials	2,228	83.9%	3,707	92.0%	3,692	69.7%	1,824	67.7%	2,044	34.9%
Processed joint casting	—	—	—	—	—	—	—	—	395	6.7
Titanium alloy casting	—	—	—	—	—	—	—	—	372	6.4
Others(1)	426	16.1	321	8.0	1,607	30.3	869	32.3	3,047	52.0
Total material costs	**2,654**	**100.0%**	**4,028**	**100.0%**	**5,299**	**100.0%**	**2,693**	**100.0%**	**5,858**	**100.0%**

(1) The category of "others" primarily includes UHMWPE (ultra-high-molecular-weight polyethylene) plates for joint products and other consumables and materials for trauma and spine products which are highly diverse raw materials with a wide range of unit prices based on specifications.

During the Track Record Period, our material costs increased in line with the increase in sales of our products. During the Track Record Period, cost of titanium alloy materials represented the single largest component of our material costs in this segment and the price of titanium alloy materials has been relatively stable. Cost of titanium alloy materials as a percentage of total material costs in this segment decreased from 92.0% in 2011 to 70.0% in 2012 primarily due to our purchase and resale of joint products produced by Bone Medical as its general distributor in 2012, the cost for which is accounted for under "others" category. Cost of titanium alloy materials as a percentage of total material costs decreased from 68.0% in the six months ended June 30, 2012 to 35.0% in the same period in 2013, primarily due to our sale of joint products as a result of our acquisition of Bone Medical in January 2013. Bone Medical's joint products are made of more types of materials than trauma and spine products. In addition, the decrease was also attributable to an increase in our purchase of components processed by third parties, which could shorten our production lead-time.

Infusion Sets

The following table sets forth the components of material costs in our infusion sets segment by nature for the period indicated.

	Pre-acquisition				Post-acquisition							
	Year ended December 31, 2010 (Predecessor Period 2010)		Period from January 1, 2011 to April 30, 2011 (Predecessor Period 2011)		Period from May 1, 2011 to December 31, 2011 (Successor Period 2011)		Year ended December 31, 2012		For the six months ended June 30, 2012		2013	
	(RMB'000 except percentages)				(RMB'000 except percentages)				(unaudited)			
PVC and TPU granules	12,291	38.2%	3,935	37.8%	10,950	37.8%	21,175	37.1%	10,187	39.7%	12,806	36.1%
Needles	3,121	9.7	866	8.3	2,411	8.3	4,303	7.5	2,068	8.1	2,204	6.2
Membranes	1,746	5.4	708	6.8	1,971	6.8	4,108	7.2	1,974	7.7	1,560	4.4
Others(1)	15,000	46.7	4,895	47.1	13,620	47.1	27,523	48.2	11,414	44.5	18,910	53.3
Total material costs	**32,158**	**100.0%**	**10,404**	**100.0%**	**28,952**	**100.0%**	**57,109**	**100.0%**	**25,643**	**100.0%**	**35,480**	**100.0%**

(1) The category of "others" primarily includes cost of packaging, chemicals and other consumables and materials.

Raw materials and components for our infusion set products primarily include PVC and TPU granules, needles, membranes and other materials. During the Track Record Period, costs of PVC and TPU granules represented the single largest component of our raw material costs in this segment. The price of PVC granules was relatively stable during the Track Record Period while the price of TPU granules had declined in 2012. Cost of PVC and TPU granules as a percentage of the total material costs in this segment decreased from 40.0% in the six months ended June 30, 2012 to 36.0% in the same period in 2013, primarily due to an increase in sales of infusion sets with new features using additional materials.

Gross Profit and Gross Margin

The following table sets forth our gross profit and gross margin by business segment for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin
	(RMB'000 except percentages)									
							(unaudited)			
Orthopedic implants	44,187	72.7%	54,921	72.9%	73,681	75.5%	33,710	74.0%	50,215	70.0%
Infusion sets	—	—	54,196	54.3	145,166	62.0	57,542	57.4	97,175	66.1
Total	44,187	72.7%	109,117	62.3%	218,847	66.0%	91,252	62.6%	147,390	67.4%

Operating Expenses

Our operating expenses primarily consist of selling expenses, administrative expenses, and research and development expenses. The following table sets forth the components of our operating expenses for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue
	(RMB'000 except percentages)									
							(unaudited)			
Selling expenses	13,071	21.5%	23,405	13.4%	46,821	14.1%	17,900	12.3%	28,542	13.0%
Administrative expenses	10,621	17.5	17,708	10.1	35,603	10.7	14,668	10.1	33,272	15.2
Research and development expenses	1,153	1.9	7,064	4.0	9,512	2.9	4,651	3.2	6,614	3.0
Other gains — net	(30)	(0.0)	(866)	(0.5)	(1,570)	(0.5)	(1,687)	(1.2)	(251)	(0.1)
Total	24,815	40.9%	47,311	27.0%	90,366	27.2%	35,532	24.4%	68,177	31.2%

Selling Expenses

Our selling expenses primarily consist of employee compensation, advertising and promotion and transportation and business development. The following table sets forth the components of our selling expenses for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB'000 except percentages)									
							(unaudited)			
Employee compensation	2,415	18.5%	4,336	18.5%	7,211	15.4%	2,775	15.5%	10,483	36.7%
Advertising and promotion	7,703	58.9	12,478	53.3	28,853	61.6	11,548	64.5	11,696	41.0
Transportation and business development	1,267	9.7	1,395	6.0	2,866	6.1	1,042	5.8	1,921	6.7
Others	1,686	12.9	5,196	22.2	7,891	16.9	2,535	14.2	4,442	15.6
Total	13,071	100.0%	23,405	100.0%	46,821	100.0%	17,900	100.0%	28,542	100.0%

Administrative Expenses

Our administrative expenses primarily consist of employee compensation, transportation and entertainment expenses, office and communication and other expenses. The following table sets forth the components of our administrative expenses for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	(RMB'000 except percentages)									
							(unaudited)			
Employee compensation	5,532	52.1%	10,632	60.0%	17,869	50.2%	5,681	38.7%	10,222	30.7%
Transportation and entertainment	1,012	9.5	1,316	7.4	3,440	9.7	1,199	8.2	1,677	5.0
Office and communication	497	4.7	787	4.4	2,375	6.7	1,379	9.4	1,644	4.9
Others(1)	3,580	33.7	4,973	28.2	11,919	33.4	6,409	43.7	19,729	59.4
Total	10,621	100.0%	17,708	100.0%	35,603	100.0%	14,668	100.0%	33,272	100.0%

(1) The category of "others" primarily includes provision for doubtful debt, rental expenses, depreciation and professional services.

Research and Development Expenses

Our research and development expenses primarily consist of expenditure on research and product development activities. We apply a conservative policy in capitalizing research and development expenditures and did not capitalize any research and development expenses during the Track Record Period.

Other Gains — net

Other net gains primarily consist of government grants and gains or losses on disposal of property, plant and equipment. Government grants represent grants and subsidies received from the local government in relation to encouragement of technical innovation activities carried out by us.

Finance Income

Our finance income primarily consists of interest income on short-term bank deposits.

Finance Costs

Our finance costs primarily represent interest expenses on bank borrowings, deemed interest on an interest-free loan from a related party in connection with our Reorganization, bank charges and net foreign exchange loss.

Income Tax Expense

Income tax expense represents current and deferred income tax.

We are not subject to any income tax in the Cayman Islands. Our subsidiaries incorporated in Hong Kong were subject to Hong Kong profit tax at a rate of 16.5% during the Track Record Period.

Our subsidiaries located in mainland China, other than Fert Technology and Walkman Biomaterial, were subject to PRC corporate income tax at a rate of 25% on the assessable profits generated during the Track Record Period. Fert Technology and Walkman Biomaterial qualified as "High and New Technology Enterprises" under the PRC income tax law and were entitled to a preferential income tax rate of 15% on their estimated assessable profits during the Track Record Period. Their qualification as "High and New Technology Enterprises" is valid through 2014. We intend to apply for renewal of such qualification thereafter but there is no assurance that our application will succeed.

Our income tax expenses were RMB2.9 million, RMB8.0 million, RMB19.5 million, RMB7.8 million and RMB14.1 million in 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013, respectively, and our effective income tax rate was 17.0%, 13.9%, 16.3%, 15.0% and 19.0% during those periods, respectively.

RESULTS OF OPERATIONS

Due to the acquisition of Fert Technology in April 2011, our results of operations for the years ended December 31, 2010, 2011 and 2012 are not directly comparable to each other. See "— Factors Affecting Our Results of Operations and Financial Condition — Acquisitions."

Six months ended June 30, 2013 compared to six months ended June 30, 2012

Revenue

Our total revenue increased by 50.1% from RMB145.8 million in the six months ended June 30, 2012 to RMB218.8 million in the same period in 2013. This increase reflected an increase in revenue from both our orthopedic implant and infusion set businesses.

Orthopedic implants

Revenue from our orthopedic implant business increased by 57.3% from RMB45.6 million in the six months ended June 30, 2012 to RMB71.7 million in the same period in 2013 primarily due to our increased sales of trauma implant products. Specifically, revenue from trauma products increased by 60.0% to RMB51.0 million in the six months ended June 30, 2013, or 71.2% of the segment revenue, as compared to RMB31.9 million in the same period in 2012, or 70.0% of the segment revenue. The increase in our revenue from trauma products was primarily attributable to sales of bridge-link fixation products, which have been well received by hospitals since we introduced them to the market in early 2013. In addition, we acquired Bone Medical in January 2013 and generated revenue of RMB5.8 million from sales of Bone Medical's joint implant products, which also contributed to the increase in our revenue from orthopedic implant products. Revenue from spine products increased by 3.4% to RMB11.5 million in the six months ended June 30, 2013, or 16.0% of the segment revenue, as compared to RMB11.1 million in the same period in 2012, or 24.4% of the segment revenue. Our revenue from spine implant products grew at a lower rate than our trauma products primarily because we were preparing for the release of upgraded models of certain spine products in the second half of 2013 and 2014. Revenue from our other orthopedic products increased by 31.8% to RMB3.4 million in the six months ended June 30, 2013, compared to RMB2.6 million in the same period in 2012, in part due to sales of certain third-party orthopedic implant products carried by Bone Medical. Moreover, the increase in our revenue from the orthopedic implant business was also attributable to (i) the growth of the PRC orthopedic market; (ii) increased recognition and market acceptance for our products; and (iii) the continuing expansion of our distribution network. Other than our newly introduced bridge-link fixation products, the prices of our orthopedic implant products remained relatively stable in the six months ended June 30, 2012 and 2013.

Infusion sets

Revenue from sales of infusion sets increased by 46.8% from RMB100.2 million in the six months ended June 30, 2012 to RMB147.1 million in the same period in 2013, due to an increase in both our sales volume and average selling price. Our sales volume increased by 14.0% due to increased demand for our products and the continuing expansion of our distribution network. However, our production capacity constraints prevented our sales volume from increasing at a higher rate. In the six months ended June 30, 2013, the utilization rate of our infusion production facilities was 81.5%. The average selling price of our infusion sets increased from RMB4.3 per set in the six months ended June 30, 2012 to RMB5.6 per set in the same period in 2013, primarily due to a combination of (i) the change in our sales model, which resulted in an increase in our direct sales to hospitals for which we charged higher prices than sales to distributors and (ii) an increase in the percentage of sales derived from our non-PVC-based infusion sets and other infusion sets with additional features which generally command higher prices.

Cost of sales

Our cost of sales increased by 30.9% from RMB54.5 million in the six months ended June 30, 2012 to RMB71.4 million in the same period in 2013. This increase was due to increased cost of sales of both our orthopedic implant and infusion set business.

Cost of sales of our orthopedic implant segment increased by 81.1% from RMB11.9 million in the six months ended June 30, 2012 to RMB21.5 million in the same period in 2013. The increase was primarily attributable to increased labor costs, raw material costs and depreciation. The increase in labor costs was due to an increase in both of our employee headcount and our average employee compensation. The increase in our raw material costs was attributable to our increased sales volume and a slight increase in our purchase prices of raw materials, including primarily titanium and titanium alloys. In addition, increased depreciation resulting from the addition of new production equipment also contributed to the increase in our cost of sales.

Cost of sales of our infusion set segment increased by 16.9% from RMB42.7 million in the six months ended June 30, 2012 to RMB49.9 million in the same period in 2013. This increase was primarily attributable to our increased labor costs, which in turn was attributable to our increased employee headcount and average employee compensation. To a lesser extent, the increase in cost of sales was also attributable to an increase in raw material costs, which in turn was primarily attributable to our increased sales volume.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 61.5% from RMB91.3 million in the six months ended June 30, 2012 to RMB147.4 million in the same period in 2013. Our gross margin increased from 62.6% in the six months ended June 30, 2012 to 67.4% in the same period in 2013, due to an increase in the gross margins of our infusion set business partially offset by a decrease in the gross margin of our orthopedic implant business.

Our gross profit of our orthopedic implant business increased by 49.0% from RMB33.7 million in the six months ended June 30, 2012 to RMB50.2 million in the same period in 2013. The gross margin of our orthopedic implant business decreased from 74.0% in the six months ended June 30, 2012 to 70.0% in the same period in 2013, primarily due to a combination of (i) our increased labor costs, (ii) the slight increase in our purchase prices of raw materials, including primarily titanium and titanium alloys, (iii) increased depreciation resulting from the addition of new production equipment, and (iv) our sales of joint products, which had lower gross margins than our trauma and spine products due to Bone Medical's limited production scale. In the six months ended June 30, 2013, the gross margins of our trauma, spine and joint products were 73.6%, 74.0% and 52.5%, respectively. Excluding our joint implant products, the gross margin of our orthopedic implant products would have been 71.6%.

The gross profit for infusion set business increased by 68.9% from RMB57.5 million in the six months ended June 30, 2012 to RMB97.2 million in the same period in 2013. The gross margin of our infusion set business increased from 57.4% in the six months ended June 30, 2012 to 66.1% in the same period in 2013. This increase in gross margin in the six months ended June 30, 2013 was primarily due to an increase in our average selling price while our average cost of sales remained relatively stable.

Selling expenses

Our selling expenses increased by 59.5% from RMB17.9 million in the six months ended June 30, 2012 to RMB28.5 million in the same period in 2013. This increase was primarily attributable to an increase in the selling expenses for our infusion set segment.

Our selling expenses for the orthopedic implant segment increased by 8.6% from RMB7.5 million in the six months ended June 30, 2012 to RMB8.2 million in the same period in 2013. This increase was primarily due to an increase in employee compensation, which in turn reflected both our increased employee headcount to support our growing business and the average employee compensation.

Our selling expenses for the infusion set segment increased by 96.4% from RMB10.4 million in the six months ended June 30, 2012 to RMB20.4 million in the same period in 2013, primarily due to an increase in employee compensation, which in turn reflected both our increased employee headcount to support our growing business and the average employee compensation. Increases in advertising and promotion expenses as well as other components of our selling expenses of the infusion set business also contributed to the overall increase in selling expenses, due to our continued efforts to expand our distribution network and promote our non-PVC-based and other infusion sets with additional advanced features, as well as our increased direct sales to hospitals.

Administrative expenses

Our administrative expenses increased by 126.8% from RMB14.7 million in the six months ended June 30, 2012 to RMB33.3 million in the same period in 2013. This increase was primarily attributable to our incurrence of listing expenses of RMB7.5 million and increases in other administrative expenses of both our orthopedic implant and infusion set segments.

Our administrative expenses for the orthopedic implant segment increased by 85.8% from RMB8.8 million in the six months ended June 30, 2012 to RMB16.3 million in the same period in 2013. This increase was primarily due to the allocation of listing expenses of RMB1.2 million to our orthopedic implant segment, increases in employee compensation and other expenses, such as rental expenses and bad debt provision as a result of our business expansion.

Our administrative expenses for the infusion set segment increased by 187.8% from RMB5.9 million in the six months ended June 30, 2012 to RMB17.0 million in the same period in 2013, primarily due to the allocation of listing expenses of RMB6.3 million to our infusion set segment and an increase in employee compensation driven by our business growth.

Research and development expenses

Research and development expenses increased by 42.2% from RMB4.7 million in the six months ended June 30, 2012 to RMB6.6 million in the same period in 2013, primarily due to our increased research and development activities.

Other gains — net

Other net gains decreased by 85.1% from RMB1.7 million in the six months ended June 30, 2012 to RMB0.3 million in the same period in 2013, primarily due to a decrease in government grants. Government grants decreased from RMB1.0 million in the six months ended June 30, 2012 to RMB0.2 million in the same period in 2013 due to the non-recurring nature of government grants.

Finance income

Our finance income increased from RMB71,000 in the six months ended June 30, 2012 to RMB247,000 in the same period in 2013, primarily due to an increase in our short-term bank deposits.

Finance costs

Our finance costs increased by 51.5% from RMB3.4 million in the six months ended June 30, 2012 to RMB5.1 million in the same period in 2013. This increase was primarily attributable to the interest on our bank borrowings in the six months ended June 30, 2013 and an increase in our net foreign exchange loss. We had total bank borrowings of RMB97.3 million as of June 30, 2013 while did not have any outstanding bank borrowings as of June 30, 2012.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by 41.8% from RMB52.4 million in the six months ended June 30, 2012 to RMB74.3 million in the same period in 2013.

Income tax expense

Our income tax expense increased by 79.8% from RMB7.8 million in the six months ended June 30, 2012 to RMB14.1 million in the same period in 2013, primarily attributable to our increased profit before tax. Our effective income tax rate increased from 15.0% in the six months ended June 30, 2012 to 19.0% in the same period in 2013 primarily because we did not recognize deferred tax assets in respect of losses incurred by certain subsidiaries and part of the Listing expenses incurred by us was not deductible for income tax purposes.

Profit for the period

As a result of the foregoing, our profit increased by 35.2% from RMB44.6 million in the six months ended June 30, 2012 to RMB60.2 million in the same period in 2013.

Year ended December 31, 2012 compared to year ended December 31, 2011

Revenue

Our total revenue increased by 89.2% from RMB175.3 million in 2011 to RMB331.5 million in 2012. This increase reflected an increase in revenue from our orthopedic implant business and our acquisition of Fert Technology.

Orthopedic implants

Revenue from our orthopedic implant business increased by 29.4% from RMB75.4 million in 2011 to RMB97.6 million in 2012, with revenue increasing in each of our product categories. Specifically, revenue from trauma products increased by 24.7% to RMB70.2 million in 2012, or 71.9% of the segment revenue, as compared to RMB56.3 million in 2011, or 74.6% of the segment revenue. Revenue from spine products increased by 35.7% to RMB20.9 million in 2012, or 21.4% of the segment revenue, as compared to RMB15.4 million in 2011, or 20.4%

of the segment revenue. The demand for our spine implant products as a percentage of our revenue increased at a higher rate than our trauma products primarily due to our introduction of several new spine products in 2012. Revenue from our other orthopedic products increased by 74.2% to RMB6.5 million, as compared to RMB3.7 million in 2011, partly due to commencement of sales of Bone Medical's joint products as its distributor in 2012. This overall increase in revenue from our orthopedic implant business primarily reflected an increase in the sales volume of these products, which in turn was primarily attributable to increased sales to existing distributors as a result of (i) increasing sales and marketing activities, (ii) increased recognition and market acceptance for our products, (iii) continuing expansion of our product portfolio, and (iv) growth of the China orthopedic market. To a lesser extent, our revenue increase in this segment was also attributable to the continuing expansion of our distribution network, with 214 distributors covering 1,397 hospitals as of December 31, 2012, increasing from 207 distributors covering 1,300 hospitals as of December 31, 2011. The selling prices of our orthopedic implant products were relatively stable in 2011 and 2012.

Infusion sets

Revenue from sales of infusion sets was RMB36.5 million in Predecessor Period 2011, RMB99.9 million in Successor Period 2011, and RMB234.0 million in 2012. This increase primarily reflected an increase in the sales volume of these products, which in turn was primarily due to a significant expansion of our distribution network, with 182 distributors covering 995 hospitals as of December 31, 2012, increasing from 28 distributors and 765 hospitals as of December 31, 2011. The average selling price of our products also increased during this period, primarily reflecting a combination of (i) the change in our sales model, which reduced the layer of distributors, resulting in an increase in our average selling price and, (ii) an increase in percentage of sales derived from products with additional features which generally command higher prices. The overall average selling price of Fert Technology's infusion sets increased from RMB2.5 per set in Predecessor Period 2010 to RMB3.6 per set in Predecessor Period 2011, to RMB4.1 per set in Successor Period 2011, and further to RMB4.9 per set in 2012.

Cost of sales

Our cost of sales increased by 70.4% from RMB66.2 million in 2011 to RMB112.7 million in 2012. This increase primarily reflected our increased sales volume of orthopedic implant products and our acquisition of Fert Technology.

Cost of sales for orthopedic implants increased by 16.8% from RMB20.5 million in 2011 to RMB23.9 million in 2012 primarily attributable to an increase in raw material costs, which in turn was primarily attributable to our increased sales volume. To a lesser extent, the increase in cost of sales was also attributable to our increased labor costs, resulting from our increased employee headcount and average employee compensation.

Cost of sales for infusion sets was RMB16.4 million in Predecessor Period 2011, RMB45.7 million in Successor Period 2011, and RMB88.8 million in 2012. This increase was primarily attributable to an increase in raw material costs, which in turn was primarily attributable to our increased sales volume. To a lesser extent, the increase in cost of sales was also attributable to our increased labor costs, resulting from our increased employee headcount and average employee compensation.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 100.6% from RMB109.1 million in 2011 to RMB218.8 million in 2012. Our gross margin increased from 62.3% in 2011 to 66.0% in 2012, due to an increase in our gross margin for both orthopedic implant and infusion set products.

Our gross profit for orthopedic implants increased by 34.2% from RMB54.9 million in 2011 to RMB73.7 million in 2012. Our gross margin for orthopedic implants increased from 72.9% in 2011 to 75.5% in 2012, primarily due to increasing economies of scale, as our cost of sales incurred in this segment, including labor costs and raw material costs, increased less significantly than our revenue.

Our gross profit for infusion sets was RMB20.1 million in Predecessor Period 2011, RMB54.2 million in Successor Period 2011, and RMB145.2 million in 2012. In those same periods, gross margin for infusion sets was 55.0%, 54.3% and 62.0%, respectively. This increase in gross margin in 2012 was due to a combination of (i) our increased sales of infusion sets with additional features which generally command higher margins, and (ii) the change in our sales model, which reduced the layer of distributors and contributed to an increase in our average selling price.

Selling expenses

Our selling expenses increased by 100.0% from RMB23.4 million in 2011 to RMB46.8 million in 2012. This increase was primarily attributable to our acquisition of Fert Technology and the increase in marketing efforts by Fert Technology, partially offset by a slight decrease in the selling expenses for our orthopedic implant segment.

Our selling expenses for the orthopedic implant segment decreased to RMB18.0 million in 2012 from RMB18.4 million in 2011, as we organized several major events to promote our products in 2011, which significantly increased our selling expenses in that year.

Our selling expenses for the infusion set segment totaled RMB1.3 million, RMB5.0 million and RMB28.8 million in Predecessor Period 2011, Successor Period 2011 and 2012, respectively. As we continuously promote new infusion sets with additional features, we increased our investment in marketing efforts. In addition, as part of the change in its sales model, Fert Technology transitioned to conducting marketing activities itself from relying on Fert Device to market and promote its products.

Administrative expenses

Our administrative expenses increased by 101.1% from RMB17.7 million in 2011 to RMB35.6 million in 2012. This increase was primarily attributable to the growth of our orthopedic implant business and acquisition of Fert Technology.

Our administrative expenses for the orthopedic implant segment increased by 41.1% from RMB11.8 million in 2011 to RMB16.7 million in 2012, primarily due to the growth of our orthopedic implant business.

Our administrative expenses for the infusion set segment totaled RMB1.2 million, RMB5.9 million and RMB19.0 million in Predecessor Period 2011, Successor Period 2011 and 2012, respectively. The increase in administrative expenses in 2012 was primarily due to increases in employee headcount and our business growth.

Research and development expenses

Our research and development expenses increased by 34.7% from RMB7.1 million in 2011 to RMB9.5 million in 2012. This increase was primarily due to our increased research and development activities and our acquisition of Fert Technology.

Other gains — net

Other net gains increased by 81.3% from RMB0.9 million in 2011 to RMB1.6 million in 2012. This increase was primarily attributable to an increase in government grants, partially offset by our loss on disposal of property, plant and equipment in 2012. Government grants increased from RMB0.3 million in 2011 to RMB4.7 million in 2012, primarily because we were recognized by a number of government-funded programs that provide subsidies and grants to high-technology and innovative companies. We recorded loss on disposal of property, plant and equipment of RMB0 and RMB3.3 million in 2011 and 2012, respectively. Our loss on disposal of property, plant and equipment in 2012 was primarily attributable to the obsoleting of certain equipment we acquired as part of our acquisition of Fert Technology.

Finance income

We recorded finance income of RMB0.2 million and RMB0.3 million in 2011 and 2012, respectively, reflecting an increase in short-term bank deposits.

Finance costs

Our finance costs increased by 94.3% from RMB4.7 million in 2011 to RMB9.1 million in 2012. This increase was primarily due to an increase of deemed interest on the interest-free loan received from a related party in connection with our Reorganization and an increase in net foreign exchange loss. We recorded deemed interest of RMB5.7 million on this interest-free loan. In addition, we incurred interest expenses of RMB0.5 million in 2012, due to new bank borrowings in 2012, which also contributed to the increase in finance costs.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by 108.8% from RMB57.3 million in 2011 to RMB119.7 million in 2012.

Income tax expense

Our income tax expense increased by 144.8% from RMB8.0 million in 2011 to RMB19.5 million in 2012, primarily attributable to our increased profit before tax. Our effective income tax rate increased from 13.9% in 2011 to 16.3% in 2012 primarily because we did not recognize deferred tax assets in respect of losses incurred by certain subsidiaries.

Profit for the year

As a result of the foregoing, our profit for the year increased by 103.0% from RMB49.3 million in 2011 to RMB100.2 million in 2012.

Year ended December 31, 2011 compared to year ended December 31, 2010

Revenue

Our total revenue increased by 188.2% from RMB60.8 million in 2010 to RMB175.3 million in 2011. The increase reflected the growth of our orthopedic implant business and our acquisition of Fert Technology in April 2011.

Orthopedic implants

Revenue from our orthopedic implant business increased by 23.9% from RMB60.8 million in 2010 to RMB75.4 million in 2011. This increase primarily reflected an increase in the sales volume of these products, which in turn was primarily attributable to increased sales to existing distributors as a result of (i) increasing sales and marketing activities, (ii) increased recognition and market acceptance for our products, (iii) continuing expansion of our product portfolio, and (iv) growth of the China orthopedic market. Our revenue increase in this segment was also attributable to the continuing expansion of our distribution network, with 207 distributors covering 1,300 hospitals as of December 31, 2011, increasing from 182 distributors covering 1,257 hospitals as of December 31, 2010. The selling prices of our orthopedic implant products were relatively stable in 2010 and 2011.

Infusion sets

We acquired Fert Technology in April 2011 and generated revenue of RMB99.9 million from this newly acquired business in Successor Period 2011.

Cost of sales

Our cost of sales increased by 297.8% from RMB16.6 million in 2010 to RMB66.2 million in 2011. This increase primarily reflected our acquisition of Fert Technology and, to a lesser extent, increased sales volume of our orthopedic implant products. Our cost of sales for the infusion set segment totaled RMB45.7 million.

Cost of sales for our orthopedic implant segment increased by 23.0% from RMB16.6 million in 2010 to RMB20.5 million in 2011, reflecting primarily an increase in raw material costs, which in turn was primarily attributable to our increased sales volume.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 146.9% from RMB44.2 million in 2010 to RMB109.1 million in 2011. Fert Technology generated gross profit of RMB54.2 million in Successor Period 2011. Gross profit of our orthopedic implant segment increased by 24.3% from RMB44.2 million in 2010 to RMB54.9 million in 2011.

Our gross margin decreased from 72.7% in 2010 to 62.3% in 2011, primarily due to our acquisition of Fert Technology, which had a lower gross margin than that of our orthopedic implant business. Our gross margin for orthopedic implants remained relatively stable at 72.7% in 2010 and 72.9% in 2011. Our gross margin for infusion sets was 54.3% in Successor Period 2011.

Selling expenses

Our selling expenses increased by 79.1% from RMB13.1 million in 2010 to RMB23.4 million in 2011. This increase was due to (i) an increase in the selling expenses of our orthopedic implant business and (ii) our acquisition of Fert Technology. We recorded RMB5.0 million of selling expenses from Fert Technology in 2011.

Selling expenses of our orthopedic implant business increased by 40.7% from RMB13.1 million in 2010 to RMB18.4 million in 2011, primarily due to our increased advertising and promotion expenses, as we organized several major events to promote our products in 2011.

Administrative expenses

Our administrative expenses increased by 66.7% from RMB10.6 million in 2010 to RMB17.7 million in 2011, primarily due to our acquisition of Fert Technology. We recorded RMB5.9 million of administration expenses from Fert Technology in Successor Period 2011.

In addition, administrative expenses for our orthopedic implants increased by 11.1% from RMB10.6 million in 2010 to RMB11.8 million in 2011, primarily due to increased employee compensation as a result of our business expansion, which also contributed to the increase in our total administration expenses.

Research and development expenses

Our research and development expenses increased by 512.7% from RMB1.2 million in 2010 to RMB7.1 million in 2011, primarily due to our acquisition of Fert Technology. We recorded RMB4.8 million of research and development expenses from Fert Technology in 2011.

Research and development expenses for orthopedic implants increased by 95.3% from RMB1.2 million in 2010 to RMB2.3 million in 2011, primarily due to our increased research and development activities, which also contributed to the increase in our total research and development expenses.

Other gains — net

We recorded other net gains of RMB30,000 and RMB0.9 million in 2010 and 2011, respectively. The increase was primarily due to our receipt of government grants of RMB0.3 million in 2011, as compared to RMB0 in 2010.

Finance income

We recorded finance income of RMB38,000 in 2010 and RMB0.2 million in 2011, reflecting an increase in short-term bank deposits in connection with our acquisition of Fert Technology.

Finance costs

Our finance costs increased by 118.4% from RMB2.1 million in 2010 to RMB4.7 million in 2011. In 2011, we incurred a net foreign exchange loss of RMB1.1 million as compared to RMB1.4 million in 2010. In addition, we had interest expense on bank borrowings of RMB0.7 million in 2010. We recorded deemed interest of RMB3.6 million on an interest-free loan received from a related party in connection with our acquisition of Fert Technology in 2011.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by 232.0% from RMB17.3 million in 2010 to RMB57.3 million in 2011.

Income tax expense

Our income tax expense increased by 171.9% from RMB2.9 million in 2010 to RMB8.0 million in 2011, primarily due to our increased profit before tax. Our effective income tax rate decreased from 17.0% in 2010 to 13.9% in 2011, primarily due to a combination of (i) additional tax deduction for research and development expenses incurred by Fert Technology, (ii) smaller expenses not deductible for tax purpose, and (iii) larger tax deductible expenses incurred by certain of our PRC subsidiaries with a higher applicable income tax rate.

Profit for the year

As a result of the foregoing, our profit for the year increased by 244.3% from RMB14.3 million in 2010 to RMB49.3 million in 2011.

DISCUSSION OF CERTAIN ITEMS FROM THE COMBINED BALANCE SHEETS

The following table sets forth our combined balance sheets as of the date indicated. This information should be read together with our combined financial information included in Appendix I — "Accountant's Report" to this prospectus.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Non-current assets				
Land use rights	2,732	2,672	31,161	52,237
Property, plant and equipment	45,735	104,945	115,177	174,387
Intangible assets	67	198,572	207,331	320,588
Available-for-sale financial assets	—	100	—	—
Investments in structured products	—	—	3,000	—
Deferred income tax assets	1,408	4,007	5,925	6,957
Long-term prepayments	6,444	39,253	109,004	20,776
Total non-current assets	56,386	349,549	471,598	574,945
Current assets				
Inventories	15,445	54,702	72,994	76,709
Amounts due from related parties	1,790	8,000	395	2,546
Trade and other receivables	30,585	68,767	161,203	214,074
Restricted cash	11	—	2,657	4,158
Cash and cash equivalents	62,750	61,142	212,466	142,192
Total current assets	110,581	192,611	449,715	439,679
Current liabilities				
Amounts due to related parties	7,034	120,000	108,153	13,885
Trade and other payables	27,853	60,402	242,715	105,135
Current income tax liabilities	3,554	5,499	6,955	11,435
Borrowings	—	—	30,000	97,318
Total current liabilities	38,441	185,901	387,823	227,773
Net current assets	72,140	6,710	61,892	211,906
Total assets less current liabilities	128,526	356,259	533,490	786,851
Non-current liabilities				
Deferred income tax liabilities	—	10,661	8,389	16,678
Amounts due to related parties	—	92,350	—	—
Deferred income	—	—	400	2,362
Total non-current liabilities	—	103,011	8,789	19,040
Net assets	128,526	253,248	524,701	767,811

Land Use Rights

Our land use rights represent prepaid operating lease payments for land located in China and used primarily for manufacturing and administrative purposes. We had land use rights in the amount of RMB2.7 million, RMB2.7 million, RMB31.2 million and RMB52.2 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The increase in the six months ended June 30, 2013 was primarily attributable to land use rights held by Yijia Medical, which we acquired in May 2013, and additional land use rights associated with our facilities in Linyi, Shandong. The significant increase in 2012 was due to the acquisition of the land use rights associated with our facilities in Pinggu, Beijing in June 2012.

Property, Plant and Equipment

Our property, plant and equipment primarily consist of buildings, leasehold improvements, furniture and office equipment, machinery and equipment, motor vehicles and construction in progress. We had property, plant and equipment in the amount of RMB45.7 million, RMB104.9 million, RMB115.2 million and RMB174.4 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our property, plant and equipment increased from RMB115.2 million as of December 31, 2012 to RMB174.4 million as of June 30, 2013, primarily attributable to our facilities under construction in Linyi, Shandong province and our acquisition of Bone Medical and Yijia Medical in January and May 2013, respectively. Our property, plant and equipment increased from RMB45.7 million as of December 31, 2010 to RMB104.9 million as of December 31, 2011, primarily due to our acquisition of Fert Technology in April 2011.

Intangible Assets

Our intangible assets primarily consist of goodwill, computer software, trademarks and technology know-how. We had intangible assets in the amount of RMB67,000, RMB198.6 million, RMB207.3 million and RMB320.6 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our intangible assets increased from RMB207.3 million as of December 31, 2012 to RMB320.6 million as of June 30, 2013, primarily due to our acquisition of Bone Medical and Yijia Medical and the resulting recognition of the associated goodwill. Our intangible assets increased from RMB198.6 million as of December 31, 2011 to RMB207.3 million as of December 31, 2012, primarily due to our acquisition of Renli Orthopedic in May 2012, which we subsequently disposed of in September 2013. See "History and Corporate Development — History and Development — History of Our Orthopedic Implant Business — Acquisition and Disposition of Certain Other Subsidiaries." Our intangible assets increased from RMB67,000 as of December 31, 2010 to RMB198.6 million as of December 31, 2011, primarily due to our acquisition of Fert Technology in April 2011 and the resulting recognition of the associated goodwill.

We recognized a significant amount of goodwill in connection with our acquisition of Fert Technology primarily due to (i) our acquired ability to gain access and operate in the fast growing PRC infusion sets market through Fert Technology; (ii) its leading market position in the advanced infusion set market and geographical coverage; (iii) its skilled workforce which benefited the acquired business; and (iv) expected synergies with our existing business, with which we expected to be able to increase the profitability and future return of the acquired business.

In connection with our acquisition of Fert Technology and Bone Medical, we recorded their patents as intangible assets (technology know-how) on our balance sheet based on our assessment of their fair value. We did not capitalize any patents during the Track Record Period primarily because the costs associated with its research and development activities resulting in the patents cannot be reliably measures.

Long-term Prepayments

The following table sets forth the components of our long-term prepayments as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Prepayments for property, plant and equipment	6,444	3,988	16,695	20,499
Prepayment for land use right	—	17,000	—	—
Prepayment for acquisition of subsidiaries.	—	18,000	82,000	—
Prepayment for capital contribution to set up a subsidiary	—	—	10,000	—
Others	—	265	309	277
Total	6,444	39,253	109,004	20,776

Our long-term prepayments increased from RMB39.3 million as of December 31, 2011 to RMB109.0 million as of December 31, 2012, primarily due to a combination of (i) prepayments made for the acquisition of Bone Medical, (ii) prepayments made for the purchase of certain property, plant and equipment to expand our business, and (iii) prepayments made for the capital contribution in Shandong Fert, our subsidiary set up in 2013 to hold our infusion facilities in Linyi, Shandong province. Our long-term prepayments increased from RMB6.4 million as of December 31, 2010 to RMB39.3 million as of December 31, 2011, primarily due to a combination of (i) prepayments made for the acquisition of Renli Orthopedic and (ii) prepayments made for the purchase of the land use right associated with our infusion sets manufacturing facilities.

Inventories

Our inventories include raw materials, work in progress and finished goods. The following table sets forth the components of our inventories as of the date indicated (which are stated net of provision) and our turnover of average inventories for the period indicated.

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2010	2011	2012	2013
	(RMB'000 except turnover days)			
Raw materials	3,826	14,946	21,604	25,075
Work in progress	1,644	10,080	14,930	26,763
Finished goods	9,975	29,676	36,460	24,871
Total	15,445	54,702	72,994	76,709
Turnover of average inventories (days)[1]	304	194	207	191

(1) Average inventories equal inventories at the beginning of the period plus inventories at the end of the period, divided by two. Turnover of average inventories equal average inventories divided by cost of sales and multiplied by the number of days in the period.

Our inventories totaled RMB15.4 million, RMB54.7 million, RMB73.0 million and RMB76.7 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The increase during these periods was primarily due to a combination of acquisitions and the organic growth of operations. As of August 31, 2013, RMB22.0 million out of our inventories as of June 30, 2013 were sold.

Orthopedic implants

The table below sets forth the components of our inventories for orthopedic implants as of the date indicated, as well as the turnover of average inventories for orthopedic implants for the period indicated.

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2010	2011	2012	2013
	(RMB'000 except turnover days)			
Raw materials	3,826	3,535	7,943	10,210
Work in progress	1,644	2,559	6,525	13,239
Finished goods	9,975	11,719	25,472	21,741
Total	15,445	17,813	39,940	45,190
Turnover of average inventories (days)(1)	304	297	441	362

(1) Average inventories equal inventories at the beginning of the period plus inventories at the end of the period, divided by two. Turnover of average inventories equals average inventories divided by cost of sales and multiplied by the number of days in the period.

As of August 31, 2013, RMB4.0 million out of our inventory balance for the orthopedic implant business as of June 30, 2013 were sold.

Our inventories increased from RMB39.9 million as of December 31, 2012 to RMB45.2 million as of June 30, 2013, primarily due to our business growth and to a lesser extent our acquisition of Bone Medical in January 2013. Our inventory turnover days decreased to 362 days in the six months ended June 30, 2013 from 441 days in 2012 because our sales grew at a higher rate than our inventories and our improved inventory management. In addition, our average inventory turnover days were long in 2012 and the six months ended June 30, 2013 due to a combination of (i) our acquisition of Renli Orthopedic in 2012; (ii) our purchase of joint products from Bone Medical for which we acted as the general distributor in December 2012; (iii) our accumulation of inventories to support our increased production and sales; and (iv) our acquisition of Bone Medical in January 2013. Our business grew significantly in 2012 and we increased our inventories to support our growing production and sales. These factors increased our average inventories, and consequently our average inventory turnover days, in 2012 and the six months ended June 30, 2013. As of December 31, 2012, we recorded inventories attributable to Renli Orthopedic and Bone Medical in the amount of RMB8.1 million and RMB5.8 million, respectively. As of June 30, 2013, we recorded inventories attributable to Renli Orthopedic and Bone Medical in the amount of RMB8.7 million and RMB12.6 million, respectively. We disposed of Renli Orthopedic in September 2013.

The increase in our inventories from RMB17.8 million as of December 31, 2011 to RMB39.9 million as of December 31, 2012 and the increase in inventory turnover days from 297 days in 2011 to 441 days in 2012 was primarily due to a combination of (i) our acquisition of Renli Orthopedic in May 2012; (ii) our purchase of joint products from Bone Medical for which we acted as the general distributor in December 2012; and (iii) our accumulation of inventories to support our increased production and sales. We did not distribute Bone Medical's products in 2011.

The increase in our inventories from RMB15.4 million as of December 31, 2010 to RMB17.8 million as of December 31, 2011 was primarily due to the growth of our orthopedic implant business. Our inventory turnover days for orthopedic implants decreased from 304 days in 2010 to 297 days in 2011, primarily due to the significant increase in sales which led to faster inventory turnover. See also "Business — Inventory Management."

The table below sets forth the aging analysis for orthopedic implants as of the date indicated.

	As of December 31,			As of and for the six months ended June 30,
	2010	2011	2012	2013
	(RMB'000)			
Within one year	11,510	13,449	31,153	33,187
Over one year but within two years	3,863	3,082	3,544	6,063
Over two years	72	1,282	5,243	5,940
Total	15,445	17,813	39,940	45,190

Infusion sets

The table below sets forth a summary of Fert Technology's inventory balances as of the date indicated, as well as the turnover of average inventories for infusion sets for the period indicated.

	Pre-acquisition		Post-acquisition		
	As of and for the year ended December 31, 2010 (Predecessor Period 2010)	As of and for the period ended April 30, 2011 (Predecessor Period 2011)	As of and for the period ended December 31, 2011 (Successor Period 2011)	As of and for the year ended December 31, 2012	As of and for the six months ended June 30, 2013
	(RMB'000 except turnover days)		(RMB'000 except turnover days)		
Raw materials	12,756	11,588	11,411	13,661	14,865
Work in progress	4,263	5,696	7,521	8,405	13,524
Finished goods	5,041	7,846	17,957	10,988	3,130
Total	22,060	25,130	36,889	33,054	31,519
Turnover of average inventories (days)(1)	150	175	165	144	118

(1) Average inventories equal inventories at the beginning of the period plus inventories at the end of the period, divided by two. Turnover of average inventories equal average inventories divided by cost of sales and multiplied by the number of days during such period.

As of August 31, 2013, our inventories with a total carrying amount of approximately RMB18.0 million, representing part of the ending balance of infusion set business as of June 30, 2013, were sold.

Inventories increased from RMB25.1 million as of April 30, 2011 to RMB36.9 million as of December 31, 2011 primarily because we intentionally increased our inventories in anticipation of stronger market demand. Inventories decreased from RMB36.9 million as of December 31, 2011 to RMB33.1 million as of December 31, 2012, and further to RMB31.5 million as of June 30, 2013, primarily due to high market demand for our products which led to a continual decrease in our finished goods, partially offset by increases in our raw materials and work in progress as we sought to increase production to meet market demand. Accordingly, Fert Technology's inventory turnover days decreased from 165 days in Successor Period 2011 to 144 days in 2012, and further to 118 days in the six months ended June 30, 2013. See also "Business — Inventory Management."

The table below sets forth the aging analysis for infusion sets as of the date indicated.

	Pre-acquisition		Post-acquisition		
	As of December 31, 2010 (Predecessor Period 2010)	As of April 30, 2011 (Predecessor Period 2011)	As of December 31, 2011 (Successor Period 2011)	As of December 31, 2012	As of June 30, 2013
	(RMB'000)		(RMB'000)		
Within one year	20,910	23,853	35,110	32,213	31,469
Over one year but within two years	658	714	1,002	718	50
Over two years	492	563	777	123	—
Total	22,060	25,130	36,889	33,054	31,519

Trade and Other Receivables

The table below sets forth the components of our trade and other receivable balances as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Trade receivables	24,707	61,779	135,805	198,328
Less: provision for impairment of trade receivables	(1,703)	(2,767)	(4,569)	(9,298)
Trade receivables — net	23,004	59,012	131,236	189,030
Bills receivable	1,255	4,759	9,096	1,156
Prepayments	3,293	1,614	11,623	13,609
Other receivables	3,033	3,382	9,248	10,279
Total	30,585	68,767	161,203	214,074

Trade Receivables

Our trade receivable balances represented the outstanding amounts receivable by us from our customers. Our trading terms with our customers vary depending on a number of factors, including their historical payments, business performance and market positions. See "Business — Sales and Distribution — Distributor Management."

The following table sets forth the aging analysis of our trade receivable balances as well as the trade receivable turnover days for the period indicated.

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2010	2011	2012	2013
	(RMB'000 except turnover days)			
Up to three months	9,057	28,792	84,698	103,610
Three to six months	4,867	11,397	18,951	46,858
Six months to 12 months	6,633	12,051	20,766	23,381
One to two years	2,447	5,752	5,869	14,985
Two to three years	—	1,020	952	196
Total	23,004	59,012	131,236	189,030
Turnover of average trade receivable (days)[1]	121	89	105	134

(1) Average trade receivables equal trade receivables (net of impairment) at the beginning of the period plus trade receivables at the end of the period, divided by two. Turnover of average trade receivables equals average trade receivables divided by revenue and then multiplied by the number of days in the period.

As of August 31, 2013, RMB46.3 million out of our trade receivables of June 30, 2013, had been collected.

Pursuant to the distribution agreements with our distributors, we granted credit limits to certain distributors of our orthopedic implant products and a combination of credit limits and credit terms to certain distributors of our infusion set products. See "Business — Sales and Distribution — Distribution Management." As of December 31, 2010, 2011, 2012 and June 30, 2013, the average amount of trade receivables per distributor that were not settled for not exceeding the relevant credit limits was RMB0.1 million, RMB0.2 million, RMB0.3 million and RMB0.4 million, respectively.

We have taken into account the impact on our working capital position when granting the credit limits to the distributors. During the Track Record Period, we did not experience any difficulties in working capital requirement and maintained sufficient cash flow to support our operation through product sales and capital contribution by our shareholders.

Orthopedic implants

The table below sets forth the aging analysis of our trade receivables for orthopedic implants as of the date indicated, as well as the turnover of average trade receivables for orthopedic implants for the period indicated.

	As of and for the year ended December 31,			As of and for the six months ended June 30,	Subsequent settlement of trade receivables outstanding as of June 30, 2013 by August 31,
	2010	**2011**	**2012**	**2013**	**2013**
	(RMB'000 except turnover days)				
					(unaudited)
Up to three months	9,057	6,143	15,644	40,545	8,759
Three to six months	4,867	11,065	8,631	18,898	1,870
Six to 12 months	6,633	12,051	20,420	16,741	1,851
One to two years	2,447	5,752	5,869	14,985	1,407
Two to three years	—	1,020	952	179	—
Over three years	—	—	—	17	—
Total	23,004	36,031	51,516	91,365	13,887
Turnover of average trade receivable (days)	121	143	164	182	N/A

As of August 31, 2013, RMB13.9 million out of our trade receivables for the orthopedic implant business as of June 30, 2013 had been collected.

Our trade receivables increased from RMB23.0 million as of December 31, 2010 to RMB36.0 million as of December 31, 2011, to RMB51.5 million as of December 31, 2012 and further to RMB91.4 million as of June 30, 2013, primarily due to increased sales. The increase in our trade receivables was also attributable to the following factors: (i) as a general trend in the industry, hospitals have increasingly required longer time to pay suppliers as settlement cycles of the PRC public medical insurance schemes have been increasing in recent years, which in turn affects our distributors' ability to pay us quickly; (ii) we granted higher credit limits to certain qualified distributors, which primarily include existing distributors with good payment histories, to gain additional market share. Our acquisition of Bone Medical in January 2013 also contributed to the increase in our trade receivables. As of June 30, 2013, we had trade receivables of RMB4.3 million attributable to sales of products produced by Bone Medical; and (iii) the increase in our trade receivables as of June 30, 2013, including the increase in our trade receivables aged over more than one year, also reflected our general practice of increasing collection efforts at year ends. Our trade receivables for orthopedic implants aged over six months totaled RMB27.2 million as of December 31, 2012. As of June

30, 2013, RMB7.3 million of such trade receivables outstanding as of December 31, 2012 had been settled and a provision of RMB4.6 million was made for impairment, resulting in a balance of trade receivables aged over one year of RMB15.2 million as of June 30, 2013. Based on our historical business relationship with the relevant customers, their financial condition and the prevailing market condition, we believe that such provision of RMB4.6 million is sufficient. The amount of our trade receivables and trade receivable turnover days from December 31, 2011 to December 31, 2012 were also affected by our acquisition of Renli Orthopedic in May 2012.

For similar reasons as those discussed above, our trade receivable turnover days increased from 121 days in 2010 to 143 days in 2011, to 164 days in 2012, and further to 182 days in the six months ended June 30, 2013.

Infusion sets

The table below sets forth the aging analysis of the trade receivable balances for infusion sets as of the date indicated, as well as the turnover of average trade receivables for infusion sets for the period indicated.

	Pre-acquisition		Post-acquisition			
	As of and for the year ended December 31, 2010 (Predecessor Period 2010)	As of and for the period ended April 30, 2011 (Predecessor Period 2011)	As of and for the period ended December 31, 2011 (Successor Period 2011)	As of and for the year ended December 31, 2012	As of and for the six months ended June 30, 2013	Subsequent settlement of trade receivables outstanding as of June 30, 2013 by August 31, 2013
	(RMB'000 except turnover days)		(RMB'000 except turnover days)			(unaudited)
Up to three months	801	1,557	22,649	69,054	63,065	19,132
Three to six months	914	476	332	10,320	27,960	10,608
Six months to 12 months	331	—	—	346	6,640	2,693
One to two years	1,363	—	—	—	—	—
Two to three years	—	—	—	—	—	—
Over three years	—	—	—	—	—	—
Total	3,409	2,033	22,981	79,720	97,665	32,433
Turnover of average trade receivable (days)	19	12	32	80	110	N/A

As of August 31, 2013, RMB32.4 million out of our trade receivables for the infusion set business as of June 30, 2013 had been collected.

Our trade receivables increased substantially from RMB23.0 million as of December 31, 2011 to RMB79.7 million as of December 31, 2012, and further to RMB97.7 million as of June 30, 2013, primarily reflecting a significant increase in sales. Fert Technology's turnover days of trade receivables gradually increased since its acquisition by us in April 2011 primarily reflected a combination of (i) the change in our sales model, including increasing direct sales to hospitals which require significantly longer credit periods than distributors; and (ii) our granting of credit limits to additional qualified distributors to expand our sales. As of December 31, 2011, 2012 and June 30, 2013, the average amount of trade receivables per distributor that were not settled for not exceeding the relevant credit limits was RMB0.8 million, RMB0.3 million and RMB0.3 million.

Prepayments

Our prepayments totaled RMB3.3 million, RMB1.6 million, RMB11.6 million and RMB13.6 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our prepayments increased as of June 30, 2013 compared to as of December 31, 2012 primarily due to increased prepayments to our suppliers generally in line with our business growth. Our prepayments increased from RMB1.6 million as of December 31, 2011 to RMB11.6 million as of December 31, 2012, primarily due to an increase in prepayments in connection with the purchase of joint products from Bone Medical for which we acted as the general distributor.

Other Receivables

Other receivables mainly consist of advances to employees and deposits paid to advances to Fert Device. Other receivables totaled RMB3.0 million, RMB3.4 million, RMB9.2 million and RMB10.3 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our other receivables increased from RMB9.2 million as of December 31, 2012 to RMB10.3 million as of June 30, 2013, primarily due to prepayments of certain listing expenses and an increase in advances to employees. Our other receivables increased from RMB3.4 million as of December 31, 2011 to RMB9.2 million as of December 31, 2012, primarily due to advances to Fert Device.

We believe that we have made sufficient provision for the unsettled trade and other receivables based on our assessment and impairment provision policy, and no additional provision is necessary for the Track Record Period. For details of our impairment provision policy, see "— Critical Accounting Policies and Estimates — Impairment of Trade and Other Receivables and Impairment Provision Policy."

Receivables from/Payables to Related Parties

The following table sets forth a breakdown of the balances of material transactions with related parties as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Receivables from related parties — current				
ZHANG Wendong	128	8,000	383	—
Zhong Jian Kang Da	—	—	12	1,012
Cross Mark	1,662	—	—	—
Shenzhen HaoHao	—	—	—	1,534
	1,790	8,000	395	2,546
Payables to related parties — current				
ZHANG Wendong	—	120,000	98,030	—
Zhong Jian Kang Da	—	—	10,123	11,496
Cross Mark	7,034	—	—	—
Wu Dong	—	—	—	2,389
	7,034	120,000	108,153	13,885
— Non-current				
ZHANG Wendong	—	92,350	—	—

The amounts due to Mr. ZHANG Wendong as of December 31, 2011 were comprised of (i) the balance of a shareholder loan of RMB100.0 million to PW Medtech (Beijing) by Mr. ZHANG Wendong in connection with our acquisition of Fert Technology, which was due in April 2013, and (ii) a consideration of RMB120.0 million arising from our acquisition of PW Medtech (Beijing) from Mr. ZHANG Wendong in September 2011, which consideration was paid in 2012. For more details, see "History and Corporate Development — History of Our Infusion Set Business."

Amounts due to Zhong Jian Kang Da as of December 31, 2012 totaled RMB10.1 million and were part of the liabilities we assumed in our acquisition of Renli Orthopedic in May 2012. These amounts do not bear interest and are payable on demand.

We have settled all the payables to related parties and all the non-trade receivables from related parties prior to the date of this prospectus.

Trade and Other Payables

The following table sets forth a breakdown of our trade and other payables as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Trade payables	3,883	14,678	16,014	24,395
Salary and staff welfare payables	2,964	16,525	18,341	15,087
Advances from customers	10,487	20,222	20,561	13,785
Interest payables	—	—	160	644
Consideration payables for transaction with non-controlling interests	—	—	180,000	10,000
Consideration payable for acquisition of a subsidiary	—	—	—	10,400
Value added tax and other taxes	4,032	5,810	4,170	8,691
Deposits of distributors	—	137	721	1,102
Payables for purchase of land use right	—	—	1,000	9,981
Bills payable	—	—	230	1,027
Listing-related expense payable	—	—	—	7,025
Other payables	6,487	3,030	1,518	2,998
	27,853	60,402	242,715	105,135

Trade Payables

Our trade payables increased from RMB16.0 million as of December 31, 2012 to RMB24.4 million as of June 30, 2013, primarily due to the organic expansion of our operations and the consolidation of Bone Medical's trade payables into our Group following the acquisition in January 2013. Our trade payables increased from RMB14.7 million as of December 31, 2011 to RMB16.0 million as of December 31, 2012, primarily due to organic expansion of operations and the consolidation of Renli Orthopedic's trade payables into our Group following its acquisition in May 2012. Our trade payables increased from RMB3.9 million as of December 31, 2010 to RMB14.7 million as of December 31, 2011, primarily due to the consolidation of Fert Technology's trade payables into our Group following its acquisition in April 2011.

The following table sets forth the aging analysis of our trade payables as of the date indicated as well as the trade payable turnover days for the period indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000 except turnover days)			
Up to three months	2,287	10,937	13,741	20,286
Three to six months	685	1,359	310	1,065
Six to 12 months	394	30	40	1,941
One to two years	517	514	582	335
Two to three years	—	88	50	325
Over three years	—	1,750	1,291	443
	3,883	14,678	16,014	24,395
Turnover of average trade payable (days)(1)	82	79	50	52

(1) Average trade payables equal trade payables at the beginning of the period plus trade payables at the end of the period, divided by two. Turnover of average trade payables equals average trade payables divided by cost of sales and then multiplied by the number of days in the period.

Our trade payable turnover days decreased from 82 days in 2010 to 79 days in 2011, and further to 50 days in 2012, primarily due to the consolidation of Fert Technology's trade payables into our Group following its acquisition in April 2011, as turnover of Fert Technology's trade payables is significantly faster than that of our orthopedic implant business.

Our trade payable turnover days stayed relatively stable at 52 days in the six months ended June 30, 2013.

Consideration Payables

We had consideration payables in the amount of RMB180.0 million as of December 31, 2012. These consideration payables arose out of our acquisition of the 44.37% equity interest in Fert Technology from Langjing Technology. We settled these consideration payables in the second quarter of 2013. For more details, see "History and Corporate Development — History of Our Infusion Set Business."

Current Assets and Liabilities

The following table sets forth the breakdown of our current assets and current liabilities as of the date indicated.

	As of December 31,			As of	
	2010	2011	2012	June 30, 2013	August 31, 2013
			(RMB'000)		(unaudited)
Current assets					
Inventories	15,445	54,702	72,994	76,709	83,886
Amounts due from related parties	1,790	8,000	395	2,546	1,534
Trade and other receivables	30,585	68,767	161,203	214,074	247,106
Restricted cash	11	—	2,657	4,158	3,579
Cash and cash equivalents	62,750	61,142	212,466	142,192	72,171
Assets of disposal group classified as held for sale	—	—	—	—	41,913
Total current assets	110,581	192,611	449,715	439,679	450,189
Current liabilities					
Amounts due to related parties	7,034	120,000	108,153	13,885	2,139
Trade and other payables	27,853	60,402	242,715	105,135	109,183
Current income tax liabilities	3,554	5,499	6,955	11,435	5,450
Borrowings	—	—	30,000	97,318	84,605
Liabilities of disposal group classified as held for sale	—	—	—	—	12,250
Total current liabilities	38,441	185,901	387,823	227,773	213,627
Net current assets	72,140	6,710	61,892	211,906	236,562

The assets and liabilities related to Renli Orthopedic have been presented as held for sale following the approval of our Group's management and shareholders in August 2013 to dispose all of our Group's equity interests in Renli Orthopedic. The disposal of Renli Orthopedic was subsequently completed in September 2013.

	As of December 31,			As of	
	2010	2011	2012	June 30, 2013	August 31, 2013
			(RMB'000)		
					(unaudited)
Assets of disposal group classified as held for sale					
Property, plant and equipment	—	—	—	—	6,507
Goodwill	—	—	—	—	12,831
Other non-current assets	—	—	—	—	1,599
Inventory	—	—	—	—	8,806
Amounts due from related parties	—	—	—	—	1,012
Trade and other receivable	—	—	—	—	6,626
Cash and cash equivalent	—	—	—	—	4,532
	—	—	—	—	41,913
Liabilities of disposal group classified as held for sale					
Trade and other payables	—	—	—	—	2,073
Amounts due to related parties	—	—	—	—	10,123
Other non-current liabilities	—	—	—	—	54
	—	—	—	—	12,250

We had net current assets of RMB211.9 million as of June 30, 2013, compared to net current assets of RMB61.9 million as of December 31, 2012. The increase was primarily due to capital contributions of RMB322.1 million by our shareholders, two of our shareholders, and our increased sales.

We had net current assets of RMB61.9 million as of December 31, 2012, compared to net current assets of RMB6.7 million as of December 31, 2011. The increase was primarily due to total capital contributions of RMB285.7 million in cash made by our shareholders.

We had net current assets of RMB6.7 million as of December 31, 2011, compared to net current assets of RMB72.1 million as of December 31, 2010. This decrease was primarily due to amounts due to related parties of RMB120.0 million arising from our acquisition of PW Medtech (Beijing) from Mr. ZHANG Wendong, which was paid in 2012.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We have historically met our working capital and other capital requirements principally with a combination of (i) capital contributions by shareholders and third-party investors, (ii) shareholder loan and (iii) cash generated from our operations. The following table sets forth selected cash flow data from our combined cash flow statements for the period indicated. For more information, see Appendix I — "Accountant's Report" to this prospectus.

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

Operating Activities

Net cash from operating activities in the six months ended June 30, 2013 was RMB31.5 million, which mainly reflected our profit before income tax of RMB74.3 million, partially offset by an increase of RMB46.7 million in trade and other receivables, a decrease of RMB6.4 million in trade and other payables and an increase of RMB3.8 million in inventories.

Net cash from operating activities for 2012 was RMB24.9 million, which mainly reflected our profit before income tax of RMB119.7 million, partially offset by an increase of RMB88.1 million in trade and other receivables, an increase of RMB10.7 million in inventories, and a decrease of RMB5.5 million in trade and other payables.

Net cash from operating activities in 2011 was RMB15.7 million, which mainly reflected our profit before income tax of RMB57.3 million, partially offset by an increase of RMB31.2 million in trade and other receivables, an increase of RMB14.1 million in inventories, and a decrease of RMB4.0 million in trade and other payables.

Net cash from operating activities for 2010 was RMB11.7 million, which mainly reflected our profit before income tax of RMB17.3 million and an increase of RMB5.4 million in trade and other payables, partially offset by an increase of RMB9.1 million in trade and other receivables, and an increase of RMB4.9 million in inventories.

Investing Activities

Net cash used in investing activities in the six months ended June 30, 2013 was RMB28.5 million, primarily due to cash of RMB38.8 million used in the purchase of property, plant and equipment.

Net cash used in investing activities in 2012 was RMB117.6 million, primarily due to cash of RMB61.1 million used in the acquisition of subsidiaries, cash of RMB38.0 million used in the purchase of property, plant and equipment, and cash of RMB10.9 million used in the purchase of land use rights.

Net cash used in investing activities in 2011 was RMB246.7 million, primarily due to cash of RMB229.2 million used in the acquisition of subsidiaries, primarily Fert Technology, cash of RMB20.0 million used in the purchase of property, plant and equipment, and cash of RMB17.0 million used in the purchase of land use rights associated with our infusion sets manufacturing facilities.

Net cash used in investing activities in 2010 was RMB24.0 million, primarily due to cash of approximately the same amount used in the purchase of property, plant and equipment.

Financing Activities

Net cash used in financing activities in the six months ended June 30, 2013 was RMB73.0 million, primarily due to cash of RMB348.4 million paid for increasing our equity interest in Walkman Biomaterial, Fert Technology and Bone Medical, partially offset by RMB322.0 million of cash proceeds from our issue of shares to our shareholders.

Net cash from financing activities in 2012 was RMB244.0 million, primarily due to cash of RMB285.7 million provided by the capital contributions to Health Access and PWM Investment by their then-existing shareholders, an increase of RMB58.3 million provided by the investment in PWM Investment by Sparkle Wealthy, and cash of RMB30.0 million provided by a secured bank loan, partially offset by RMB130.0 million consideration paid to our Controlling Shareholders and non-controlling interests for acquisition of subsidiaries.

Net cash from financing activities in 2011 was RMB230.0 million, primarily due to cash of RMB230.0 million provided by our Controlling Shareholders.

Net cash from financing activities in 2010 was RMB63.3 million, primarily due to cash of RMB70.0 million provided by the investment in Walkman Biomaterial by PWM Investment, partially offset by cash of RMB15.0 million used in repayment of borrowings.

INDEBTEDNESS

As of August 31, 2013, the latest practicable date for the purpose of the indebtedness statements, we had total indebtedness of approximately RMB96.9 million. As of the same date, we had banking facilities of approximately RMB19.0 million, of which RMB5.0 million had not been utilized. The following table sets forth the breakdown of our indebtedness as of the date indicated.

	As of December 31,			As of	
	2010	2011	2012	June 30, 2013	August 31, 2013
			(RMB'000)		(unaudited)
Current bank borrowings					
— secured	—	—	30,000	51,000	46,500
— entrusted loan	—	—	—	36,418	33,105
— unsecured	—	—	—	9,900	5,000
	—	—	30,000	97,318	84,605
Amounts due to related parties, included current and non-current portion	7,034	212,350	108,153	13,885	2,139
Amounts due to related parties included in liabilities of disposal group classified as held for sale	—	—	—	—	10,123
	7,034	212,350	108,153	13,885	12,262
	7,034	212,350	138,153	111,203	96,867

As of August 31, 2013, amounts due to related parties included in liabilities of disposal group classified as held for sale of RMB12.3 million related to Renli Orthopedic. We held, directly and indirectly, a total of 60% equity interests in Renli Orthopedic as of August 31, 2013 and sold such equity interests to an individual who is an Independent Third Party in September 2013.

Bank Borrowings

As of August 31, 2013, we had bank borrowings of RMB84.6 million, all of which were denominated in Renminbi and repayable within one year. The table below sets forth the weighted average effective interest rates of our borrowings as of the dates indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
Current bank borrowings	—	—	7%	7%

Our borrowing agreement contains standard terms, conditions and covenants that are customary for commercial bank loans in China. Such debt covenants primarily include requirements that we obtain the lenders' prior consent for certain transactions, such as disposal of material assets, merger or consolidation and liquidation or winding-down. During the Track Record Period and up to the Latest Practicable Date, we had not been in default of these debt covenants that could cause any material adverse impact on our business operations.

We have not experienced any default or withdrawal or request for early repayment of bank borrowings during the Track Record Period.

There has been no material adverse change in our indebtedness since August 31, 2013.

CAPITAL COMMITMENTS

As of December 31, 2012, we had capital commitments of RMB46.5 million in anticipation of our acquisition of Bone Medical and purchase of property, plant and equipment. The table below sets forth details of our capital commitments as of the date indicated.

	As of December 31,			As of June 30,	As of August 31,
	2010	2011	2012	2013	2013
			(RMB'000)		
Contracted but not provided for:					
Property, plant and equipment	6,440	1,061	23,547	32,749	35,765
Land use right	—	11,115	—	1,820	—
Acquisition of a subsidiary	—	—	23,000	—	—
	6,440	12,176	46,547	34,569	35,765

OPERATING LEASE COMMITMENTS

We lease a number of offices and warehouses under non-cancellable operating lease arrangements, with lease terms negotiated ranging from one to five years. The majority of these lease agreements are renewable at the end of the lease period at market rate. We are required to give at least one-month notice for the termination of these lease agreements. The table below sets forth our future minimum rental payments under non-cancellable operating lease agreements as of the date indicated.

	As of December 31,			As of June 30,	As of August 31,
	2010	2011	2012	2013	2013
			(RMB'000)		
No later than one year	430	1,373	1,021	3,077	2,796
Later than one year and no later than five years	959	1,871	1,007	8,672	8,572
	1,389	3,244	2,028	11,749	11,368

Except as disclosed in this section, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, loan from government, debt securities or other similar indebtedness, finance lease on hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees on other material contingent liabilities outstanding as of August 31, 2013 (being the latest practicable date for the purpose of this indebtedness statement).

CAPITAL EXPENDITURES

Our capital expenditures were RMB24.0 million, RMB37.0 million, RMB48.9 million and RMB41.8 million in 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. Our capital expenditures during the Track Record Period primarily related to our acquisitions of property, plant and equipment, as well as land use rights.

Following the Global Offering, we will continue to incur capital expenditures to grow our business. Our planned future capital expenditures in the foreseeable future primarily relates to the expansion of our production capacity.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to a variety of financial risks: market risk (including foreign exchange risk, fair value and cash flow interest rate risk), credit risk, liquidity risk and price risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Risk management is carried out by our finance department and our chief financial officer under policies and guidelines approved by our Board of Directors. The principal components of our risk management policies include: (i) formulation of rules covering the entire risk management process from risk identification, formulation and implementation of risk management solutions, risk monitoring and warning as well as emergency response to materialized risk events; (ii) designation of our legal and finance departments to assist in the formulation, evaluation and implementation of our internal control and risk management policies; and (iii) requiring our departments and subsidiaries to establish their respective risk management implementing rules and engage our legal and finance departments in formulating new operational policies and business plans.

In addition to the overall risk management, our Board of Directors also approves policies and guidelines specifically relating to financial risks. Within such policy framework, it is our finance department's principal responsibilities to manage exposure to foreign currency movements and interest rate movements, control and monitor credit risks and manage our Group's liquidity. Set forth below are the details of our management of such financial risks.

Foreign exchange risk

We mainly operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to U.S. dollars. Foreign exchange risk arises from foreign currencies held in certain overseas subsidiaries. Our Group did not hedge against any fluctuation in foreign currency during the Track Record Period. Management may consider entering into currency hedging transactions to manage our exposure to fluctuations in exchange rates in the future. We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency exchange rates. As of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively, if US$ had strengthened/weakened by 5% against RMB with all other variables held constant, our net profit in 2010, 2011, 2012 and the six months ended June 30, 2012 and 2013 would have increased/decreased by RMB2.1 million, RMB0.6 million, RMB7.1 million, RMB3.2 million and RMB1.1 million, respectively.

Cash flow and fair value interest rate risk

Other than bank balances with variable interest rates, we have no other significant interest-bearing assets. Management does not anticipate significant impact on interest-bearing assets resulting from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

Our interest rate risk arises from borrowings, including an interest-free loan received from a related party. Borrowings issued at variable rates expose us to cash flow interest rate risk, which is partially offset by cash, held at variable rates. Borrowings obtained at fixed rates expose us to fair value interest rate risk. We have not hedged our cash flow and fair value interest rate risks.

We adjust the proportion of fixed interest rate debts and variable interest rate debts when the market environment changed. As of December 31, 2010, 2011, 2012, and June 30, 2012, and 2013, our interest-bearing debt at variable rates and fixed rates are as follows:

	As of December 31,			As of June 30,	
	2010	2011	2012	2012	2013
			(RMB'000)		
				(unaudited)	
Debt at fixed rate	—	—	10,000	—	61,318
Debt at floating rate	—	—	20,000	—	36,000
	—	—	30,000	—	97,318

As of December 31, 2010, 2011, 2012 and June 30, 2012 and 2013, if the floating interest rate on borrowings from third parties had been higher/lower by 50 basis points, the net profit and equity would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	As of December 31,			As of June 30,	
	2010	2011	2012	2012	2013
			(RMB'000)		
				(unaudited)	
Year/period ended:					
(Decrease)/increase					
— Strengthened					
50 basis points	—	—	(20)	—	(71)
— Weakened					
50 basis points	—	—	20	—	71

As of December 31, 2010, 2011, 2012 and June 30, 2012 and 2013, if the fixed interest rate on borrowings from third parties had been higher/lower by 50 basis points, the fair value would have changed mainly as a result of higher/lower interest expenses on fixed borrowings. Details of changes are as follows:

	As of December 31,			As of June 30,	
	2010	2011	2012	2012	2013
			(RMB'000)		
				(unaudited)	
At end of year/period:					
(Decrease)/increase					
— Strengthened					
50 basis points	—	—	(33)	—	(155)
— Weakened					
50 basis points	—	—	40	—	192

The interest-free loan received from a related party in connection with our Reorganization exposes us to fair value interest rate risk and the fair value of the interest-free loan has been disclosed in the Accountant's Report in Appendix I to this prospectus.

As of December 31, 2010, 2011, 2012 and June 30, 2012 and 2013, if the interest rate on borrowings from a related party had been higher/lower by 50 basis points, the net profit, equity and fair value would have changed mainly as a result of higher/lower interest expenses on the related party borrowings. Details of changes are as follows:

	As at December 31,			As at June 30,	
	2010	2011	2012	2012	2013
			(RMB'000)		
				(unaudited)	
Year/period ended:					
(Decrease)/increase					
— Strengthened					
50 basis points	—	(143)	(238)	(86)	(115)
— Weakened					
50 basis points	—	146	241	87	117
Fair value					
Year/period ended:					
(Decrease)/increase					
— Strengthened					
50 basis points	—	(576)	(153)	(372)	—
— Weakened					
50 basis points	—	583	154	375	—

Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and amounts due from related parties included in the Accountant's Report in Appendix I to this prospectus represent our maximum exposure to credit risk in relation to our financial assets. The objective of our measures to manage credit risk is to control potential exposure to recoverability problems.

The credit risk of bank balances is limited because the counterparties are banks with good reputations and most of them are state-owned entities, or public companies.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments, and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. We grant credit limits or credit terms to certain customers in consideration of their payment history, business performance and market position. We have monitoring procedures in place to evaluate the performance of our distributors, which include maintaining client credit profiles and periodically assessing client creditworthiness ranging from monthly to annually primarily based on their payment history and overall creditworthiness. In the event of credit deteriorations, we may request our distributors to provide guarantees and/or collateral to secure their payment obligations and may reduce or cancel shipments that have already been ordered. During the Track Record Period, no incident of material credit deterioration occurred and we did not request any guarantee or collateral from our distributors. In addition, we review the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

Our provincial or regional sales managers periodically contact distributors to ensure timely settlement of outstanding trade receivables. We may reject shipment orders placed by distributors who have defaulted on our credit terms, and revoke distributorship and initiate legal proceedings for malicious attempts to default. Follow-up actions will be taken to recover overdue debts.

Liquidity risk

Our policy is to regularly monitor current and expected liquidity requirements and our compliance with debt covenants, and to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet our liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk, as we have sufficient committed facilities to fund our operations.

Based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the year-end dates during the Track Record Period) and the earliest date we may be required to pay, our financial liabilities were RMB17.4 million, RMB237.8 million, RMB341.2 million and RMB187.3 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

Price risk

We are exposed to commodity price risk, mainly due to (i) the fluctuations in prices of metal materials, including titanium alloy materials, which are the key raw materials for our orthopedic implant products, and (ii) the fluctuations in prices of PVC granules, which are the key raw materials for our infusion set products. During the Track Record Period, management considers the price risk exposure is not material, and we have the flexibility to pass the increases in raw material costs to our customers.

In 2010, 2011 and 2012 and the six months ended June 30, 2013, if unit prices of our major raw materials, including titanium alloy materials for orthopedic implants and PVC granules for infusion sets, had been higher or lower by 5%, the gross profit of two business segments would have decreased or increased as follows, assuming all other factors remain the same.

	For the year ended December 31,			For the six months ended June 30,
	2010	2011	2012	2013
Orthopedic implants (decrease) or increase	(0.18)%/0.18%	(0.25)%/0.25%	(0.19)%/0.19%	(0.18)%/0.18%
Infusion sets (decrease) or increase	—	(0.55)%/0.55%	(0.44)%/0.44%	(0.42)%/0.42%

Capital risk management

Our objectives when managing capital are (i) to safeguard our ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and (ii) to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, we monitor capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings are current borrowings as shown in the combined balance sheets. Total capital is calculated as ‘total equity’ as shown in the combined balance sheets, plus total borrowings.

KEY FINANCIAL RATIOS

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

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

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

(2) Current assets divided by current liabilities.

(3) Total liabilities divided by total equity.

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

The following is a brief analysis of the salient aspects of the above financial ratios:

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

- *Current ratio.* In 2011 and 2012, we applied RMB220.0 million in cash to acquire Fert Technology, which affected our current assets as well as current ratio in these years. Specifically, our current ratio decreased from 2.9 as of December 31, 2010 to 1.0 as of December 31, 2011, primarily due to an increase in our current liabilities, which in turn primarily reflected our amounts due to related parties of RMB120.0

million as of December 31, 2011, arising from our acquisition of PW Medtech (Beijing) from Mr. ZHANG Wendong, which was paid in 2012. Our current ratio increased from 1.0 as of December 31, 2011 to 1.2 as of December 31, 2012, primary due to an increase in our current assets partially offset by a smaller increase in our current liabilities. The increase in our current assets primarily reflected capital contributions totaling RMB285.7 million made by our shareholders, and the increase in our current liabilities primarily reflected the consideration payable of RMB180 million for the 44.37% equity interest in Fert Technology that we acquired from Langjing Technology, which was paid in the second quarter of 2013. Our current ratio increased from 1.2 as of December 31, 2012 to 1.9 as of June 30, 2013 due to a decrease in our current liabilities while our current assets remained relatively stable. Our current liabilities decreased from RMB387.8 million as of December 31, 2012 to RMB227.8 million as of June 30, 2013, primarily due to a decrease in payables to related parties and consideration payables.

- *Debt to equity ratio.* Our debt to equity ratio increased from 29.9% as of December 31, 2010 to 114.1% as of December 31, 2011, primarily due to an increase in our liabilities, which in turn reflects amounts of RMB220.0 million due to a related party, arising from our acquisition of Fert Technology, partially offset by an increase in our assets, which in turn reflects increases in our property, plant and equipment and intangible assets as a result of acquisitions. Our debt to equity ratio decreased from 114.1% as of December 31, 2011 to 75.6% as of December 31, 2012, primarily due to an increase in our assets, which in turn reflects capital contributions totaling RMB285.7 million made by our shareholders and an increase in trade receivables as a result of business growth, partially offset by an increase in our liabilities, which in turn reflects consideration of RMB180.0 million payable to Langjing Technology for the acquisition of a 44.37% equity interest in Fert Technology. Our debt to equity ratio decreased from 75.6% as of December 31, 2012 to 32.1% as of June 30, 2013, primarily due to an increase in our assets, which in turn reflected our acquisition of Bone Medical and Yijia Medical, partially offset by a decrease in our liabilities.

- *Gearing ratio.* Our gearing ratio increased from 5.2% as of December 31, 2010 to 45.6% as of December 31, 2011, primarily due to amounts of RMB220.0 million due to a related party, arising from our acquisition of Fert Technology, partially offset by increases in our property, plant and equipment and intangible assets as a result of acquisitions. Our gearing ratio decreased from 45.6% as of December 31, 2011 to 20.8% as of December 31, 2012, primarily due to an increase in our assets, which in turn reflects capital contributions totaling RMB285.7 million made by our shareholders and an increase in trade receivables as a result of our business growth. Our gearing ratio decreased from 20.8% as of December 31, 2012 to 12.7% as of June 30, 2013, primarily due to proceeds of RMB322.1 million from our share issuances from February to May in 2013, which contributed to a significant increase in equity attributable to owners of our Company, partially offset by an increase in bank borrowings as of June 30, 2013.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on the combined net tangible assets of the Group attributable to the equity owners of our Company as of June 30, 2013 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of their hypothetical nature, they may not give a true picture of the combined net tangible assets of the Group had the Global Offering been completed as of June 30, 2013 or at any future dates. The unaudited pro forma adjusted net tangible assets are prepared based on the audited combined net tangible assets of the Group attributable to the equity owners of the Company as of June 30, 2013 as set out in the Accountant's Report of the Company, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited combined net tangible assets of the Group attributable to the equity owners of the Company as of June 30, 2013(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted net tangible assets attributable to the equity owners of the Company	Unaudited pro forma adjusted net tangible assets per Share(3)	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$3.38 per Share	353,827	1,013,835	1,367,662	0.85	1.08
Based on an Offer Price of HK$2.60 per Share	353,827	773,993	1,127,820	0.70	0.89

(1) The audited combined net tangible assets of the Group attributable to the equity owners of the Company as of June 30, 2013 are extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the equity owners of the Company as of June 30, 2013 of RMB674,415,000 with an adjustment for the intangible assets as of June 30, 2013 of RMB320,588,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK3.38 and HK2.60 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of (i) any Shares which may fall to be issued upon the exercise of the Over-allotment Option or (ii) any Shares which may be issued upon the exercise of any option which may be

granted under the Pre-IPO Share Option Scheme or Share Option Scheme or (iii) any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,600,000,000 Shares were in issue assuming that the Global Offering has been completed on June 30, 2013 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or of any Shares which may be issued upon the exercise of any option which may be granted under the Pre-IPO Share Option Scheme or Share Option Scheme or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.

(4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to June 30, 2013.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB0.7925.

DISTRIBUTABLE RESERVES

Our Company's distributable reserves consist of share premium and retained earnings, if any. As of June 30, 2013, we had reserves of RMB550.9 million, representing share premium of RMB556.0 million net of accumulated losses of RMB5.1 million, available for distribution to our Shareholders.

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Except as otherwise disclosed in this prospectus, we confirm that, as of the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to our Group, including the internally generated funds, the available banking facilities and the estimated net proceeds from the Global Offering, our Directors are of the opinion that our Group has sufficient working capital for its present requirements — that is for at least the next 12 months from the date of this prospectus.

DIVIDEND POLICY

We will not declare or pay any dividends other than from distributable profit attributable to equity holders. Our shareholders may approve the declaration of dividends in a general meeting, but the amount may not exceed the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends as appear to our Directors to be justified by our profits and may also declare half yearly or at other suitable intervals any dividends which may be payable at a fixed rate if they are of the opinion that the financial conditions and the profits available for distribution justify the payment of dividends.

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

LISTING EXPENSES

We incurred listing expenses (excluding underwriting commissions) of RMB10.0 million during the Track Record Period, of which RMB7.5 million was recognized as administrative expenses and RMB2.5 million was capitalized as deferred listing expenses that are expected to be charged against equity upon successful listing under the relevant accounting standards. We expect to incur further listing expenses (excluding underwriting commissions) of approximately RMB23.0 million, of which RMB17.2 million will be recognized as administrative expenses and RMB5.8 million will be charged against equity in the six months ending December 31, 2013. We do not believe the remaining expenses will have a material impact on our results of operations for 2013.

DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

As of the date of this prospectus, our Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of our Company since June 30, 2013, the date of the latest audited financial statements of our Company.

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2013, and there have been no events since June 30, 2013 which would materially affect the information shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.