



北京市春立正達醫療器械股份有限公司

Beijing Chunlizhengda Medical Instruments Co., Ltd.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Global Offering

Stock code: 1858



Sole Sponsor



China Everbright Capital Limited

Sole Global Coordinator,
Sole Bookrunner and Sole Lead Manager



China Everbright Securities (HK) Limited

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	16,670,000 H Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	1,667,000 H Shares (subject to adjustment)
Number of International Offer Shares	:	15,003,000 H Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$14.10 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	RMB1.00 per H Share
Stock code	:	1858

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

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection — Documents delivered to the Registrar of Companies" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

We are incorporated, and substantially all of its businesses are located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares. Such differences and risk factors are set out in the section headed "Risk Factors" in this prospectus and Appendix V — "Summary of Principal Legal and Regulatory Provisions" and Appendix VI — "Summary of the Articles of Association" to this prospectus. Potential investors should read carefully all the information set out in this prospectus and, in particular, the matters discussed in the abovementioned sections.

The Offer Price is expected to be fixed by agreement between the Company and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 4 March 2015 and, in any event, not later than Monday, 9 March 2015. The Offer Price will be not more than HK\$14.10 per Offer Share and is expected to be not less than HK\$12.53 per Offer Share, unless otherwise announced.

Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$14.10 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% subject to refund if the Offer Price should be lower than HK\$14.10.

The Sole Global Coordinator (on behalf of the Underwriters) may, with the consent of the Company, reduce the indicative Offer Price range stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the indicative Offer Price range will be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.clzd.com. Further information is set forth in the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus. If, for any reason, the Sole Global Coordinator on behalf of the Underwriters and we are unable to reach an agreement on the Offer Price by Monday, 9 March 2015, the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) upon the occurrence of the events set forth in the section headed "Underwriting — Grounds for termination" at any time prior to 8:00 a.m. on the Listing Date. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. state securities laws. The Offer Shares have been offered and sold only outside the United States in offshore transactions in accordance with Regulation S under the U.S. Securities Act.

EXPECTED TIMETABLE ⁽ⁱ⁾

Application lists open ⁽ⁱⁱ⁾ 11:45 am on Wednesday, 4 March 2015

Latest time to lodge **WHITE** and **YELLOW**

Application Forms 12:00 noon on Wednesday, 4 March 2015

Latest time to give **electronic application instructions**

to HKSCC ⁽ⁱⁱⁱ⁾ 12:00 noon on Wednesday, 4 March 2015

Application lists close ⁽ⁱⁱ⁾ 12:00 noon on Wednesday, 4 March 2015

Expected Price Determination Date ^(iv) Wednesday, 4 March 2015

Announcement of:

- the Offer Price;
- the level of indications of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and
- the basis of allocation under the Hong Kong Public Offering

will be published (a) on the website of the Hong Kong Stock Exchange at

www.hkexnews.hk; (b) on our website at www.clzd.com ^(v);

(c) in The Standard (in English); and

(d) in the Hong Kong Economic Times (in Chinese)

on or before Tuesday, 10 March 2015

Results of allocations in the Hong Kong Public Offering

(with successful applicants' identification document numbers or
business registration numbers, where appropriate)

to be available through a variety of channels

(see section headed "How to apply for the Hong Kong Offer Shares"

in this prospectus) from Tuesday, 10 March 2015

Results of allocations in the Hong Kong Public Offering

will be available at www.tricor.com.hk/ipo/result

with a "search by ID Number/Business

Registration Number" function Tuesday, 10 March 2015

H Shares certificates in respect of wholly or partially successful

applications will be despatched or deposited into CCASS

on or before ^(vi) and ^(vii) Tuesday, 10 March 2015

Refund cheques in respect of wholly or partially

unsuccessful or wholly successful (if applicable)

applications on or before ^(vii) Tuesday, 10 March 2015

Dealings in the H Shares on the Hong Kong Stock Exchange

expected to commence on Wednesday, 11 March 2015

EXPECTED TIMETABLE ⁽ⁱ⁾

- (i) All dates and times refer to Hong Kong local dates and times, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus. If there is any change in this expected timetable, an announcement will be published in The Standard in English and in the Hong Kong Economic Times in Chinese and on the website of the Hong Kong Stock Exchange and our website.
- (ii) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on Wednesday, 4 March 2015, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for the Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Application Lists” in this prospectus. If the application lists do not open and close on Wednesday, 4 March 2015, the dates mentioned in this section may be affected. Our Company will make a press announcement in such event.
- (iii) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for the Hong Kong Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (iv) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Wednesday, 4 March 2015 and, in any event, not later than Monday, 9 March 2015. If, for any reason, the Offer Price is not agreed on or before Monday, 9 March 2015, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (v) Neither our Company’s website nor any of the information contained on our Company’s website forms part of this prospectus.
- (vi) H Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. If the Global Offering does not become unconditional or either of the Underwriting Agreement is terminated in accordance with its terms, we will make an announcement as soon as possible. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of their H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.
- (vii) Applicants who apply for 500,000 or more Hong Kong Offer Shares and have indicated in their Application Forms that they wish to collect H Share certificates (if applicable) and refund cheques (if applicable) in person may do so from our H Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 10 March 2015 or any other date notified by our Company in the newspapers as the date of dispatch of H Share certificates/refund cheques. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar. Uncollected H Share certificates and refund cheques will be dispatched by ordinary post to the addressees specified in the relevant Application Forms at the applicants’ own risk. Further information is set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus. For further details in relation to the Hong Kong Public Offering, please refer to the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell, or a solicitation of an offer to subscribe for or buy, any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell, or a solicitation of an offer to subscribe for or buy, any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares, or the distribution of this prospectus, in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorised by us, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors or any other persons or parties involved in the Global Offering.

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SUMMARY

This summary provides an overview of the information contained in this prospectus. Because it is a summary, this section does not contain all the information that may be important to you. You should read the prospectus in its entirety, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read this section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a well-established orthopedic medical device company in China focusing on the research and development, production and sales of implantable orthopedic medical devices which include joint prosthesis products and spinal products. Our joint prosthesis products include hip joint prosthesis, knee joint prosthesis, shoulder joint prosthesis and elbow joint prosthesis products. Our spinal products comprise a full product portfolio of spinal fixation systems, including fixation systems in anterior and posterior cervical, thoracic and lumbar vertebrae. Our products are primarily sold under the brand name of “春立 Chunli” in China. In terms of domestic sales revenue in 2013, our market share of joint prosthesis industry in China reached approximately 3.1% and we ranked second among all domestic enterprises and eighth among all enterprises (including foreign enterprises) in the joint prosthesis industry in China, according to the Euromonitor Report.

OUR BUSINESS AND PRODUCT SEGMENTS

The following table sets forth our revenue by products and business during the periods indicated.

Products/Business	For the year ended 31 December			For the nine months ended 30 September
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Standard joint prosthesis products	51,262	67,479	77,449	62,644
Custom joint prosthesis products	16,839	20,111	23,336	20,858
Spinal products	11,400	10,505	9,761	7,844
Others ^(Note)	759	–	–	–
Total	80,260	98,095	110,546	91,346

Note: Others represent logistics services which we have not engaged in since 2012.

SUMMARY

As at the Latest Practicable Date, we held 14 medical device registration certificates in China for the production of medical devices which cover joint prosthesis products for four major joints (namely, shoulder, elbow, hip and knee joints) and spinal products, nine of which are Class III medical device registration certificates and five of which are Class I medical device registration certificates. As at the Latest Practicable Date, the domestic joint products registration index (國產關節類產品註冊檢索) of the CFDA showed that we were one of the medical device companies that held the most comprehensive medical device registration certificates in the joint prosthesis market in China in terms of number and types of certificates. We have a broad product portfolio which enables our distributors and hospitals to obtain their desired products from us.

OUR SALES AND DISTRIBUTION

We sell our products mainly through distributors. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, approximately 88.7%, 85.2%, 83.0% and 78.9% of our revenue was derived from our sales to distributors in both China and overseas, whereas our remaining revenue was derived from other sales channels including sales to ODM and OEM customers overseas and direct sales to hospitals in China.

China is our core market. We also export our products under the brand name of “春立 Chunli” and on ODM and OEM bases. Currently, we have built an extensive distribution network covering all provinces, municipalities and autonomous regions in China, and our sales network has covered numerous hospitals located in these regions through our distributors. The table below sets forth the number of our distributors and customers in China and overseas during the Track Record Period:

	As at 31 December			As at 30 September 2014
	2011	2012	2013	2014
China				
Distributors	318	337	377	414
Hospitals	10	13	8	34
	328	350	385	448
Overseas				
Distributors	4	21	21	27
ODM and OEM customers	12	11	16	21
	16	32	37	48
	344	382	422	496

Most of our products are on the Medical Device Procurement List and we or our distributors shall win the tender organized by the relevant government authorities in order to supply such products to hospitals and medical institutions within the region.

SUMMARY

After the government authorities publicly announced the tender invitation, we or our distributors shall submit tender documents to the government authorities. Successful bidder shall enter into a written contract in accordance with the terms of the tender document. The price of orthopedic medical devices which are on the Medical Device Procurement List is affected by the tender processes. The successful bidder sell such products to the hospitals and medical institution within the region at the price offered in the bidding document. We are currently not subject to any price control on the sale of our products in the PRC.

OUR PRODUCTION FACILITIES

Currently, we have two production sites, the Tongzhou First Production Base and the Tongzhou Second Production Base, which are both located at the southern district of Beijing Tongzhou Economic Development Zone with a gross floor area of approximately 4,370 sq.m. and 6,457.36 sq.m. respectively. We focus on the production and research and development of joint prosthesis products and spinal products at our current production sites.

The following table sets forth the maximum annual production capacity, actual production volume and utilisation rate of our production facilities during the Track Record Period:

	For the year ended 31 December									For the nine months ended 30 September		
	2011			2012			2013			2014		
	Maximum annual production capacity (sets)	Actual production volume (sets)	Utilisation rate (%)	Maximum annual production capacity (sets)	Actual production volume (sets)	Utilisation rate (%)	Maximum annual production capacity (sets)	Actual production volume (sets)	Utilisation rate (%)	Maximum annual production capacity (sets)	Actual production volume (sets)	Utilisation rate (%)
Standard joint prosthesis products	19,700	15,400	78.2	33,200	28,400	85.5	34,700	32,300	93.1	37,100	36,700	98.9
Custom joint prosthesis products	2,400	1,900	79.2	2,300	2,000	87.0	3,600	3,300	91.7	2,600	2,500	96.2
Spinal products ⁽¹⁾	11,400	8,900	78.1	12,500	10,700	85.6	9,700	9,000	92.8	9,500	9,400	98.9

Notes:

- (1) As compared to 2012, our maximum annual production capacity and actual production volume for spinal products in 2013 decreased because we allocated part of the production capacity for the production of spinal products to produce standard and custom joint prosthesis products in response to the market demand in 2013.
- (2) Please refer to the section headed “Business — Production” in this prospectus for the bases and assumptions used in the calculation of the maximum annual production capacity (which is estimated based on the maximum annual production capacity of their core components), actual production volume of the core components of our products and utilisation rate of our production facilities.
- (3) In the event that we need to increase our production capacity in response to higher market demand of our products in the near future, we would (i) make swift adjustment to the work schedule of our production staff at the Tongzhou First Production Base and the Tongzhou Second Production Base and (ii) expand production capacity of the Tongzhou First Production Base and the Tongzhou Second Production Base by purchasing additional machineries to meet such increase in demand.

SUMMARY

In January 2011, we acquired the Tongzhou Second Production Base and the land on which it is erected adjacent to our current production site, Tongzhou First Production Base. The reason for acquiring the Tongzhou Second Production Base is two-fold. Firstly, we believed that the Tongzhou Second Production Base which is situated at the southern district of Beijing Tongzhou Economic Development Zone (the “Zone”) could cater for the needs of our business growth after taking into account numerous factors such as the anticipated high level of demand of our products in the near future, the good geographical location, the industry trend within the Zone and the period of time that we have carried on our business in the Zone. We considered that the Tongzhou Second Production Base could serve as an additional production base in the event that we need to take on a sudden increase of orders and expand our production capacity in the short run in response to any increase in demand of our products before phase I of the Daxing New Production Base commences operation. Secondly, as our Tongzhou First Production Base has title defect, the Tongzhou Second Production Base could serve as a replacement production site in case if we are required to relocate due to the title defect. Our Tongzhou First Production Base is erected on a piece of collectively-owned construction land (集體建設用地). As at the Latest Practicable Date, no collectively-owned construction land use right certificate and building ownership certificate has been obtained by the Huoxian Town Cooperative Economic Association in respect of the land and the buildings of the Tongzhou First Production Base (the “Title Defect”). For further information of the Title Defect, please refer to the section headed “Business — Land and Properties” in this prospectus. Renovation of the Tongzhou Second Production Base and relocation from the Tongzhou First Production Base to the Tongzhou Second Production Base have been completed, whereas most of our production facilities have been moved from our Tongzhou First Production Base to our Tongzhou Second Production Base. We have commenced trial production at our Tongzhou Second Production Base in January 2015 and we carried out production at these two production sites since then.

For the nine months ended 30 September 2014, our Tongzhou First Production Base almost reached full utilisation and the utilisation rate of our production facilities for standard joint prosthesis products, custom joint prosthesis products and spinal products were approximately 98.9%, 96.2% and 98.9% respectively. We plan to increase our production capacity significantly to meet the anticipated increasing market demand. As such, we have acquired a piece of land located in the Daxing Biomedicine Industrial Base of the Zhongguancun Science Park in Beijing, the PRC with a site area of approximately 44,930.32 sq.m. in around September 2012 and are in the process of constructing a new production plant and facilities in this Daxing New Production Base. The development of the Daxing New Production Base will be carried out in two phases. It is expected that after the commencement of operation of the phase I development in around October 2017, we will have an additional maximum designed annual production capacity of standard joint prosthesis products, spinal products and advanced customised joint prosthesis products of approximately 40,000 sets, 25,000 sets and 5,000 sets respectively. Please refer to the section headed “Business — Business Strategies and Future Plans — Expansion of our production facilities and strategic relocation — Expansion plan and increase of production capacity” in this prospectus for more details of our expansion plans.

SUMMARY

OUR SUPPLIERS

Our principal raw materials include titanium alloy, forged titanium alloy, casted Co-Cr-Mo alloy and medical-grade ultra-high molecular weight polyethylene materials. We procure all our principal raw materials from suppliers in China. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, the number of suppliers of our principal raw materials were 17, 17, 21 and 23 respectively. During the same periods, the total purchases from our top five suppliers represented approximately 56.5%, 60.3%, 62.1% and 59.6% of our total purchases respectively.

MEDICAL INSURANCE

Our joint prosthesis products and spinal products are categorised as medical materials by the basic medical insurance scheme in China where part of the fees payable by the patients are covered by the medical insurance. The medical coverage of the basic medical insurance scheme for our joint prosthesis products and spinal products for most of the districts in China range from around 70% to 90% of the total price of our products.

APPLICATION FOR LISTING OF A SHARES

On 19 September 2012, we submitted an application for the listing of A shares on the Growth Enterprise Market of the Shenzhen Stock Exchange to the CSRC, for raising capital to our business. However, due to the change of development strategy and in order to accelerate our fund raising exercise for our expansion plan, having considered the benefits of listing in a place with broader international investor base, we decided to apply for listing on the Hong Kong Stock Exchange instead and made an application to discontinue our listing application to the CSRC on 26 March 2013. The CSRC confirmed that they have acknowledged and discontinued to its review of our listing application in respect of A Shares on 3 April 2013. For further details, please refer to the section headed "History And Development — Application for listing of A Shares".

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths differentiate us from our competitors and enable us to increase our market share and capture future growth opportunities:

- our leading position in the fast-growing joint prosthesis sector of orthopedic medical devices industry among domestic entities in China;
- we are one of the enterprises with the most comprehensive medical device registration certificates in the joint prosthesis sector in China;
- our diversified product portfolio which can meet different patients' needs enables us to capitalise on the opportunities of the fast-growing market;
- our research and development capabilities of joint prosthesis products are supported by our comprehensive feedback system;
- our extensive distribution network in the PRC with distributors covering numerous hospitals in all the provinces, municipalities and autonomous regions in China; and
- our stringent quality control system with certification on international standards.

SUMMARY

OUR BUSINESS STRATEGIES AND FUTURE PLANS

We plan to implement the following strategies to strengthen and consolidate our market position in the joint prosthesis products and spinal products sector:

- development of our Daxing New Production Base to increase our production capacity;
- diversify our product series and develop advanced customised joint prosthesis products;
- expand our distribution and sales network by establishing sales and marketing centers in different provinces and further explore the overseas market;
- strengthen our innovation ability and increase the research and development resources.

RISK FACTORS

We encounter a number of challenges in our business and the industry. In particular, most of our products are sold to distributors which we have limited control over their operations and we may not be able to maintain our relationship with them. In addition, we may be required to relocate from one of our existing production bases, the Tongzhou First Production Base. Furthermore, we might not be able to increase our production capacity in response to any increase in demand of our products before phase I of the Daxing New Production Base commences operation. The implementation of expansion plan may also not achieve our desired outcome. Please refer to the section headed “Risk Factors” in this prospectus for further details.

OUR LATEST DEVELOPMENT SUBSEQUENT TO THE TRACK RECORD PERIOD

To the best knowledge of our Directors, up to the date of this prospectus, there has been no material change in the overall economic and market condition in China or in the industry where we operate, which will bring material adverse effect on our business, results of operations or financial condition.

Since 30 September 2014 and up to the Latest Practicable Date, our revenue and cost structure remained stable, and our business maintained a stable growth which was in line with the historical record. Our Directors have confirmed that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in the consolidated financial statements set forth in Appendix I — “Accountants’ Report” to this prospectus. Moreover, there has been no material change in respect of the utilisation rate of the Company’s production facilities, raw material costs and selling prices of the Company’s products up to the date of this prospectus.

For information related to the trend or other factors that may affect our results of operations, please refer to the section headed “Financial Information” in this prospectus.

SUMMARY

CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised, Mr. Shi and Ms. Yue, as husband and wife, will together be deemed to be interested in 64.5% interest in the enlarged share capital of our Company (as to approximately 36.4% held by Mr. Shi and approximately 28.1% held by Ms. Yue) and will remain as the Controlling Shareholders. Our Controlling Shareholders confirm that, as at the Latest Practicable Date, there is no competition between their business and our business. The Directors believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their associates. For details, please refer to the section headed “Relationship with Controlling Shareholder and Directors” in this prospectus.

PREVIOUS NON-COMPLIANCE

During the Track Record Period, the number of employees for which we made contribution to housing pension fund and social insurance were fewer than the number required by the relevant laws and regulations of the PRC, including the Regulation on Management of Housing Provident Fund (住房公積金管理條例) and the Social Insurance Law (社會保險法). In addition, in respect of our Tongzhou First Production Base, no collectively-owned construction land use right certificate and building ownership certificate in respect of the land and the buildings has been obtained. For details, please refer to the section headed “Business — Legal Proceedings and Compliance” in this prospectus.

SUMMARY OF FINANCIAL INFORMATION

The following table presents a summary of our financial information during the Track Record Period and should be read in conjunction with our financial information set forth in Appendix I — “Accountants’ Report” to this prospectus, including the notes thereto. The consolidated financial information contained in Appendix I to this prospectus has been prepared in accordance with the CASBE issued by the Ministry of Finance of the PRC and the Reporting Accountants have conducted their audit in accordance with China Standards on Auditing.

SUMMARY

Highlights of our consolidated income statements

	For the year ended 31 December			For the nine months ended 30 September
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	80,260	98,095	110,546	91,346
Cost of sales	19,747	27,536	30,471	24,441
Gross profit	60,513	70,559	80,075	66,905
Profit before tax	35,410	37,203	38,116	26,138
Net profit	30,405	31,940	32,665	22,669

For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our revenue was approximately RMB80.3 million, RMB98.1 million, RMB110.5 million and RMB91.3 million, respectively. During the Track Record Period, our revenue maintained stable growth, representing a CAGR of approximately 17.4% between 2011 and 2013 and further increased by approximately 25.6% from approximately RMB72.7 million for the nine months ended 30 September 2013 to approximately RMB91.3 million for the nine months ended 30 September 2014. For the three years ended 31 December 2013, our net profit was approximately RMB30.4 million, RMB31.9 million and RMB32.7 million, respectively, representing a CAGR of approximately 3.6% over the three years and further increased by approximately 26.8% from approximately RMB17.9 million for the nine months ended 30 September 2013 to approximately RMB22.7 million for the nine months ended 30 September 2014.

The table below sets forth our gross profit and gross profit margin by products during the Track Record Period.

	For the year ended 31 December						For the nine months ended 30 September	
	2011		2012		2013		2014	
	<i>Gross profit</i>	<i>margin</i>	<i>Gross profit</i>	<i>margin</i>	<i>Gross profit</i>	<i>margin</i>	<i>Gross profit</i>	<i>margin</i>
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
Standard joint prosthesis products	37,768	73.7	46,883	69.5	53,912	69.6	43,674	69.7
Custom joint prosthesis products	13,533	80.4	15,981	79.5	18,748	80.3	17,833	85.5
Spinal products	8,453	74.1	7,695	73.3	7,415	76.0	5,398	68.8

SUMMARY

The table below sets forth our revenue by sales channels during the Track Record Period.

	2011		Year ended 31 December				Nine months ended 30 September 2014	
	RMB'000	%	2012 RMB'000	%	2013 RMB'000	%	RMB'000	%
China								
Distributors	70,575	88.0	81,373	83.0	88,085	79.7	69,727	76.3
Hospitals	5,727	7.1	6,426	6.5	9,112	8.2	8,569	9.4
Others ^(Note)	759	0.9	-	-	-	-	-	-
	<u>77,061</u>	<u>96.0</u>	<u>87,799</u>	<u>89.5</u>	<u>97,197</u>	<u>87.9</u>	<u>78,296</u>	<u>85.7</u>
Overseas								
Distributors	543	0.7	2,186	2.2	3,665	3.3	2,376	2.6
ODM and OEM customers	2,656	3.3	8,110	8.3	9,684	8.8	10,674	11.7
	<u>3,199</u>	<u>4.0</u>	<u>10,296</u>	<u>10.5</u>	<u>13,349</u>	<u>12.1</u>	<u>13,050</u>	<u>14.3</u>
	<u>80,260</u>	<u>100.0</u>	<u>98,095</u>	<u>100.0</u>	<u>110,546</u>	<u>100.0</u>	<u>91,346</u>	<u>100.0</u>

Note: Others represent logistics services which we have not engaged in since 2012.

The table below sets out our Group's current assets, current liabilities and selected items of the consolidated balance sheet as at the respective financial position dates indicated:

	As at 31 December			As at 30 September
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Non-current assets	62,146	66,847	67,929	72,872
Current assets	<u>96,618</u>	<u>120,663</u>	<u>132,704</u>	<u>145,309</u>
Total assets	<u>158,764</u>	<u>187,510</u>	<u>200,633</u>	<u>218,181</u>
Non current liabilities	-	5,946	5,674	7,656
Current liabilities	<u>11,480</u>	<u>14,340</u>	<u>15,070</u>	<u>18,967</u>
Total liabilities	<u>11,480</u>	<u>20,286</u>	<u>20,744</u>	<u>26,623</u>
Net current assets	<u>85,138</u>	<u>106,323</u>	<u>117,634</u>	<u>126,342</u>
Shareholders' equity	<u>147,284</u>	<u>167,224</u>	<u>179,889</u>	<u>191,558</u>

SUMMARY

The following table sets out the debtors' turnover days and inventory turnover days as at the dates indicated:

	As at 31 December		As at 30 September	
	2011	2012	2013	2014
Debtors' turnover days ⁽¹⁾	109	102	106	131
Inventory turnover days ⁽²⁾	394	248	256	299

(1) Debtors' turnover days as at 31 December 2011, 2012 and 2013 and as at 30 September 2014 were based on our average accounts receivable (i.e. sum of opening and closing balances of accounts receivable of the respective periods and divided by two), net of provision on impairment, divided by the total revenue, multiplied by the total number of days of each year or period (i.e. 273 days for the nine months ended 30 September 2014).

(2) Inventory turnover days as at 31 December 2011, 2012 and 2013 and as at 30 September 2014 were computed based on our average inventories (i.e. sum of opening and closing balances of inventories of respective periods and divided by two) divided by cost of sales incurred in the respective periods and multiplied by the number of days in the respective year or period (i.e. 273 days for the nine months ended 30 September 2014).

For further discussion on the debtors' turnover days and inventory turnover days, please refer to the section headed "Financial Information — Description of certain items from consolidated balance sheets" to the prospectus.

The balance of accounts receivable, net of provision, remained stable as at 31 December 2011, 2012, and 2013. As at 30 September 2014, such balance increased by RMB20.6 million or 61.2% when compared with the balance as at 31 December 2013 mainly due to the fact that the distributors tended to settle the outstanding balance in the fourth quarter of the year, which led to the increase in the outstanding balance as at 30 September 2014. The inventory level as at 30 September 2014 increased by RMB7.4 million or 32.3% when compared with the same as at 31 December 2013. The Group had to prepare for minor seasonal fluctuation in the industry as set out in the section headed "Business — Sales Distribution Network and Marketing — Sales Model" in this prospectus that as patients usually have joint replacement surgeries and spinal internal fixation surgeries during seasons with cooler temperature to avoid unnecessary infection after surgeries, there are relatively fewer surgeries in the summer. As a result, generally, there would be a relatively higher level of inventory in the third quarter of the year.

SUMMARY

KEY FINANCIAL RATIOS

The following table sets out a number of key financial ratios as at the dates indicated or for the periods indicated.

	Year ended 31 December			September
	2011	2012	2013	2014
	(%)	(%)	(%)	(%)
Profitability ratios				Nine months ended 30
Gross profit margin	75.4	71.9	72.4	73.2
Net profit margin	37.9	32.6	29.5	24.8
Return on assets	19.2	17.0	16.3	10.4
Return on equity	20.6	19.1	18.2	11.8
				As at 30
	As at 31 December			September
	2011	2012	2013	2014
Liquidity ratios				
Current ratio	8.4	8.4	8.8	7.7
Quick ratio	6.9	7.0	7.3	6.1

For further discussion on our key financial ratios, please refer to the section headed “Financial Information — Key Financial Ratios” in this prospectus.

LISTING EXPENSES

During the Track Record Period, we incurred listing expenses of approximately RMB11.2 million, of which approximately RMB4.8 million was recognised as administrative expenses and approximately RMB6.4 million was capitalised 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 (including underwriting commission) of approximately RMB19.0 million, of which RMB4.4 million will be recognised as administrative expenses and RMB14.6 million will be charged against equity after the Track Record Period. The listing expenses set out above are preliminary estimation and provided for reference only. We believe that the remaining expenses will not have a material impact on our results of operations for the years ending 31 December 2014 and 2015.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2014

We have prepared the following profit estimate for the year ended 31 December 2014. This profit estimate is based on the accounting policies consistent with those adopted for the purpose of the Accountants’ Report of our Group, the text of which is set

SUMMARY

forth in Appendix I to this prospectus, and the bases set forth in Appendix III to this prospectus. You should read these bases when you analyse our profit estimate.

Estimated unaudited consolidated profit
attributable to equity owners of the Company⁽¹⁾⁽³⁾ . . . Not less than RMB36.5 million
(approximately HK\$45.6 million)

Unaudited pro forma estimated earnings per Share⁽²⁾⁽³⁾ . . . Not less than RMB0.55
(approximately HK\$0.68)

Notes:

- (1) The bases on which the above profit estimate for the year ended 31 December 2014 has been prepared are summarised in Appendix III to this prospectus. The unaudited estimate of consolidated profit attributable to equity owners of the Company for the year ended 31 December 2014 has been prepared by the Directors based on the audited consolidated results for the nine months ended 30 September 2014, and the unaudited consolidated results based on management accounts of our Group for the three months ended 31 December 2014.
- (2) The unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to the equity owners of the Company for the year ended 31 December 2014, assuming that our Company has been listed since 1 January 2014 and a total of 66,670,000 Shares had been issued. The calculation takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option.
- (3) The estimated unaudited consolidated profit attributable to equity owners of the Company and the unaudited pro forma estimated earnings per Share are converted into HK\$ at the exchange rate of RMB0.80 to HK\$1.00.

USE OF PROCEEDS

The net proceeds from the Global Offering (after deducting underwriting fees and commissions and estimated expenses paid and payable by us in connection with the Global Offering and assuming an Offer Price of HK\$13.32 per Offer Share, being the mid-point of the indicative Offer Price range, and assuming the Over-allotment Option is not exercised) will be approximately HK\$184.3 million. We currently intend to use the net proceeds from the Global Offering as follows:

Approximate amount of net proceeds

50.0% or
HK\$92.1 million

Intended application

Finance the development of phase I of the Daxing New
Production Base, of which:

- approximately 20.0% or HK\$36.9 million will be used for the construction of the new production plant and ancillary facilities
- approximately 30.0% or HK\$55.2 million will be used for the purchase and installation of production equipment and machineries

SUMMARY

Approximate amount of net proceeds

20.2% or
HK\$37.2 million

Intended application

Fund our research and development activities, of which:

- approximately 12.0% or HK\$22.1 million will be used for the development of a research and development center at the Daxing New Production Base
- approximately 4.2% or HK\$7.7 million will be used for the purchase of new research and development facilities and equipment
- approximately 4.0% or HK\$7.4 million will be used for the expansion of our scope of research and development activities

20.0% or
HK\$36.9 million

Expansion of our existing marketing and distribution networks, of which:

- approximately 8.5% or HK\$15.7 million will be used for the establishment and development of sales and marketing centers
- approximately 6.0% or HK\$11.1 million will be used for the recruitment of marketing staff
- approximately 5.5% or HK\$10.1 million will be used for sponsoring and participation of academic conferences and seminars

9.8% or
HK\$18.1 million

Working capital and other general corporate purposes

For further details, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

DIVIDEND POLICY

During the three years ended 31 December 2013, we distributed dividends of approximately RMB2.0 million, RMB12.0 million and RMB20.0 million, respectively. In May 2014, we distributed the final dividend for the year ended 31 December 2013 to the Shareholders of our Company of RMB11.0 million. Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we had not distributed any dividends to the then equity holders of our Group. Please refer to the section headed “Financial Information — Dividend Policy” in this prospectus for further details.

SUMMARY

GLOBAL OFFERING STATISTICS⁽¹⁾

	Based on an Offer Price of HK\$12.53 per H Share	Based on an Offer Price of HK\$14.10 per H Share
Market capitalisation of our Company upon completion of the Global Offering ⁽²⁾	HK\$835.4 million	HK\$940.0 million
Unaudited pro forma adjusted net tangible asset value per Share ⁽³⁾	HK\$6.25	HK\$6.64

Notes:

- (1) All statistics in this table are presented based on the assumption that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalisation is based on 66,670,000 Shares expected to be in issue following the completion of the Global Offering.
- (3) The unaudited pro forma adjusted consolidated net tangible asset value per Share is arrived at after the adjustments referred to “Appendix II — Unaudited Pro Forma Financial Information” to this prospectus and on the basis of 66,670,000 Shares in issue following the completion of the Global Offering.

DEFINITIONS

In this prospectus, the following expressions shall have the following meanings unless the context requires otherwise. Descriptions of some other expressions are set forth in the section headed "Glossary of Technical Terms".

"Application Form(s)"	WHITE and YELLOW application form(s), or where the context so requires, any of such forms, relating to the Hong Kong Public Offering
"Articles of Association" or "Articles"	the articles of association of our Company, with effect from the Listing Date, conditionally adopted on 23 February 2015, as amended or supplemented from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"BFDA"	the Beijing Food and Drug Administration (北京市食品藥品監督管理局) (previously known as 北京市藥品監督管理局 (the Beijing Drug Administration))
"Board" or "Board of Directors"	board of Directors of our Company
"Board of Supervisors"	board of supervisors of our Company
"Business Day"	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
"CAGR"	compound annual growth rate
"CASBE"	China Accounting Standards for Business Enterprises
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CFDA”	China Food and Drug Administration (中華人民共和國國家食品藥品監督管理總局) (previously known as 中華人民共和國國家醫藥管理局 (State Pharmaceutical Administration of the PRC))
“China” or “PRC”	People’s Republic of China, and “Chinese” shall be construed accordingly. References in this prospectus to the PRC or China, for geographical references only, excluding Hong Kong, the Macau Special Administration Region of the PRC and Taiwan
“China Everbright Capital” or “Sole Sponsor”	China Everbright Capital Limited, a licensed corporation under the SFO permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities (as defined under the SFO), being the sole sponsor of the Global Offering
“Chunli Limited”	北京市春立正達科技開發有限公司 (Beijing Chunlizhengda Technology Development Co., Ltd.), a limited liability company incorporated in the PRC on 12 February 1998, the predecessor of our Company
“Chunli Limited Research Center”	北京市春立正達科技開發有限公司春立高科人工關節技術研究所 (Beijing Chunlizhengda Technology Development Co., Ltd. Chunli Hi-tech Artificial Joint Research Center), a branch of Chunli Limited
“Chunlizhengda Research Center”	北京市春立正達醫療器械股份有限公司春立高科人工關節技術研究所 (Beijing Chunlizhengda Medical Instruments Co., Ltd. Research Center), a branch of our Company
“Company” or “our Company”	北京市春立正達醫療器械股份有限公司 (Beijing Chunlizhengda Medical Instruments Co., Ltd.), a joint stock limited company incorporated in the PRC on 17 September 2010
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the context of our Company, referring to Mr. Shi and Ms. Yue

DEFINITIONS

“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory authority responsible for the supervision and management of the PRC national securities markets
“Daxing New Production Base”	our new production plant and facilities to be located at 中國北京市中關村科技園區大興生物醫藥產業基地 (Daxing Biomedicine Industrial Base of the Zhongguancun Science Park in Beijing, the PRC), details of which are set out in the sections headed “Business — Business Strategies and Future Plans — Expansion of our production facilities and strategic relocation — Expansion plan and increase of production capacity” and “Business — Land and Properties” in this prospectus
“Deed of Indemnity”	the deed of indemnity executed on 14 February 2015 by the Controlling Shareholders in favour of our Company (for itself and on behalf of its subsidiaries), containing the indemnities
“Deed of Non-competition”	the deed of non-competition undertakings dated 14 February 2015 executed by our Controlling Shareholders in favour of our Company (for itself and on behalf of its subsidiaries)
“Director(s)” or “our Director(s)”	director(s) of our Company
“Distribution Framework Contract”	the framework contract on distribution of medical devices entered into by our Company and Gaoyang Materials on 19 April 2014
“Domestic Share(s)”	ordinary share(s) of our capital, with a nominal value of RMB1.00 each, which are subscribed for and fully paid up in Renminbi and are unlisted Shares which are currently not listed or traded on any stock exchange
“Euromonitor”	Euromonitor International Limited (歐睿信息諮詢有限公司), a global research organisation established in 1972 which prepared the Euromonitor Report, an Independent Third Party
“Euromonitor Report”	independent industry research report commissioned by our Company prepared by Euromonitor

DEFINITIONS

“Gaoyang Materials”	北京高陽物資中心 (Beijing Gaoyang Materials Center), a company established in the PRC on 16 March 1999 as a collectively owned enterprises (集體所有制企業) and its responsible person, Mr. Guo Fuxiang (郭福祥), is the husband of the cousin of Mr. Shi, a Controlling Shareholder and an executive Director of our Company, and thus deemed to be a connected person of our Company
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Group” or “our Group” or “we” or “us”	our Company and its subsidiary, as the context may require, or where the context so requires and in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies Ordinance”	Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Hong Kong dollars”, “HK\$” and “HK dollars”	Hong Kong dollars and cents, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	1,667,000 new H Shares to be initially offered by our Company for subscription at the Offer Price under the Hong Kong Public Offering (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)

DEFINITIONS

“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares by our Company for subscription by the public in Hong Kong at the Offer Price on the terms and conditions set forth in this prospectus and the Application Forms
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the Underwriters of the Hong Kong Public Offering, whose names are set out under the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 26 February 2015 relating to the Hong Kong Public Offering and entered into by, among others, the Sole Global Coordinator, the Sole Sponsor, the Hong Kong Underwriters, the Controlling Shareholders, and us, as further described in the section headed “Underwriting” in this prospectus
“Huoxian Town Cooperative Economic Association”	北京市通州區潮縣鎮合作經濟聯合社 (the Beijing Tongzhou District Huoxian Town Cooperative Economic Association)
“H Share(s)”	overseas-listed foreign share(s) in the ordinary share capital of our Company, with a nominal value of RMB1.00 each, which are to be listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“H Share Registrar”	Tricor Investor Services Limited
“Independent Third Party(ies)”	person(s) or company(ies) not being connected person(s) of our Company under the Listing Rules
“International Offer Shares”	15,003,000 new H Shares initially being offered under the International Offering together, where relevant, with any additional H Shares to be issued pursuant to the exercise of the Over-allotment Option, the number of which is further subject to adjustment as described under the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	the offer of the International Offer Shares at the Offer Price outside the United States in accordance with Regulation S, as further described in the section headed “Structure of the Global Offering” in this prospectus

DEFINITIONS

“International Underwriters”	the underwriters of the International Offering which are expected to enter into the International Underwriting Agreement as initial underwriters on or around the Price Determination Date
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering to be entered into on or around the Price Determination Date by, among others, the Sole Global Coordinator, the International Underwriters, the Controlling Shareholders, and us, as further described in the section headed “Structure of the Global Offering — International Offering” in this prospectus
“Latest Practicable Date”	18 February 2015, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Offer Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the Listing Committee of Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or around Wednesday, 11 March 2015, on which our H Shares are listed on the Hong Kong Stock Exchange and from which dealings in our H shares are permitted to take place on the Hong Kong Stock Exchange
“Listing Rules”	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended and supplemented or otherwise modified from time to time)
“Mandatory Provisions”	Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in articles of association of any company established in the PRC and listed overseas, which were promulgated by the PRC Securities Commission, the predecessor of the CSRC, and the State Restructuring Commission on 27 August 1994, as amended and supplemented or otherwise modified from time to time
“Ministry of Health” or “MOH”	Ministry of Health of the PRC (中華人民共和國衛生部), combined with National Population and Family Planning Commission (國家人口和計劃生育委員會) in March 2013, and subsequently named as National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會)

DEFINITIONS

“MNC”	multinational corporation
“Mr. Shi”	史春寶 (SHI Chunbao), our executive Director, chairman, general manager and sales and marketing director, the husband of Ms. Yue and one of our Controlling Shareholders
“Ms. Yue”	岳術俊 (YUE Shujun), our executive Director and deputy general manager, the wife of Mr. Shi and one of our Controlling Shareholders
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“ODM”	the acronym of “original design manufacturing”, a business that designs and manufactures products for branding and resale by the customer
“OEM”	the acronym of “original equipment manufacturing”, a business that manufactures products in accordance with the customers’ design and specifications for branding and resale by the customer
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) at which the Hong Kong Offer Shares are to be subscribed under the Global Offering, and to be determined according to the section headed “Structure of the Global Offering — Price Determination of the Global Offering” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters), pursuant to which our Company may be required to allot and issue up to an aggregate of 2,500,500 additional Offer Shares (representing 15% of the initial number of Offer Shares offered under the Global Offering) to, among other things, cover the over-allocations in the International Offering as set out in the section headed “Structure of the Global Offering” in this prospectus

DEFINITIONS

“PRC Company Law”	Company Law of the PRC (中華人民共和國公司法), as enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“PRC GAAP”	generally accepted accounting principles in the PRC, including the Accounting Standards for Business Enterprises
“PRC Government” or “Chinese Government”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
“PRC Legal Advisers”	萬商天勤律師事務所 (V & T Law Firm), a qualified PRC law firm acting as the PRC legal advisers to our Company for the application for the listing
“PRC Securities Law”	Securities Law of the PRC (中華人民共和國證券法) promulgated by the Standing Committee of the NPC on 29 December 1998 which became effective on 1 July 1999, and as amended, supplemented or otherwise modified from time to time
“Price Determination Date”	the date, expected to be on or around 4 March 2015 (Hong Kong time) and, in any event, not later than 9 March 2015, on which the Offer Price is to be fixed by agreement between our Company and the Sole Global Coordinator (on behalf of the Underwriters)
“Promoter(s)”	all the Shareholders who entered into the promoters’ agreement on 28 August 2010 to convert Chunli Limited into a joint stock limited liability company including Mr. Shi, Ms. Yue, 孫偉琦 (SUN Weiqi), Xin’an Caifu, 金杰 (JIN Jie), 林一鳴 (LIN Yiming), 谷長躍 (GU Changyue), 黃東 (HUANG Dong), 王海雅 (WANG Haiya), 何榮梅 (HE Rongmei), 倪學禎 (NI Xuezhen), 張朝暉 (ZHANG Zhaohui) and 陳旭勝 (CHEN Xusheng)
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)

DEFINITIONS

“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the capital of our Company with a nominal value of RMB1.00 each
“Shareholder(s)”	holders of the Share(s)
“SIPO”	State Intellectual Property Office of the PRC (中華人民共和國國家知識產權局)
“Sole Global Coordinator” or “Sole Bookrunner” or “Sole Lead Manager”	China Everbright Securities (HK) Limited, a licensed corporation under the SFO permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, the sole bookrunner, the sole global coordinator and the sole lead manager of the International Offering
“Southern District Management Committee”	北京通州經濟開發區南區管理委員會 (the Management Committee of the Southern District of Beijing Tongzhou Economic Development Zone)
“Special Regulations”	關於股份有限公司境外募集股份及上市的特別規定 (the Special Regulations of the State Council of the PRC on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies) issued by the State Council of the PRC on 4 August 1994, as amended, supplemented or otherwise modified from time to time
“State Council”	State Council of the PRC (中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Supervisor(s)”	the member(s) of the Board of Supervisor
“Takeovers Code”	Codes on Takeovers and Mergers and Share Buy-backs promulgated by the SFC, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Tongzhou First Production Base”	our production plant and ancillary facilities located at No. 17 Xinmi Road, Tongzhou District, Beijing, the PRC (中國北京通州區鑫覓路17號)
“Tongzhou Second Production Base”	our production plant and ancillary facilities located at No. 10 Xinmi Xi Er Road, Tongzhou District, Beijing, the PRC (中國北京通州區鑫覓路西二路10號)
“Track Record Period”	the three years ended 31 December 2013 and the nine months ended 30 September 2014
“Trademark Office”	Trademark Office (商標局) of the SAIC
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	United States of America, its territories and possessions subject to its jurisdiction, any state of the United States and the District of Columbia
“U.S. dollars”, “USD” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“Xin’an Caifu”	北京新安財富創業投資有限責任公司 (Beijing Xin’an Caifu Venture Investment Co., Ltd.), a company established with limited liability in the PRC on 2 August 2000, formerly known as 北京安彩科技風險投資有限公司 (Beijing Ancai Technologies Risk Investment Co., Ltd) and 北京新安財富資本投資有限公司 (Beijing Xin’an Caifu Capital Investment Co., Ltd), an Independent Third Party
“Zhao Yi Te”	北京兆億特醫療器械有限公司 (Beijing Zhao Yi Te Medical Devices Co., Ltd.), a limited liability company incorporated in the PRC on 8 June 2006, a wholly owned subsidiary of our Company

In this prospectus, if there is any inconsistency between the Chinese names of the entities, authorities, organisation, institutions or enterprises established in China or the awards or certificates given in China and their English translations, the Chinese version shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this prospectus in connection with our business. Some of these terms may not correspond to standard industry definitions.

“advanced customised joint prosthesis(es)”	an advanced model of custom joint prosthesis which is tailor-made using advanced technologies such as 3D reconstruction on the basis of the Chinese skeleton database (中國國民骨骼數據庫) to meet the unique needs of individual patient
“CE mark”	a product certification mark that is placed on products compliant to the New Approach Directives of the European Union. The CE mark is required for manufacturers (from anywhere in the world) wishing to sell their products into the European Economic Area. The CE mark indicates conformity with all the essential safety and environmental requirements set out in the European Directives
“Class III hospital(s)”	highest ranked regional hospitals in China designated as class III hospital by the Ministry of Health hospitals classification that provide multiple regions with high quality professional medical services, undertake higher education and scientific research initiatives and are followed by lower ranked Class II and Class I hospitals. Class I hospitals are elementary hospitals which provide general medical services to the community directly. Class II hospitals are regional hospitals which provide medical and healthcare services in several communities
“CNC”	computer numeric controlled, the use of a computer with numerical instructions and program codes to carry out various machining operations
“Co-Cr-Mo alloy”	cobalt-chromium-molybdenum alloy, one of our main raw materials
“conventional custom joint prosthesis(es)”	custom joint prosthesis that is specifically designed and produced based on the data on the skeleton structure of a particular patient to satisfy the needs of such patient

GLOSSARY OF TECHNICAL TERMS

“custom (modular) joint prosthesis(es)”	custom joint prosthesis that is clinically assembled based on ready-made components of joint prosthesis of various specifications and sizes which are designed and produced pursuant to the statistical analysis derived from the clinical data of a large pool of patients to cater the needs of a wide range of patients
“GMP”	the set of good manufacturing practice, a regulatory practice for the quality of production
“ISO”	International Organisation for Standardisation
“ISO13485”	the international standard in respect of Medical Devices — Quality Management Systems — Requirements for regulatory purposes (醫療器械質量管理體系用於法規的要求) issued by ISO in 2003, being an independent quality management system specially designed for the medical device industry
“ISO9001”	a set of core standards in quality management included in ISO9000 standards, which was initiated by ISO in 1994, being formulated by Quality Management and Quality Assurance Technical Committee of ISO (國際標準化組織質量管理和質量保證技術委員會)
“joint prosthesis(es)”	devices designed based on metallurgy, biomaterials, biomechanics and orthopedics to help patients reinstate joint movement function, which includes hip joint prosthesis, knee joint prosthesis, shoulder joint prosthesis and elbow joint prosthesis, etc.
“joint replacement surgery”	orthopedic surgeries to resect abrasive and damaged articular surfaces and implant of joint prosthesis with an aim to restore the functionality and smoothness of articular surfaces
“medical-grade ultra-high molecular weight polyethylene”	polyethylene with a molecular weight of over 1 million, a kind of thermoplastic medical plastic in linear form with excellent integration properties, being one of our main raw materials

GLOSSARY OF TECHNICAL TERMS

“Medical Device Procurement List(s)”	a medical device procurement list issued by the relevant government authorities in the respective provinces, municipalities and regions. The hospitals and medical institutions must procure orthopedic medical devices which are on this list through tender established by the relevant government authorities
“PEEK materials”	the short form of polyether ether ketone (PEEK), being polyetheretherktone materials having modulus of elasticity similar to that of human system
“spinal products”	devices such as spinal fixation system, pedicles screws and cage for spinal fusion which are used for surgical treatment of spinal disorder, deformity, fractures and back pain conditions
“standard joint prosthesis(es)”	joint prosthesis that is in standardized specifications and sizes
“taper”	the connecting parts between the femoral head and femoral stem of hip joint prosthesis products
“taper ratio”	the ratio of the difference between the top and bottom diameter of a taper to the height of a taper
“trauma products”	devices such as bone plate sets, bone screws and intramedullary nails for reattaching or stabilizing damaged bone and tissue so as to support the healing process within a considerably shorter period

FORWARD-LOOKING STATEMENTS

In this prospectus, statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

This prospectus contains forward-looking statements that state our intentions, beliefs, expectations or predictions for the future that are, by their nature, subject to significant known or unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our operations and business prospects;
- future developments, trends and conditions in the medical devices industry in China and other countries where we operate or sell our products;
- changes in the market of our industry in countries into which we intend to develop our operations;
- changes of our strategies, plans, objectives and goals;
- the regulatory environment and industry outlook in general for the industries discussed herein;
- general political and economic conditions in China;
- our dividend policy;
- our projects under development;
- our future capital needs and capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital markets developments;
- the competitive markets for our products and the actions and developments of our competitors;
- changes in volumes, operations, margins, overall market trends, risk management and exchange rates;
- exchange rate fluctuations and developing legal system, in each case pertaining to the PRC and the industries and markets in which we operate;
- financial condition and performance of our Company;

FORWARD-LOOKING STATEMENTS

- industry regulations and restrictions imposed by the PRC, including tariffs and environmental regulations;
- macroeconomic measures taken by the PRC to manage economic growth;
- other statements in this prospectus that are not historical fact; and
- other factors beyond our control.

The words “aim,” “anticipate,” “believe,” “could,” “continue,” “expect,” “going forward,” “intend,” “may,” “plan,” “predict,” “potential,” “seek,” “will,” “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our results of operations and financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realised. We undertake no obligation to update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to these cautionary statements.

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in our H Shares. Our operations involve certain risks, many of which are beyond our control. You should pay particular attention to the fact that we are a PRC company, our business is mainly located in China and we are governed by a legal and regulatory environment that may differ from that which prevails in other countries and jurisdictions. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of our H Shares could decline due to any of these risks, and you may lose all or part of your investment.

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be characterised as: (i) risks relating to our business and industry; (ii) risks relating to the PRC; and (iii) risks relating to the Global Offering. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we deem immaterial, could also harm our business, financial condition and results of operations.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Risks relating to our distributorship model

We sell our products primarily through distributors. If we are unable to maintain our relationships with our distributors, our business will be adversely affected.

Our sales model relies mainly on sales to distributors during the Track Record Period. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our revenue derived from sales to domestic and overseas distributors accounted for approximately 88.7%, 85.2%, 83.0% and 78.9% of revenue respectively and we estimate that we will continue to rely on our distributors for revenue growth. The term of our distribution agreements is generally one year to three years and we do not enter into long-term distribution agreements with distributors. When our existing distribution agreements expire, we may not be able to renew such distribution agreements with our preferred distributors on the same or acceptable terms.

In the event that a majority of our distributors reduce their purchase orders they place with us or terminate their business relationship with us or our Company has difficulties in establishing relationships with new distributors, our sales will be adversely affected, which will in turn affect the growth of our revenue.

In addition, we have to compete for distributors with other medical devices manufacturers and importers. Compared with us, they may have better brand recognition and financial resources, and a broader product selection than us. Our competitors may enter into exclusive distribution agreements which restrict their distributors from selling our products. Consequently, maintaining relationship with existing distributors and replacing distributors may be difficult and time consuming. Any disruption of our distribution network, including our failure to renew our existing distribution agreements

RISK FACTORS

with our preferred distributors, could negatively affect our ability to sell our products effectively and would materially and adversely affect our business, financial conditions and result of operations.

We have limited control over the operations of distributors and sub-distributors.

We rely on distribution agreements to ensure that our distributors adhere to our policies. There is no assurance, however, that our distributors will comply with our policies at all times. In the event that any non-compliance occurs, we may not be able to effectively manage our distribution network or maintain our brand image. Moreover, if any of our distributors fails to adhere to its contractual obligation to distribute our products within the designated territories or fails to comply with our policies or sell products that compete with our products, our brand image, business, financial condition, results of operations and prospects could be materially and adversely affected. Any deviation by our distributors to the distribution agreements could result in the erosion of goodwill, a decrease in the market value of our brand and an unfavorable public perception about the quality of our products, thus resulting in a material and adverse effect on our business, financial condition, results of operation and prospects.

In addition, some of our distributors would on-sell our products to the sub-distributors engaged by them. As we do not have any contractual relationship with the sub-distributors engaged by our distributors, we rely on our distributors to monitor and control their sales practices. As a result, our control on the sub-distributors is limited. In particular, we require our distributors to sell our products within a geographical territory designated by us. However, we cannot give assurance that our geographical restriction will be followed by the customers or sub-distributors of our distributors, or that we will be able to identify and correct all the practices detrimental to our business of such sub-distributors in a timely manner, or at all, which may subsequently adversely affect the sales of our products.

Increasing bargaining power of our distributors may lead to a longer settlement period of accounts receivable.

A substantial portion of our accounts receivable at any given time typically represent amounts due from our distributors. Consequently, our cash flows depend on timely receipt of payments from distributors. During the Track Record Period, the debtors' turnover days as at 31 December 2011, 2012, 2013 and as at 30 September 2014 was 109 days, 102 days, 106 days and 131 days, respectively. Increasing bargaining power of our distributors may lead to a longer settlement period of accounts receivable which may in turn adversely affect our liquidity position and financial condition.

We may be required to relocate from the Tongzhou First Production Base.

Since 2008, our Company has leased the Tongzhou First Production Base and on 30 April 2013, the parties have renewed the lease term until 30 April 2018. As at the Latest Practicable Date, no collectively-owned construction land use right certificate and building ownership certificate have been obtained in respect of the land and the buildings on which the Tongzhou First Production Base is erected. As a result, we are unable to

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guarantee that our Company could continue to lease the relevant properties and may be required to relocate. If our Company is required to relocate, our business operations may be affected. Any discontinuance or delay in the production may affect our ability to produce sufficient amount of inventory, our Company may be required to incur additional expenses to ensure sufficient amount of inventory. Any of the above circumstances may materially and adversely affect our reputation, business, financial condition and results of operation. Please refer to the section headed “Business — Land and Properties” in this prospectus for the details of the status of the land where our Tongzhou First Production Base is located. In the event that we shall relocate from the Tongzhou First Production Base, our Directors estimate that the maximum estimated loss of revenue due to the relocation of our remaining production facilities in the Tongzhou First Production Base would be less than approximately RMB0.1 million. We expect that the relocation of our remaining production facilities in the Tongzhou First Production Base, to the Tongzhou Second Production Base could be completed in around three days. In addition, we estimate other relocation expenses including transportation and labour costs would be less than approximately RMB0.1 million.

We might not be able to increase our production capacity in a timely or cost-efficient manner in response to any increase in demand of our products before phase I of the Daxing New Production Base commences operation in October 2017.

For the nine months ended 30 September 2014, the Tongzhou First Production Base almost reached full utilisation and the utilisation rate of our production facilities for standard joint prosthesis products, custom joint prosthesis products and spinal products were approximately 98.9%, 96.2% and 98.9% respectively. Before the phase I of Daxing New Production Base commences operation in around October 2017, our ability to increase production capacity is limited, which could render us unable to satisfy our customers’ increasing demand for our products. Moreover, we might not be able to complete expansion in time to take advantage of rising demand for our products. As an interim and contingent measure, we may increase the number of shifts or number of working hours per shift to increase our production capacity. We may also purchase new production equipment and machinery and hire workers with requisite skills to operate them which would increase our costs and narrow our operating margins. But we cannot assure you that we could increase our production capacity in a timely and cost-efficient manner. If we are unable to increase our production capacity effectively in a timely manner or at all to meet growing demand in end-users’ markets for our products, we may lose our customers and our reputation may be damaged, which could adversely affect our sales, profit margin, other financial results and growth prospects.

Our expansion plans could increase our depreciation charges significantly which could adversely affect our financial performance.

We are constructing the Daxing New Production Base. The construction of the phase I and phase II of Daxing New Production Base is expected to be completed in around December 2016 and December 2018, respectively. The total investment cost of the Daxing New Production Base is approximately RMB510.3 million. We expect that the expansion plan will increase our depreciation charges significantly as a result of our investment in land, building, machinery and equipment. Based on the estimated investment costs (for

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details, please refer to the section headed “Business — Business Strategies — Expansion of our production facilities and strategic relocation — Expansion plan and increase of production capacity” in this prospectus), we expect that our annual depreciation charges will be high upon the operation of the Daxing New Production Base. As such, our financial conditions in future would be adversely affected by the significant increase in depreciation charges caused by our expansion plan.

Our expansion plan may not be as successful as we have planned.

Upon the completion of the construction of phases I and II of the Daxing New Production Base mentioned in the section headed “Business — Business Strategies and Future Plans — Expansion of our production facilities and strategic relocation — Expansion plan and increase of production capacity” in this prospectus, it is expected that full operation will be commenced in around October 2019 and the total annual production capacity of our Company is expected to increase significantly. Nevertheless, any material and adverse changes to the market environment, technologies, relevant policies during the implementation of projects or estimation deviations may prevent us from utilising the additional production capacity.

Our expansion plans may involve the following risks:

- Our actual production volume may vary depending on the demand and sales orders of different types of our products to be received from our customers which in turn may be affected by market trend, customers’ preferences or other factors which are beyond our control. The demand for our products as well as the sales orders to be received and the revenue and profits to be generated may not increase in line with our increase in production capacity and we cannot assure you that there will not be over-capacity.
- In addition, we expect to incur increased cost, such as direct labour costs (as a result of additional production and research and development staff) and depreciation charges as described in the subsection headed “Our expansion plans could increase our depreciation charges significantly which could adversely affect our financial performance” above.
- We cannot assure that our production capacity expansion plans will be successfully implemented without delay or at all. Any failure or delay in implementing any part of these plans may result in a lack of production capacity to support our growth and market expansion, which in turn could materially and adversely our business, financial condition and results of operations.

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

Our average inventory turnover days were 394 days, 248 days, 256 days and 299 days as at 31 December 2011, 2012, 2013 and as at 30 September 2014, respectively. Due to the fact that our Company has a portfolio of products, our Company needs to maintain

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certain level of inventories. The downward trend of the inventory turnover days in 2012 was due to the increase in the cost of sales exceeded the increase in the inventory level. If we fail to manage our inventory turnover effectively, our inventories may become obsolete or we may experience a shortage in inventories, either of which may materially and adversely affect our business, results of operations and financial conditions.

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

We grant credit periods and/or credit limits to some of our distributors based on their payment history, business performance and/or market position. The average turnover days for our accounts receivable were 109 days, 102 days, 106 days and 131 days as at 31 December 2011, 2012, 2013 and as at 30 September 2014, respectively. A significant portion of our accounts receivables is derived from sales to a limited number of customers. Our top five accounts receivable accounted for approximately 19.5%, 28.0%, 32.6% and 33.9% of our total accounts receivable as at 31 December 2011, 2012, 2013 and as at 30 September 2014, respectively. Any failure by our customers or distributors to pay us our contracted price, or any disputes over or significant delays in receiving such payments from our customers or distributors could require us to increase provisions made against our accounts receivable, either of which could adversely affect our cash flows and profitability.

We may experience failure in the research and development of our new products.

We are dedicated in the research and development of new products, such as ceramic hip joint prosthesis products. We have not launched such new products to the market. New products are exposed to technical risks in the course of research and development, including the inability to yield any meaningful research and development results, because of misjudgement on the industry trend or setbacks during trial production or testing processes or divergence in terms of design and quality during the mass production of new products. These technical risks may render new products unsuccessful and we may fail to recover the costs of research and development under such circumstances. After launching new products, we may also have to cope with the risks of low market acceptance and marketability. If the costs of research and development of these new products exceeds the monetary returns brought by the new products, our business, financial condition and results of operations may be materially and adversely affected.

Our failure or inability to obtain, retain and renew the required governmental approvals, permits registrations and licenses could materially and adversely affect our business, financial condition and results of operation.

Medical device industry is strictly regulated in the PRC and our operations are governed by various local, regional and national regulatory regimes, including licensing and certification requirements in terms of production, quality management and safety standards, and environmental protection. We cannot assure you that the legal framework, licensing and certification requirements and enforcement trends in the medical device industry will not change, or that we will be successful in responding to such changes. Such

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changes may result in an increase in costs of compliance, which would adversely affect our business, financial condition and results of operations.

CFDA has formulated a stringent continuing supervisory and management system in respect of the production of medical device products. Enterprises engaging in the production of medical devices are required to obtain “Medical device production enterprises license” (醫療器械生產企業許可證) and “Medical device registration certificate” (醫療器械註冊證) before commencing production and operation. Our Company needs to obtain “Class III medical device registration certificate” (III類醫療器械註冊證) and “Class I medical device registration certificate” (I類醫療器械註冊證) for our core products. The certificates and approval above are subject to a limited period and upon the expiry of such period, the regulatory authority shall reassess the companies to which it has granted licenses. As of the Latest Practicable Date, our Company had obtained the approvals, permits, registrations and licenses required for our production and operation.

Moreover, the criteria for reassessments may be reviewed and changed from time to time and the assessment standards can be increasingly stringent. We cannot assure you that we may successfully obtain such permits, licenses or certifications. In the event that, under any circumstances, we fail to obtain and maintain all of the licenses, permits and certifications required for business operations, our business, financial condition and results of operations may be materially and adversely affected. Please refer to the section headed “Regulatory Overview” in this prospectus for the consequences of failing the relevant regulatory requirements.



If we fail to win biddings during statutory tender process, fail to secure orders from hospitals or doctors no longer recommend our products, our business may be adversely affected.

We participate in the tender of medical devices procured by hospitals and other medical institutions to sell our products, which are the end-users through distributors or direct sales. At present, all the products we sell directly to hospitals are custom joint prosthesis products. We may fail to win the tender process if our prices are not competitive, our medical devices fail to meet certain quality requirements or are less clinically effective than competing products, our reputation is adversely affected by unforeseeable events, our service quality or any other aspect of our operation fails to meet the relevant requirements, or for other reasons. If we fail to win biddings from hospitals through the tender process, we will not be able to sell our products to hospitals and our business will be adversely impacted.

Recommendation from doctors plays an important role in the sales of our products. Whether doctors accept our products depends on the preception of the medical community as to the distinctiveness, perceived benefits, safety, clinical efficacy and cost-effectiveness of our products as compared with that of our competitors. If doctors do not recommend our products, our sales may decline and our business, financial condition and results of operation may be materially and adversely affected.

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If we or our brand names fail to maintain a positive reputation, many aspects of our business and our business prospects could be adversely affected.

We depend on our reputation, our brand name of “春立 Chunli” and trademarks such as “”, “春立” and “” in many aspects of our business, including:

- to gain access to, and for our products to be perceived favourably by, the hospitals and doctors that drive demand for joint prosthesis products and spinal products in the PRC;
- to effectively work with the authorities that regulate various aspects of our business;
- to gain the trust of patients of our products;
- to competitively position ourselves in the centralised tender processes required for our pharmaceutical products to be sold to public hospitals and medical institutions in the PRC;
- to attract employees, distributors, third party promoters, to work with us; and
- to increase market share of our products through brand recognition.

However, there can be no assurances that we will be able to maintain a positive reputation, brand names or trademarks. Our reputation, brand names and trademarks may be adversely affected by a number of factors, many of which are outside our control, including:

- adverse associations with our products, including with respect to their efficacy or side effects;
- the effects of counterfeit products purporting to be our products;
- lawsuits and regulatory investigations against us or otherwise relating to our products or industry;
- improper or illegal conduct by our employees and distributors promoters, whether or not authorised by us; and
- adverse publicity that is associated with us, our products or our industry, whether founded or unfounded.

If we or our brand names fail to maintain a positive reputation as a result of these or other factors, our products may be perceived unfavourably by hospitals, doctors, patients, and distributors, and our business and business prospects could be adversely affected.

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Third parties may infringe upon our intellectual property rights and other forms of protection under the PRC law.

Our success depends, to a large extent, upon obtaining and maintaining intellectual property rights and other forms of protection afforded to our products and services under the PRC laws, and defending these rights against third-party infringement. Our competitors may independently develop proprietary technology similar to ours, introduce counterfeits of our products, misappropriate our proprietary information or processes, infringe our patents, brand names and trademarks, or produce similar products that do not infringe on our patents or successfully challenge our patents. Our efforts to defend our patents, trademarks and other intellectual property rights against competitors or other violating entities may be unsuccessful and we may be unable to identify any unauthorised use of our patents, trademarks and other intellectual property rights and may not be afforded adequate remedies for such infringement. In particular, in the event that our registered patents and our applications do not adequately provide coverage of our products, we would not be able to prevent others from developing or commercialising these products.

In addition, we rely on laws and regulations to protect our trade secrets. Measures for prevention of disclosure of core technology secrets are set out in the two sections headed “Business — Intellectual Property” and “Business — Employees”.

In the event that any misappropriation or infringement of our intellectual property occurs in the future, we may need to protect our intellectual property or other proprietary rights through litigation or other forms of legal proceedings rights. These legal proceedings may divert our management’s attention from our business operations and possibly result in significant legal costs, and the outcome of such legal proceedings is uncertain. In addition, infringement of our intellectual property rights may impair the market value and share of our products, damage our reputation and adversely affect our business, financial condition and results of operations.

If third parties claim that we infringe their intellectual property rights, we may incur liabilities and financial penalties and may have to redesign or discontinue selling any affected products.

The medical device industry is litigious with respect to patents and other intellectual property rights. Companies operating in our industry routinely seek patent protection for their product designs, and many of our principal competitors have comprehensive patent portfolios. Companies in the medical device industry use intellectual property litigations to gain a competitive advantage. Whether a product infringes a patent involves analysis of complex legal and factual issues, the determination of which is often uncertain. We face the risk of claims that we have infringed third parties’ intellectual property rights in the countries where we operate, especially in the PRC, which could result in litigation against us. Our competitors may also have filed for patent protection before we made our application which is not yet a matter of public knowledge or claim trademark rights that have not been revealed through our searches of relevant

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public records. Our efforts to identify and avoid infringing third parties' intellectual property rights may not always be successful. Any claims of patent or other intellectual property infringements, even without merit, could:

- be expensive and time consuming to defend;
- result in us being required to pay significant damages to third parties;
- cause us to cease making or selling products that incorporate the challenged intellectual property;
- require us to redesign, reengineer or rebrand our products, if feasible;
- require us to enter into licensing agreements in order to obtain the right to use a third party's intellectual property, which agreements may not be available on terms acceptable to us or at all;
- divert the attention of our management; or
- result in hospitals and surgeons terminating, deferring or limiting their purchase of the affected products until resolution of the litigation.

Aspects of the impending healthcare reform in China may adversely affect our business. If the PRC Government decides to exert greater price control on our products, our business, profitability, results of operations and prospects would be materially and adversely affected.

The PRC Government has approved in principle a healthcare reform plan to address the burden on healthcare services, the rural healthcare system and healthcare service quality in China. The healthcare reform covers various sectors of medical services, including the use of implantable medical devices. In 2008 and 2009, the PRC Government announced a series of healthcare reform plans, the goal of which was to establish a universal healthcare framework and to ensure that basic healthcare services are accessible to Chinese nationals. As part of this trend, the MOH has increased its involvement in the administration of the tendering processes used by hospitals for selecting their suppliers for medical devices and their procurement price.

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

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Although no detailed policies or rules have been issued by the NDRC or other PRC Government authorities to date and we are unable to forecast the changes on the policies of prices management and control in the medical field adopted by the Chinese Government in the future, the PRC Government may announce further steps towards the regulation of implantable medical devices or implement the proposals described above. In such circumstances, we may incur additional expenses or costs to comply with the new requirements. Moreover, due to decreased distributor margins and we may be subject to significant pricing pressure on our products as well as pressure on our gross margin, our business, profitability, results of operations and prospects being materially and adversely affected. If we fail to comply with the proposed new requirements when they become effective, we may be subject to confiscation of illegal gains and a fine up to the amount equal to five times the illegal income (or up to RMB2 million, if no illegal income is generated) and, under severe cases, suspension of operations for rectification and for those who seek excessive profits through violating pricing laws and regulations, revocation of their business licenses by the industry and commerce administration authorities. All of these events could materially and adversely affect our business, financial condition, results of operations and prospects.

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

Sales of medical devices, in particular our orthopedic implant products, largely depend on the availability of adequate reimbursement from the PRC Government, public insurers or third-party payers. Our joint prosthesis products and spinal products are categorised as medical materials by the basic medical insurance scheme where part of their fees are covered by medical insurance. In 2012, approximately 30% of total health expenditures in China were sourced from direct payments by the PRC Government, according to the Euromonitor Report. Surgeons and patients generally rely on these sources to reimburse all or part of the costs and fees associated with the use of the medical devices and operations performed to implant these devices. Surgeons and patients are unlikely to use certain medical devices if they do not receive adequate reimbursement to cover the associated costs.

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

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

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

The main raw materials of our existing products include titanium alloy, forged titanium alloy, casted Co-Cr-Mo alloy and medical-grade ultra-high molecular weight polyethylene materials. The purchases from our top five suppliers accounted for a relatively high proportion of our total purchases, representing approximately 56.5%, 60.3%, 62.1% and 59.6% for the three years ended 31 December 2013 and the nine months ended 30 September 2014 respectively. The source of our main raw materials is fairly concentrated because under its present production capacities, it is beneficial for our Company to save procurement costs through bulk purchases from a limited number of suppliers and it is favourable for our Company to maintain stable control over the quality of raw materials by buying from concentrated and stable upper stream suppliers, in consideration of the strict requirements in the medical device industry towards the product safety. Any negative changes to the supplies of raw materials as provided by the abovementioned suppliers will affect our production and operations to a certain extent.

If we are unable to secure long-term contracts with such suppliers to fix the prices of raw materials, when there is a significant increase in the prices of any of the main raw materials and we otherwise fail to pass on such increase in costs to our customers, the profitability of our business may be affected adversely. We generally enter into supply agreements with our suppliers for a term of one year to two years. We cannot ensure that the existing suppliers will continue their long-term cooperation with us and supply raw materials we need on such price and terms and conditions acceptable by us. The supplies and market price of the raw materials may be subject to various factors that are beyond our control. We may also be unable to acquire alternative sources of supply in a timely and cost-effective manner. If the supply of raw materials is interrupted or we fail to acquire raw materials of required quality, our business, financial condition and results of operations may be affected adversely.

We may be responsible for issues arising from product recall or product quality.

We are required to implant our products in human bodies through various procedures such as joint replacement surgery or vertebral fixation surgery. Failed surgery as a result of substandard product quality may incur product liability claims from patients against the manufacturers who produce the product in question, which may adversely affect our ordinary course of production and operation.

As we continue to expand our scale of operation in the future, should there be any inadvertence in our quality management or otherwise resulting in product quality issues or it is proved to be unsafe, defective or polluted, it will affect surgeons' and patients' selection of our products and prejudice the brand name and reputation of our Company. In the event that the use or misuse of any product manufactured by us results in personal injury or death, product liability and/or indemnity claims may be brought against us. We may be subject to product recalls, and the relevant regulatory authorities in the PRC may suspend or close down some of our related operations and take other administrative

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actions against us. In addition, as medical device manufacturers are responsible for all consequences arising from clinical trials of their new products in China, we could be subject to claims and expenses arising from any professional malpractice of medical practitioners or researchers with whom we contract for clinical trials. We may also be held responsible for professional malpractice by medical practitioners or researchers with whom we contract for clinical trials in other countries.

As such, our Company is subject to potential operation risks arising from product quality issues. We cannot assure you that no product quality claims will be brought against us. We do not maintain any product liability insurance for products sold to overseas. Please see section headed “Business — Insurance” in this prospectus for details of the scope of our product liability insurance coverage for our products sold in China. If any of our products is alleged to be defective, we may experience reduced sales of the products manufactured or distributed by us and may have to recall our products from the market. Any claims against us in respect of quality issues, regardless of their merits, would materially and adversely affect our reputation and divert the time, resources and attention of our management. If any of such claims is successful, we may incur monetary liabilities, which will adversely affect our reputation, and in turn materially and adversely affect our business, financial condition and results of operations.

We may be liable to the delay in product delivery.

We typically rely on logistics service companies to deliver our products and the transportation fees are generally borne by our Company. Transportation process may be interrupted due to the reasons beyond our control, including weather, political unrest, social instability and strikes, which may lead to delays in the course of transportation. Where there are delays in the course of transportation, our Company shall be responsible for such delays. Therefore, we may be subject to claims associated with such delays, regardless of their merits, that may materially and adversely affect our reputation and divert the time, resources and attention of our management. If any of such claims is successful, we may incur monetary liabilities, which will materially and adversely affect our reputation, business, financial condition and results of operations.

The preferential tax treatment for high and new technology enterprise we are currently entitled to may be discontinued due to the assessment conducted by the government.

On 12 June 2009, our Company obtained the “High and New Technology Enterprise Certificate” (高新技術企業證書) issued by Beijing Municipal Science and Technology Commission (北京市科學技術委員會), Beijing Municipal Finance Bureau (北京市財政局), Beijing Municipal Office, State Administration of Taxation (北京市國家稅務局) and Beijing Local Taxation Bureau (北京市地方稅務局). As a result of the obtaining of the “High and New Technology Enterprise Certificate”, our Company is subject to enterprise income tax at a tax rate of 15% from 2009 to 2011.

Our Company passed the reassessment on 30 October 2012 and obtained the renewed “High and New Technology Enterprise Certificate”, with a term of three years. As such, we are subject to enterprise income tax at a tax rate of 15% from 2012 to 2014. However, failure to maintain our qualification as high and new technology enterprise may

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prevent us from benefiting from the relevant enterprise preferential income tax policies and we shall be subject to the normal enterprise income tax at a rate of 25%, which may adversely affect our net profit. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our Company recorded tax credit of RMB3.5 million, RMB3.7 million, RMB3.8 million and RMB2.6 million in respect of the high and new enterprise preferential income tax treatment, representing approximately 9.9%, 9.9%, 9.9% and 9.9% of our total profit before tax.

We may not be able to launch new products and services that meet evolving market demands.

The medical device industry is characterised by rapid development in science and technology and continuous emergence of new diseases. Our future success depends on our ability to launch new products and services that meet evolving market demands, in particular, new medical devices that are effective in treating and/or diagnosing new diseases and illnesses. We cannot assure you that we will be able to respond to emerging trends by improving our product portfolio and services in a timely manner.

The preferences and purchasing patterns of our customers with regard to medical devices can change rapidly. Our success depends on our ability to anticipate product and service offering lead-time and demand, identify customer preferences and adapt our products and services to these preferences. We cannot assure you that we will be able to sufficiently and promptly respond to changes in customer preferences and purchasing patterns, sales trends and other market conditions in the future to make corresponding adjustments to our research and development plans, production scale and schedule, product portfolio, service offerings and inventory level, and failing which may have a material and adverse effect on our business, financial condition, results of operations and profitability.

Our employees, our distributors or sub-distributors could engage in bribery or corrupt practices or other improper conduct that could harm our reputation and business.

In each of our business segments, we are subject to the current PRC laws and regulations. We are subject to risks in relation to actions taken by us or our employees, our distributors or sub-distributors that constitute violations of the PRC anti-bribery, anti-corruption and other related laws. Our failure to comply with such laws, or effectively manage our employees, our distributors or sub-distributors in this regard, could have material and adverse effects on our reputation, results of operations and business prospects.

In the medical devices industry, corrupt practices include, among others, acceptance of kickbacks, bribes or other illegal gains or benefits by distributors. The government authorities may seize the products involved in the illegal or improper conduct by our staffs or by us, and suspend our operations. Any consequences resulting from corrupt practices by us, our employees, our distributors or sub-distributors could materially and adversely affect our business, financial condition and results of operations. The interpretation of the PRC laws and regulations by the PRC regulatory authorities or the courts may differ from ours and such regulatory authorities may even adopt additional

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anti-corruption laws and regulations and we may need to make changes to our operations, which may increase our operation costs. Our reputation, results of operations and business prospects could be adversely affected if we become the target of any negative publicity as a result of actions taken by us or our employees, our distributors or sub-distributors.

We are subject to risks associated with our international businesses.

Part of our revenue is derived from international sales as we export our products to countries such as Korea, Turkey and Egypt, through overseas distributors or by way of ODM and OEM arrangement, and our international sales accounted for approximately 4.0%, 10.5%, 12.1% and 14.3% of our total revenue during the three years ended 31 December 2013 and the nine months ended 30 September 2014 respectively.

We aim to expand our international operations and we will continue our international sales. As a result, we are subject to a variety of risks and uncertainties associated with international operations and sales, including:

- compliance with foreign laws, regulatory requirements and local industry standards, in particular, those related to medical devices;
- exposure to increased litigation risks outside China;
- political and economic instabilities;
- foreign exchange rate exposure;
- unfamiliarity with local operating and market conditions;
- cultural and language difficulties;
- competition from local companies;
- foreign taxes;
- stringent environment, safety and labour standards; and
- potential disputes with foreign partners and difficulty in managing relationships with foreign customers.

Any of the foregoing and other risks and uncertainties could adversely affect our international operations and result in reduced revenue from our international operations and sales, which in turn could adversely affect our financial condition and results of operations.

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Substantially all of our medical devices are required to undergo a clinical trial process before they can be introduced into the market for commercial sale. The process is expensive, lengthy and uncertain.

Generally, we are required to provide the regulatory authorities with clinical data which demonstrates the safety and effectiveness of our medical devices in order to obtain approval for their commercial sale. The clinical trial process, which involves preclinical testing and clinical trials, may take several years to complete and the outcome of such process is uncertain.

Product testing may fail at any stage of the clinical trial. Success in preclinical testing and early clinical trial does not necessarily entail subsequent clinical trials and interim results of trials may not predict final results accurately. It is not unusual for companies to suffer significant setbacks in advanced clinical trials, even after receiving promising results in earlier trials. Preclinical and clinical data can be interpreted in different ways, which could delay, limit or prevent further testing or regulatory approval.

Further, the duration of a clinical trial generally varies substantially with the type, complexity, novelty and intended use of the product. Clinical trials may be delayed or need to be repeated for various reasons, such as negative or inconclusive results. Our clinical trials may be suspended at any time if we or the regulatory authorities believe the patients participating in our studies are exposed to unacceptable health risks.

We do not know whether planned clinical trials will begin on time or whether any of our clinical trials will be completed on schedule, or at all. Our product development costs would likely increase if we encounter delays in testing or obtaining approvals or if we need to perform more or a larger scale of clinical trials than planned. If the delays are significant, the commercial prospects for some of our medical device products will be harmed, which will adversely affect the results of operations in our business. Our business may also be adversely affected if the product under development fails to achieve approval for commercial sale after we have invested significant time and costs in the clinical trial process.

Our ceramic hip joint prosthesis products rely on third parties for the supply of raw materials.

We are currently developing a new product, namely ceramic hip joint prosthesis products and we procure certain components of ceramic hip joint prosthesis, namely ceramic femoral heads and lining from a globally renowned ceramics manufacturer (the “**Ceramics Manufacturer**”), which is an Independent Third Party. Please refer to the section headed “Business — Research and Development — On-going research and development project — Development of ceramic hip joint prosthesis products” in this prospectus for further details.

We cannot assure you that we can maintain long-term relationship with the Ceramics Manufacturer. Our inability to maintain such relationship could limit the launch of ceramic hip joint prosthesis products. We cannot assure you that we can find alternative manufacturers.

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If the Ceramics Manufacturer fails to perform its obligations under the relevant agreements between us or fail to meet regulatory standards, the materials supply of the relevant products may be delayed or prematurely terminated. Moreover, the Ceramics Manufacturer may gain access to our patents, trademarks, know-how, trade secrets and/or other intellectual properties through collaboration with us. We cannot assure you that the Ceramics Manufacturer will not knowingly or unknowingly misuse, infringe or violate our intellectual properties to their advantage and that the relevant agreements can offer us meaningful protection against such misuse, infringement or violation. The Ceramics Manufacturer could also pursue alternative technologies as a means of developing or marketing products that compete with us.

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

Our expansion plan may be altered due to any changes in circumstances, the development of our business, unforeseen contingencies or new opportunities. If our expansion plan changes, additional external debt or equity financing may be needed. If we are unable to obtain such funding at all or on acceptable terms, we may not be able to expand our business and our operations will be adversely affected. Our ability to such funding depends on various factors, some of which are beyond our control, such as government approval, then prevailing condition of the capital market, credit availability, interest rates and the performance of our business. If we are unable to obtain additional funding in a timely manner on terms that are satisfactory to us, our business, results of operations and expansion plan may be materially and adversely affected.

Our success and business operations are largely dependent on our senior management team and our ability to attract and retain talented personnel.

Our success depends on the continued service of our senior management team, as identified in the section headed “Directors, Supervisors and Senior Management” in this prospectus. The expertise, industry experience and contributions of our executive Directors and other members of our senior management are crucial to our success. For example, our executive directors, Mr. Shi and Ms. Yue, both have more than 20 years of working and operation experiences in the joint prosthesis industry.

We will need more experienced and competent executives and other senior management personnel in the future to implement our business strategies and growth plans. If we lose any of our key management members, including any of our Directors and senior officers, and are unable to recruit and retain replacement personnel with equivalent qualifications or talents in a timely manner, the growth of our business could be adversely affected.

Our success also depends on our ability to attract and retain qualified and skilled managerial, technical, research and development, sales and marketing, healthcare service and other personnel. Engineering, sales, marketing and clinical research personnel with experience in the medical device industry in the PRC are scarce. We cannot assure you that we will be able to attract, hire and retain sufficient numbers of qualified and skilled personnel to continue to develop and expand our business. Our Company also cannot

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guarantee that the shortage of qualified and skilled personnel will not increase its staff costs as the competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them and consequently materially and adversely affect our financial condition and results of operations. If we are not able to recruit and retain sufficient skilled personnel, our business and growth may be severely disrupted.

Furthermore, as our Company expects to expand its operations and develop new products, it will need to continue attracting and retaining experienced management and key personnel. Competition for personnel in the medical device manufacturing industry is intense, and the availability of suitable and qualified candidates in the PRC is limited. Our Company competes for such personnel with other medical device companies, academic institutions, government entities and other organisations, and such competition will intensify as the medical device industry in the PRC grows. Our Company may be unable to attract or retain the personnel required to achieve its business objectives and failure to do so could materially and adversely impact its competitiveness, business, financial condition and results of operations.

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

Our production facilities face the risk of operational breakdowns caused by accidents occurring during the production process, including but not limited to faulty construction and operator error. Any interruption in, or prolonged suspension of any part of production at, or any damage to or destruction of, any of our production facilities arising from unexpected or catastrophic events or otherwise may prevent us from supplying products to our customers, which in turn may result in a material adverse effect on our results of operations and financial condition. In addition, the amount of inventory we maintain is limited and there can be no assurance that any level of inventory we maintain will be sufficient to continue to supply our customers in the event of unforeseen interruptions to production. There is also a risk of injury or damage to persons, the property of others or the environment, which in turn could lead to considerable financial costs and may also have legal consequences. Consequently, our business, prospects, financial condition and results of operations may be materially and adversely affected. In addition, any interruption or suspension of production or failure to supply our products to our customers in a timely manner may result in breach of contract and loss of sales, as well as expose us to liability and the requirement to pay compensation under the relevant agreements, lawsuits and damages to our reputation, which could have a material and adverse effect on our business, financial condition and results of operations.

Our historical dividends may not be indicative of our future dividend policy.

We distributed RMB2.0 million, RMB12.0 million and RMB20.0 million dividends for the three years ended 31 December 2013, respectively. In May 2014, we distributed the final dividend for the year ended 31 December 2013 to the Shareholders of our Company of RMB11.0 million. However, we cannot guarantee whether and when any dividends will be paid in the future, and the amount of dividends that we may have declared in the past is not indicative of our future profit or the amount of dividends that we may pay in the future. For further information on our dividend policy after completion of the Global

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Offering, please see the section headed “Financial Information — Dividend Policy” in this prospectus. The policy on declaration, payment and the amount of any future dividends to be made are at the discretion of the Board and will depend upon the general business conditions and strategies, our financial results and capital requirements, our Shareholders’ interests, taxation considerations, possible effects on our creditworthiness, statutory and regulatory restrictions and other factors that the Board may deem relevant. Our dividend distribution policies are also subject to approval of our Shareholders.

Our Controlling Shareholders have substantial influence over our Company and their interests may not be aligned with the interests of other Shareholders.

Our Controlling Shareholders have substantial influence over our business, including matters relating to our management and policies and decisions regarding mergers, expansion plans, business consolidation, the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Mr. Shi and Ms. Yue are husband and wife, and are the Controlling Shareholders of our Company. Immediately upon completion of the Global Offering and assuming the Over-allotment Option is not exercised, Mr. Shi and Ms. Yue will hold in aggregate approximately 64.5% of the issued share capital of our Company and remain the Controlling Shareholders of our Company.

The concentration of ownership interests may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and may reduce the price of our Shares.

The interest of our Controlling Shareholders may differ from the interests of our other Shareholders. Our Controlling Shareholders may exercise their substantial influence over us to make us enter into, adopt or not to adopt other actions or make decisions which may be in conflict with the best interests of other Shareholders.

RISKS RELATING TO THE PRC

Substantially all of our assets are located in the PRC and most of our revenue is sourced from the PRC. Accordingly, our business, results of operations, financial condition and prospects are to a significant degree subject to economic, political and legal developments in the PRC.

Substantially all of our assets are currently located in the PRC. A substantial part of our Company’s revenue is generated from products manufactured and sold in the PRC, and our Company expects this situation to continue in the near future. As a result, our Company’s business, financial condition, results of operations and future prospects are and will continue to be subject to political, economic and legal developments in the PRC to a significant degree. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, allocation of resources, capital reinvestment, level of development, growth rate, and control of foreign exchange.

Historically, the PRC economy was centrally-planned, with a series of economic plans promulgated and implemented by the PRC Government. Since 1978, the PRC

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Government has been promoting economic and political reforms. The PRC has gradually shifted from a planned economy toward a market-oriented economy. However, continued governmental control of the economy may adversely affect our Company. Our Company cannot guarantee that the PRC Government will continue to pursue economic reforms. A variety of policies and measures that could be taken by the PRC Government to regulate the economy, including the introduction of measures to control inflation, deflation, or regulate economic growth, changes in the rates or methods of taxation, or the imposition of additional restrictions on currency conversions and remittances abroad, could materially and adversely affect our Company's business, financial condition and results of operations.

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

The outbreak of any severe contagious disease in the PRC, if uncontrolled, could have an adverse effect on the overall business sentiment and environment in the PRC, which in turn may have an adverse impact on domestic consumption and, possibly, on the overall GDP growth of the PRC. As a substantial portion of our revenue is derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption or slowdown in the GDP growth of the PRC may materially and adversely affect our financial condition, results of operations and future growth. The spread of any severe contagious disease in the PRC may also affect the operations of our customers and suppliers, which, again, may have a potentially adverse effect on our financial condition and results of operations.

Changes in foreign exchange regulations and future movements in the exchange rate of the Renminbi may adversely affect our financial condition and results of operations and our ability to pay dividends.

Current foreign exchange regulations have reduced the PRC Government's foreign exchange control on routine transactions under the current account, including trade and service-related foreign exchange transactions and payment of dividends. Under the existing foreign exchange regulations in the PRC, following completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, foreign currency transactions under our capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the SAFE. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

We receive a certain amount of revenue in U.S. dollars in relation to our overseas sales. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, such amount of revenue accounted for approximately 4.0%, 10.5%, 12.1% and 14.3% of our revenue. As a result, our operations are exposed to fluctuation in exchange rates of the RMB against U.S. dollars. The value of Renminbi may fluctuate due

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to a number of factors. There remains significant international pressure on the PRC Government to adopt a more flexible currency policy, which could result in a further appreciation of the RMB against the U.S. dollar. However, we cannot predict whether or when any further reforms of the PRC's exchange rate system will occur. Since our income and profits are denominated in Renminbi, any appreciation of Renminbi will also increase the value of, and any dividends payable on, our H Shares in foreign currency terms. Conversely, any depreciation of Renminbi will decrease the value of, and any dividends payable on, our H Shares in foreign currency terms. Since 2014, RMB has depreciated. Therefore, RMB may not continue to appreciate in the future. The exchange rates of against the U.S. dollars and other major currencies may change.

The PRC legal system is still evolving and has inherent uncertainties that could limit the legal protections available to you.

As we are a company incorporated under PRC laws and substantially all of our businesses are conducted in the PRC, our operations are principally governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with the aim of developing a comprehensive system of commercial laws. However, because these laws and regulations are still evolving, and because of their non-binding nature, the interpretation of PRC laws and regulations still involves a degree of uncertainty.

Substantial amendments to the PRC Company Law and the PRC Securities Law came into effect on 1 January 2006. The PRC Company Law was amended on 28 December 2013 and came into effect on 1 March 2014. The PRC Securities Law is under amendment. As a result, the State Council and the CSRC may revise the Special Regulations and the Mandatory Provisions and adopt new rules and regulations to implement and reflect the amendments to the PRC Company Law and the PRC Securities Law. We cannot assure you that any revision of the current rules and regulations or the adoption of new rules and regulations by the State Council and the CSRC will not have a material adverse effect on the rights of the holders of H Shares.

As a PRC company offering and listing its H Shares outside the PRC, we are subject to the Special Regulations and the Mandatory Provisions. Upon the listing of our H Shares on the Hong Kong Stock Exchange, the Listing Rules will become the principal basis for the protection of the rights of the holders of H Shares. The Listing Rules impose particular standards of conduct and disclosure on our Company, our Directors and the Controlling Shareholders of our Company.

It may be difficult to effect service of process upon us or our Directors or executive officers that reside in the PRC or to enforce against them or us in the PRC any judgements obtained from non-PRC courts.

The legal framework to which our Company is subject is materially different from the Hong Kong Companies Ordinance or corporate law in the United States and other jurisdictions with respect to certain areas, including the protection of minority

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Shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which our Company is subject are also relatively undeveloped and untested. Nevertheless, according to the PRC Company Law, Shareholders may commence a derivative action against the directors, supervisors, officers or any third party on behalf of a company under certain circumstances.

On 14 July 2006, the Supreme People's Court of the PRC and the Government of Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under such an arrangement, where any designated people's court in the PRC or any designated Hong Kong court has made an enforceable final judgement requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court in the PRC or Hong Kong court for recognition and enforcement of the judgement. Although this arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

Our Articles of Association provide that disputes between holders of H Shares and our Company, our Directors, our supervisors or our senior management or holders of A Shares, arising out of the Articles of Association or any rights or obligations conferred or imposed upon by the PRC Company Law and related regulations concerning its affairs, such as the transfer of the Shares, are to be resolved through arbitration by the China International Economic and Trade Arbitration Commission in China or the Hong Kong International Arbitration Center (香港國際仲裁中心), rather than by a court of law. In addition, on 18 June 1999, the Supreme People's Court of the PRC and the Government of Hong Kong signed the Arrangement Concerning Mutual Enforcement of Arbitral Awards between the Mainland and Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互執行仲裁裁判的安排). This arrangement, made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. Under the arrangement, awards that are made by the PRC arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong, and awards made by Hong Kong arbitral authorities are also enforceable in the PRC. However, there are uncertainties as to the outcome of any action brought in the PRC to enforce an arbitral award made in favour of a holder of H Shares. Accordingly, we are unable to predict the outcome of any such action.

In addition, PRC laws, rules and regulations applicable to companies listed overseas do not distinguish among minority and controlling shareholders in terms of their rights and protections and our minority Shareholders may not have the same protections afforded to them by companies incorporated under the laws of the United States and certain other jurisdictions.

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Substantially all of our Directors and all our Supervisors and our senior management reside within the PRC. Substantially all of our assets and substantially all of the assets of our Directors, our Supervisors and senior management are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the United States, the United Kingdom, Japan and many other countries. Therefore, it may not be possible for investors to effect service of process upon us or those persons in the PRC or to enforce against them or us in the PRC any judgements obtained from non-PRC courts. In addition, recognition and enforcement in the PRC of arbitration award of any other jurisdiction in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Foreign individual holders of our H Shares are subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprises that are holders of our H Shares.

Under current PRC tax laws, regulations and rules, foreign individuals and foreign enterprises that are not PRC residents are subject to different tax obligations with respect to the dividends paid by us or the gains realised upon the sale or other disposition of H Shares.

Foreign individuals who are not PRC residents are required to pay PRC individual income tax at a rate of 20% under the PRC Individual Income Tax Law (中華人民共和國個人所得稅法). Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdictions in which the foreign individuals reside reduce or provide an exemption for the relevant tax obligations. Generally, a tax rate of 10% shall apply to the dividends paid by our Company listed in Hong Kong to foreign individuals without application according to the treaties. When a tax rate of 10% is not applicable, the withholding company shall: (i) return the excessive tax amount pursuant to prescribed procedures if the applicable tax rate is lower than 10%; (ii) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%; and (iii) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For foreign enterprises that do not have offices or establishments in the PRC, or have offices or establishments in the PRC but to which their income is not related, under the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), or the EIT law which became effective on 1 January 2008, and its implementation regulations, dividends paid by us and the gains realised by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a rate of 10%, subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the relevant foreign enterprise's residence. In accordance with the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Nonresident Enterprises (Guo Shui Han [2008] No. 897) (關於中國居民企業向境外H股非居民企業股東派發股息代繳企業所得稅有關問題的通知國稅函[2008]897號) which became effective from 6 November 2008, 10% withholding tax shall be imposed on dividends paid by Chinese resident enterprises to holders of H Shares that are overseas non-resident enterprises. These

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holders of H Shares may apply for tax refunds in accordance with applicable tax treaties or arrangements, if any. In addition, the PRC tax laws, rules and regulations may also change from time to time. If the tax rates stipulated in the 2008 EIT Law and the related implementation rules are amended, the value of your investment in our H Shares could be materially and adversely affected.

In addition, it is also unclear whether and how the PRC individual income tax and enterprise income tax on gains realised by non-resident holders of H Shares through the sale, or transfer by other means, of H Shares will be collected by the PRC tax authorities in the future, although such tax has not been collected by the PRC tax authorities in practice. Considering these uncertainties, non-resident holders of our H Shares should be aware that they may be obligated to pay PRC income tax on the dividends and gains realised through sale or transfers of our H Shares. For additional information, please see Appendix IV — “Taxation and Foreign Exchange” to this prospectus.

Inflation in the PRC could adversely affect our profitability and growth.

Economic growth in the PRC has, in the past, been accompanied by periods of high inflation, and the PRC Government has implemented various policies from time to time to control inflation. For example, the PRC Government introduced measures in certain sectors to avoid overheating of the economy, including tighter bank lending policies and increases bank interest rates. The effects of the stimulus measures implemented by the PRC Government since the global economic crisis that unfolded in 2008 may have contributed to the occurrence of, and continuing increase in, the inflation in China. If such inflation is allowed to proceed without mitigating measures by the PRC Government, our cost of sales would likely increase, and our profitability would be materially reduced as there is no assurance that we would be able to pass any cost increases onto our customers. If the PRC Government implements new measures to control inflation, these measures may also slow economic activity and reduce demand for our products and services and severely hamper our growth.

We are subject to a wide variety of environmental regulations, and any failure to comply with these regulations or to control the associated costs could harm our business.

Our Company is required to comply with various and extensive environmental, health and safety laws and regulations promulgated by the PRC Government. If our Company fails to comply with these laws and regulations, it could be exposed to penalties, fines, suspension or revocation of its licenses or permits to conduct business, administrative proceedings and litigation. Given the magnitude and complexity of these laws and regulations, the compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and regulations continue to evolve, our Company cannot give assurance that the PRC Government will not impose additional or more onerous laws or regulations, compliance with which may cause our Company to incur significantly increased costs. Such events could materially and adversely affect our Company’s business, financial condition and results of operations.

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RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares. The liquidity and market price of our H Shares following the Global Offering may be volatile.

Prior to the Global Offering, there has been no public market for our H Shares. The initial Offer Price range issued to the public for our H Shares was the result of negotiations between our Company and the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied to list and deal in our H Shares on the Hong Kong Stock Exchange. We cannot assure you that the Global Offering will result in the development of an active, liquid public trading market for our H Shares. In addition, the price and trading volumes of our H Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows or other developments in our business or industries or the financial markets may affect the volume and price at which our H Shares will trade.

Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall during the period before trading of our Offer Shares begins.

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

Because the Offer Price is higher than the net tangible book value per share of our Company, the holders of our H Shares will incur immediate dilution.

The initial public offering price of our H Shares is higher than the net tangible asset value per share of the outstanding shares issued to our existing Shareholders. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in net tangible asset value of HK\$7.46 per H Share (assuming an Offer Price of HK\$14.10 per H Share, being the maximum Offer Price in the Global Offering, and assuming the Over-allotment Option is not exercised), and our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their shares. In addition, holders of our H Shares may experience a dilution of their proportional interest in our Company if we raise additional capital in the future.

Future sales or perceived sales of substantial amounts of our securities in the public market could have a material and adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future and may result in dilution of your shareholding in our Company.

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the

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public market or the issuance of new H Shares or other securities, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate.

Upon completion of the Global Offering, we will have two classes of ordinary shares, H Shares and Domestic Shares. There will be 16,670,000 H Shares representing 25.0% of the Company's enlarged share capital, and 50,000,000 Domestic Shares representing 75.0% of the Company's enlarged share capital. All of our Domestic Shares are unlisted Shares which are not listed or traded on any stock exchange. Our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares any requisite internal approval processes (but without the necessity of Shareholders' approval by class) shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained (the "Arrangement"). In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. The Arrangement applies only to unlisted Shares. All of our Domestic Shares are subject to the Arrangement and all of our Domestic Shares may be converted into H Shares upon the approval of the relevant regulatory authorities, including the CSRC and the Hong Kong Stock Exchange.

In addition, our Shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings.

Certain amounts of our Shares currently outstanding are and/or will be subject to contractual and/or legal restrictions on resale for a period of time after completion of the Global Offering. Please refer to the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering" in this prospectus for details. After these restrictions lapse or if they are waived or breached, future sales, or perceived sales, of substantial amounts of our Shares could negatively impact the market price of our H Shares and our ability to raise capital in the future.

We cannot guarantee the accuracy of official government facts, forecasts and other statistics with respect to the PRC, the PRC economy and the PRC medical device industry contained in this prospectus.

Official government facts, forecasts and other statistics in this prospectus relating to the PRC, the PRC economy and the PRC medical device industry have been derived from official government publications. We believe that the sources of such information are appropriate sources, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. In all cases, investors should give consideration

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as to how much weight or importance they should attach to or place on such official government facts, forecasts or statistics.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles and/or other media regarding us, our business, our industries and the Global Offering.

There may have been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and/or media regarding us, our business, our industries and the Global Offering. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our H Shares. None of us, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor, the Underwriters or any other person involved in the Global Offering have authorised the disclosure of any such information in the press or media and none of these parties accept any responsibility for the accuracy or completeness of the information contained in such press articles and/or other media or the fairness or appropriateness of any forecasts, views or opinions expressed by the press and/or other media regarding our H Shares, the Global Offering, our business, our industries or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

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We have applied to the Hong Kong Stock Exchange for, and have been granted, waivers from strict compliance with the following provision of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Rules 8.12 and 19A.15 of the Listing Rules require that an issuer must have sufficient management presence in Hong Kong, which normally means that at least two of the issuer's executive Directors must be ordinarily resident in Hong Kong. As at the Latest Practicable Date, all of our executive Directors and senior management reside in China. The business operations of our Company and our subsidiary are all located in the PRC. Our Company does not, and for the foreseeable future, will not, have executive Directors who are ordinarily resident in Hong Kong as required under Rules 8.12 and 19A.15 of the Listing Rules. Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules.

Our Company has made arrangements to maintain regular and effective communication between Hong Kong Stock Exchange and us for the purpose of Rules 8.12 and 19A.15 of the Listing Rules are as follows:

- a. our Company will appoint two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our Company's principal communication channel with the Hong Kong Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorised representatives to be appointed are Mr. Ding Gang (丁罡), our executive Directors, vice general manager, secretary of the Board and one of our joint company secretaries, a PRC resident, and Mr. Ip Pui Sum (葉沛森), the other joint company secretary of our Company, an ordinary resident in Hong Kong. Although one of them resides in the PRC, Mr. Ding Gang has applied valid travel documents and is able to renew such travel documents when they expire in order to visit Hong Kong. Each of the two authorised representatives has been duly authorised to communicate on behalf of our Company with the Hong Kong Stock Exchange and each of them will be readily available to meet with the Hong Kong Stock Exchange in Hong Kong within a reasonable time frame upon request and will be readily contactable by mobile or telephone, facsimile or email;
- b. both the authorised representatives have means to contact all members of the Board of Directors promptly at all times as and when the Hong Kong Stock Exchange wishes to contact members of the Board on any matters;
- c. our Company has implemented a policy whereby (i) each Director will provide his or her respective mobile phone number, office phone number, fax number and email address to the authorised representatives; (ii) each Director will provide valid phone numbers or means of communication to the authorised representatives when he or she travels; and (iii) each Director and authorised representative has provided his or her mobile phone number, office phone number, fax number and email address to the Hong Kong Stock Exchange;

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- d. all executive Directors who are not ordinarily resident in Hong Kong have confirmed that they hold valid travel documents to visit Hong Kong and will be able to meet with the Hong Kong Stock Exchange in Hong Kong upon reasonable notice, when required; and
- e. our Company has appointed China Everbright Capital as our compliance adviser who will have access at all times to our Company's authorised representatives, Directors and other officers and will serve as our Company's additional communication channel with the Hong Kong Stock Exchange. The compliance adviser will advise our Company on on-going compliance requirements and other issues arising under the Listing Rules for the period commencing on the Listing Date and ending on the date on which our Company distributes the annual report for the first full financial year after the listing of its H Shares.

APPOINTMENT OF JOINT COMPANY SECRETARIES

Rule 8.17

According to Rule 8.17 of the Listing Rules, an issuer must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules.

Rule 3.28

Rule 3.28 of the Listing Rules specifies that, the company secretary must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

The Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance).

In assessing "relevant experience", the Hong Kong Stock Exchange will consider the individual's:

- (a) length of employment with the issuer and other issuers and the roles he played;

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- (b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Hong Kong Companies Ordinance, and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the 15 hours minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Mr. Ding Gang joined our Company in June 2010, he has been appointed as our Director since December 2010 and the vice general manager and the Secretary of the Board since April 2011. He has a thorough understanding of the operations of our Board and our Company. However, Mr. Ding Gang does not possess the specified qualifications required by Rule 3.28 of the Listing Rules and he may not possess the relevant experience as required by the Hong Kong Stock Exchange in terms of his familiarity with the Listing Rules. Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, we have the following arrangements:

- Mr. Ding Gang will endeavour to attend relevant training courses including briefings on the latest changes to the applicable Hong Kong laws and regulations and the Listing Rules organised by our Company's Hong Kong legal advisers and seminars organised by the Hong Kong Stock Exchange for PRC issuers from time to time.
- Our Company has appointed Mr. Ip Pui Sum, who meets the requirements under Rule 3.28 of the Listing Rules, as a joint company secretary to assist Mr. Ding Gang for an initial period of three years commencing from the Listing Date so as to enable him to acquire the relevant experience (as required under Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as company secretary of our Company.
- Mr. Ip Pui Sum, who will familiarise himself with the affairs of our Company, will communicate regularly with Mr. Ding Gang on matters relating to corporate governance, the Listing Rules as well as other laws and regulations which are relevant to our Company and its other affairs. Mr. Ip Pui Sum will work closely with, and provide assistance to, Mr. Ding Gang in the discharge of his duties as a joint company secretary, including organising our Company's Board meetings and Shareholders' meetings.

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- Mr. Ding Gang will be assisted by Mr. Ip Pui Sum and will be appointed for an initial period of three years commencing from the Listing Date. Upon expiry of the three-year period, a further evaluation of the qualifications and experience of Mr. Ding Gang and the need for on-going assistance would be made.

Our Company has applied to the Hong Kong Stock Exchange for, and has been granted, a waiver from strict compliance with the requirements of Rule 8.17 of the Listing Rules. Upon the expiry of the three-year period, the Hong Kong Stock Exchange will revisit the qualification and experience of Mr. Ding Gang to determine whether the requirements as stipulated in Rule 8.17 of the Listing Rules can be satisfied. In the event that Mr. Ding Gang has obtained relevant skills necessary to carry out the duties of company secretary and the relevant experience under Rule 3.28 of the Listing Rules at the end of the said period, the above joint company secretaries arrangement will no longer be required by our Company.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Members of our Group have entered into, and are expected to continue after the Listing, certain transactions, which will constitute non-exempt continuing connected transactions under the Listing Rules upon Listing. Our Company has applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the requirements regarding the announcements in respect of such non-exempt continuing connected transactions under Chapter 14A of the Listing Rules, details of which are set out in the section headed “Connected Transactions” in this prospectus.

ACCOUNTS IN THIS PROSPECTUS

The Accountants’ Report set out in Appendix I to this prospectus contains the consolidated results of our Group for the three financial years ended 31 December 2013 and the nine months ended 30 September 2014.

Rule 4.04(1) of the Listing Rules requires that the consolidated results of our Group in respect of each of the three financial years immediately preceding the issue of the prospectus be included in the Accountants’ Report to this prospectus.

Section 342(1)(b) of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance requires all prospectuses to include, among other things, matters specified in the Third Schedule of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Paragraph 27 of Part I of the Third Schedule of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance requires the listing applicant to set out in the prospectus a statement as to the gross trading income or sales turnover during each of the three financial years immediately preceding the issue of the prospectus, including an

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explanation of the method used for the computation of such income or turnover, and a reasonable breakdown between the more important trading activities.

Paragraph 31 of Part II of the Third Schedule of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance requires that the listing applicant to include in the prospectus a report by the auditors with respect to (i) the profits and losses of our Company for each of the three financial years immediately preceding the issue of this prospectus and (ii) the assets and liabilities of our Company at the last date to which the accounts of our Company were made up.

We have applied for (i) a waiver from the Stock Exchange from strict compliance with Rule 4.04(1) of the Listing Rules; and (ii) a certificate of exemption under section 342A of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance from the SFC from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance, in relation to the inclusion of the Accountants' Report for the full financial year ended 31 December 2014 in this prospectus, on the following grounds:

- if the financial information is required to be audited up to 31 December 2014, it would be unduly burdensome to our Company, as our Company and the reporting accountants would have to undertake a considerable amount of work to prepare, update and finalise the Accountants' Report to cover such additional period within a short period of time, as a result of which there will be a significant delay in the listing timetable.
- a profit estimate for the financial year ended 31 December 2014 (which shall comply with Rules 11.17 to 11.19 of the Listing Rules) will be appended to this prospectus to ensure that sufficient information is provided to potential investors to make an informed assessment of the financial position of our Group.
- notwithstanding that this prospectus will not include the audited financial statements for the three months ended 31 December 2014, our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there is no material adverse change in the financial and trading position or prospects of our Company since 30 September 2014, and there is no event since 30 September 2014 which would materially affect the information shown in the accountants' report set forth in Appendix I to this prospectus.
- in view of the reasons above, our Directors are of the view that all information that is reasonably necessary for the potential investors to make an informed assessment of the activities or financial position of our Group has been included in the prospectus, therefore the granting of a waiver and an exemption from compliance with such requirements would not prejudice the interests of the investing public.

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The waiver from strict compliance with Rule 4.04(1) of the Listing Rules was granted by the Stock Exchange on the following conditions:

- (a) this prospectus be issued on or before 27 February 2015 and we list on the Stock Exchange by March 2015;
- (b) we obtain a certificate of exemption from the SFC on strict compliance with the requirements set out in paragraphs 27 of Part I and 31 of Part II of the Third Schedule of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (c) a profit estimate for the year ended 31 December 2014 (which shall comply with Rules 11.17 to 11.19 of the Listing Rules) will be included in the prospectus; and
- (d) a statement made by our Directors confirming that there has been no material adverse change in the financial and trading position or prospectus of our Company from 30 September 2014 will be included in the prospectus.

The certificate of exemption has been granted by the SFC under section 342A of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance on the conditions that (i) the particulars of the exemption be set forth in this prospectus; and (ii) this prospectus be issued on or before 27 February 2015.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Hong Kong Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of our or their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as at any date subsequent to the date of this prospectus.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for the Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

CSRC APPROVAL

The CSRC has given us its approval for the filing of our application to list the H Shares on the Hong Kong Stock Exchange and the Global Offering on 21 November 2014. In granting this approval, the CSRC does not accept responsibility for the financial soundness of our Company, or for the accuracy of any of the statements made or opinions expressed in this prospectus and the Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants applying under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. The Global Offering is managed by the Sole Global Coordinator. The Hong Kong Public Offering is underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or about the Price Determination Date, subject to determination of the pricing of the Offer Shares. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Underwriters) and us by Monday, 9 March 2015, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse. Further details about the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his, her or its acquisition of the Hong Kong Offer Shares to, confirm that he, she or it is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Hong Kong Offer Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus, and the offering and sale of the Offer Shares, in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING OF THE OFFER SHARES ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, our Offer Shares to be issued pursuant to the Global Offering. Except for the pending application to the Hong Kong Stock Exchange for listing of, and permission to deal in, the H Shares, no part of the Shares or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Offer Shares on the Hong Kong Stock Exchange and the compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements that may affect their rights and interests.

HONG KONG SHARE REGISTER AND STAMP DUTY

All of the H Shares issued pursuant to applications made in the Hong Kong Public Offering will be registered on our H Share register of members to be maintained in Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in the H Shares registered in our H Share register of members will be subject to the Hong Kong stamp duty. Please see Appendix IV — “Taxation and Foreign Exchange” to this prospectus.

DIVIDENDS PAYABLE TO HOLDERS OF H SHARES

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of H Shares will be paid to Shareholders as recorded in our H Share register, and sent by ordinary post, at the Shareholders’ own risk, to the registered address of each Shareholder.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed our H Share Registrar, and our H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until such holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;
- (ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each of our Shareholders, to refer all differences and claims arising from our Articles of Association or any

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive. Please see Appendix V — “Summary of Principal Legal and Regulatory Provisions” and Appendix VI — “Summary of Articles of Association” to this prospectus;

- (iii) agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and
- (iv) authorises us to enter into a contract on his behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

Persons applying for or purchasing H Shares under the Global Offering are deemed, by their making an application or purchase, to have represented that they are not associates of any of the Directors of our Company or an existing shareholder of our Company or a nominee of any of the foregoing.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus and in the Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

OVER-ALLOTMENT AND STABILISATION

Details of the arrangements relating to the Over-allotment Option and stabilisation are set out in the sections headed “Underwriting” and “Structure of the Global Offering” in this prospectus.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing to, purchasing, holding or disposing of, and/or dealing in the H Shares (or exercising rights attached thereto). None of us, the Sole Sponsor, the Underwriters, any of our or their respective directors, agents, employees or advisers or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription to, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the H Shares.

EXCHANGE RATE CONVERSION

Unless otherwise specified, for the convenience of the readers, Renminbi is converted into HK dollars at a rate of RMB0.8 to HK\$1.0 in this prospectus. The RMB to HK\$ exchange rate is quoted by the People's Bank of China for foreign exchange transactions prevailing on 23 April 2014. These conversions are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in RMB or HK\$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

TRANSLATION

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities included in this prospectus for which no official English translation exists are unofficial translation and for reference only.

MARKET SHARE DATA CONVENTION

The statistical and market share information contained in this prospectus has been derived from official government publications, and other sources including information or data provided by market data providers and other Independent Third Parties. Unless otherwise indicated, the information has not been verified by us independently. This statistical information may not be consistent with other statistical information from other sources within or outside the PRC. While reasonable caution has been made in the process of reproducing the data and statistics extracted from such official government publications or other sources, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and our Company, or any of their directors, employees, agents, and representatives make no representation to the appropriateness, accuracy, completeness or reliability of any such statistical and market share information.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
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DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Shi Chunbao (史春寶) <i>(Chairman of the Board)</i>	No. 331, Building 1, Zhongzeyuan Community Liyuan Town Tongzhou District Beijing the PRC	Chinese
Ms. Yue Shujun (岳術俊)	No. 331, Building 1, Zhongzeyuan Community Liyuan Town Tongzhou District Beijing the PRC	Chinese
Mr. Ding Gang (丁罡)	No. 113, 15/F, No. 66 Guangqu Road Chaoyang District Beijing the PRC	Chinese
Non-executive Directors		
Mr. Lin Yiming (林一鳴)	402, Unit 1, No. 3 Staff Quarter Beijing Geely University Changping District Beijing the PRC	Chinese
Independent Non-executive Directors		
Ms. Xu Hong (徐泓)	5-10C, Shiyu Garden, Landianchang Haidian District Beijing the PRC	Chinese
Mr. Tong Xiaobo (佟小波)	No. 704, Gate 2, 4/F, Court No. 36 Huangsihoushen Street Chaoyang District Beijing the PRC	Chinese
Mr. Cheung Ying Kwan (張應坤)	Flat G, 2/F, Block 3, Palm Mansions Whampoa Garden, Hung Hom Kowloon Hong Kong	Chinese (Hong Kong)

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Board of Supervisors

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
Mr. Qi Yi (祁毅) (Chairman)	No. 81, Yanle Hutong Dongcheng District Beijing the PRC	Chinese
Mr. Xie Fengbao (解鳳寶)	No. 17 Xinmi Road, Jin San Jiao Development Zone, Huoxian Town Tongzhou District Beijing the PRC	Chinese
Ms. Zhang Lanlan (張蘭蘭)	No. 542, Shenshizhuang Village Gaocun Township, Yi County Baoding Hebei the PRC	Chinese

For the details of each Director and Supervisor, please refer to the section headed “Directors, Supervisors and Senior Management” in this prospectus.

PARTIES INVOLVED

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager	China Everbright Securities (HK) Limited 36th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong
Sole Sponsor	China Everbright Capital Limited 17th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong
Legal advisers to our Company	<i>as to Hong Kong law:</i> Boughton Peterson Yang Anderson in association with Zhong Lun Law Firm Room 409, Jardine House 1 Connaught Place Central Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<p><i>as to PRC law:</i> V & T Law Firm 3/F, Tower A HUAYE International Center Fourth East Ring Middle Road No.39 Beijing the PRC</p>
<p>Legal advisers to the Sole Sponsor and the Underwriters</p>	<p><i>as to Hong Kong law:</i> Deacons 5th Floor, Alexandra House 18 Chater Road Central Hong Kong</p> <p><i>as to PRC law:</i> Commerce & Finance Law Offices 6/F, NCI Tower, A12 Jianguomenwai Avenue Chaoyang District Beijing the PRC</p>
<p>Auditors and reporting accountants</p>	<p>Pan-China Certified Public Accountants LLP <i>Certified Public Accountants</i> 4/F-10/F, Xinhua Commercial Tower 128 Xixi Road Hangzhou, Zhejiang the PRC</p>
<p>Compliance adviser</p>	<p>China Everbright Capital Limited 17th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong</p>
<p>Receiving Bank</p>	<p>Bank of China (Hong Kong) Limited Bank of China Tower 1 Garden Road Hong Kong</p>

CORPORATE INFORMATION

Registered office and Headquarters	No. 10 Xinmi Xi Er Road Southern District of Tongzhou Economic Development Zone Tongzhou District Beijing the PRC
Principal place of business in Hong Kong in accordance with Part XVI of the Hong Kong Companies Ordinance	19/F, Nan Dao Commercial Building 359–361 Queen’s Road Central Sheung Wan Hong Kong
Company’s website	http://www.clzd.com <i>(information on the websites does not form part of this prospectus)</i>
Joint company secretaries	Mr. Ding Gang (丁罡) No. 113, 15/F No. 66, Guangqu Road Chaoyang District Beijing the PRC Mr. Ip Pui Sum (葉沛森) (CPA (Practising), FCCA, ACMA, ACIS, ACS) 19/F, Nan Dao Commercial Building 359–361 Queen’s Road Central Sheung Wan Hong Kong
Authorised representatives	Mr. Ding Gang (丁罡) No. 113, 15/F No. 66, Guangqu Road Chaoyang District Beijing the PRC Mr. Ip Pui Sum (葉沛森) (CPA (Practising), FCCA, ACMA, ACIS, ACS) 19/F, Nan Dao Commercial Building 359–361 Queen’s Road Central Sheung Wan Hong Kong

CORPORATE INFORMATION

Audit committee	Ms. Xu Hong (徐泓) (<i>Chairman</i>) Mr. Tong Xiaobo (佟小波) Mr. Lin Yiming (林一鳴)
Nomination committee	Mr. Shi Chunbao (史春寶) (<i>Chairman</i>) Ms. Xu Hong (徐泓) Mr. Cheung Ying Kwan (張應坤)
Remuneration committee	Mr. Tong Xiaobo (佟小波) (<i>Chairman</i>) Ms. Xu Hong (徐泓) Mr. Shi Chunbao (史春寶)
Principal bank	Fang Zhuang Branch of Bank of Beijing No. 6, Court No. 3, Zone 2A, Fangxing Garden Fangzhuang, Fengtai District Beijing the PRC
H Share Registrar	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong

INDUSTRY OVERVIEW

The information that appears in this Industry Overview has been prepared by Euromonitor International Limited and reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Euromonitor International Limited should not be considered as the opinion of Euromonitor International Limited as to the value of any security or the advisability of investing in the Company. The Directors believe that the sources of information contained in this Industry Overview are appropriate sources for such information and have taken reasonable care in reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Euromonitor International Limited and set out in this Industry Overview has not been independently verified by the Group, the Sole Global Coordinator, the Underwriters or any other party involved in the Global Offering.

SOURCES OF INFORMATION

In connection with the Global Offering, we have commissioned Euromonitor, an Independent Third Party, to conduct a research report on the orthopedic implant industry and its relevant market segments in the PRC from 2009 to 2013. Founded in 1972, Euromonitor is a research institute focused on strategy research for consumer markets. We have included certain information from the Euromonitor Report in this prospectus because we believe such information facilitates an understanding of the industry. We have agreed to pay a total fee of USD51,000 for the preparation of the report.

Euromonitor primarily undertook primary and secondary research in preparing the Euromonitor Report. Primary research includes trade interviews conducted with market players in the orthopedic implant industry such as manufacturers, their distributors, national or regional industry associations, and industry observers to obtain fresh data, opinions and insight on the industry. Interviewing respondents from different departments with companies and multiple companies through the value chain enables change of a range of issues and help reconcile a spectrum of data and opinions. Secondary research consists of gathering, refining and confirming data from multiple and relevant published data sources, including the National Bureau of Statistics of China, trade associations, financials and annual reports of market players, and research groups national and local trade press. All primary and secondary research sources were standardised, cross-checked and analysed by Euromonitor to ensure a robust research feed to their analysis of the information.

The market share data reported in the Euromonitor Report and below have been determined via a fieldwork program consisting of desk research and trade interviews. While audited data were available for some of the companies, they typically do not break the revenue numbers into the relevant categories which were covered in the study carried out by Euromonitor. For these companies as well as those companies that are included in the market shares but are not publicly listed, Euromonitor has estimated the market shares based on estimates provided by various trade sources (ie. not just the companies themselves) and after seeking a consensus on these estimates as much as possible.

INDUSTRY OVERVIEW

To ensure robustness in preparing market forecasts, Euromonitor adopted its standard practice of analysis in terms of the market size, growth trends etc. based on multiple in-depth reviews of the historical market development of the orthopedic implant industry coupled with a cross-check with established government figures, industry figures, trade interviews or statistical tools where possible.

The bases and assumptions for the projections in the Euromonitor Report include the following:

- the PRC is likely to maintain steady macro-economic growth during the forecast period;
- the social, economical and political environment in the PRC are likely to remain stable for the foreseeable future, which provide an overall robust and healthy environment for the development of the medical device industry in the PRC, including the orthopedic implant industry; and
- key growth drivers such as the aging population, continuous growth in per capita healthcare expenditure and improvements in the public healthcare infrastructure are recognised to bolster the future growth of the orthopedic implant industry in the PRC.

On these bases, our Directors and the Sole Sponsor are satisfied that the forecasts and industry data disclosed in this section are not misleading.

Our Directors confirm that, after taking reasonable care, there is no material adverse change in the market information since the issue date of the abovementioned sources which may qualify, contradict or have adverse impact on the information in this section.

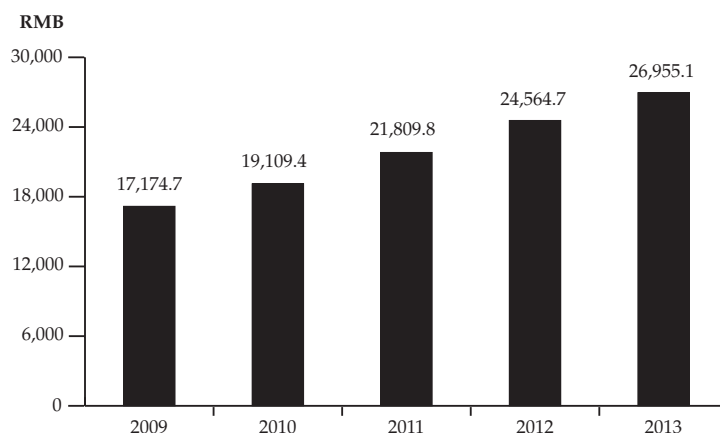
MACRO-ECONOMIC ENVIRONMENT OF THE PRC

Rapid economic growth in the PRC

China has experienced rapid economic growth over the past few decades. According to the National Bureau of Statistics of the PRC, China's GDP increased by about 7.7% annually from 2011 to 2013. The disposable income of urban households in the PRC has experienced remarkable growth which is in line with the growth of the GDP. The annual per capita disposable income of urban households in the PRC has been growing consistently since 2009 and amounted to RMB26,955.1 in 2013, increasing by 9.7% compared to 2012.

INDUSTRY OVERVIEW

Annual per capita disposable income of urban households in the PRC



Source: *The National Bureau of Statistics of the PRC*

Aging population and longer average life expectancy in the PRC

The proportion of population aged 65 and above in the PRC reached 11.1% in 2013, growing continuously from 9.7% since 2009. The trend of aging population brings increased demand for healthcare services. Elderly people are common sufferers of orthopedic disorders, while orthopedic implants are a viable solution to such conditions.

With the rapid economic development and improved living standards in the PRC, citizens are becoming more health conscious. As a result, the average life expectancy of the total population in the PRC reached 75.3 years in 2013, 0.6 years more than the average in 2009. Longer life expectancy attributed to the increased public expenditure on healthcare, according to the Euromonitor Report.

Year	Average life expectancy in the PRC				
	2009	2010	2011	2012	2013
Age	74.7	74.9	75.0	75.2	75.3

Source: *Euromonitor International Passport - Countries and Consumers 2014*

INDUSTRY OVERVIEW

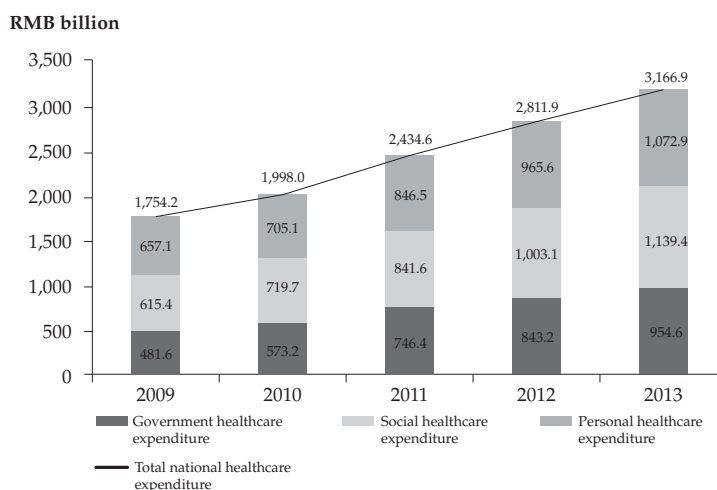
HEALTHCARE INDUSTRY IN THE PRC

Growth in the total national healthcare expenditure in the PRC

As a result of the population's longer life expectancy, total national healthcare expenditure^(Note 1) in the PRC has shown significant growth in the past few years. According to the National Bureau of Statistics of the PRC, total national healthcare expenditure in the PRC grew nearly doubled from RMB1,754.2 billion in 2009 to RMB3,166.9 billion in 2013, representing a CAGR of about 15.9%. In 2013, total national healthcare expenditure accounted for 5.6% of the GDP in the PRC.

The total national healthcare expenditure comprises government healthcare expenditure^(Note 2), social healthcare expenditure^(Note 3) and personal healthcare expenditure^(Note 4). According to the National Bureau of Statistics of the PRC, while all three areas have seen significant growth in the past few years, growth in the government healthcare expenditure and social healthcare expenditure has outpaced personal healthcare expenditure to become the main contributors to the total national healthcare expenditure, accounting for about 66.1% of the total national healthcare expenditure in 2013 as compared to only about 62.5% in 2009.

Total national healthcare expenditure in the PRC



Source: The National Bureau of Statistics of the PRC

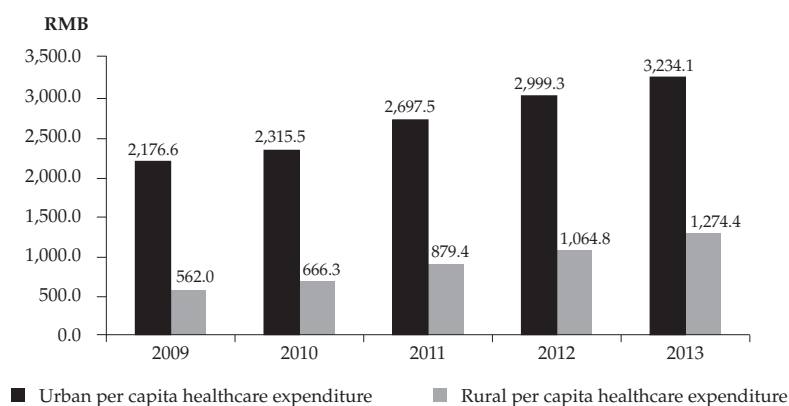
- Notes:
1. Total healthcare expenditure refers to the total value of healthcare resources consumed in providing and carrying on healthcare activities.
 2. Government healthcare expenditure refers to funding from government at all levels which is used in different sectors such as providing healthcare services, healthcare subsidies, administration fee for healthcare and expenditure on family planning.
 3. Social healthcare expenditure refers to funds contributed by the society (rather than the government) for healthcare affairs, including social medical insurance expenditure, commercial health insurance, expenditure for setting up medical facilities, funding donated from the society and administrative income.
 4. Personal healthcare expenditure refers to cash paid by rural and urban citizens when they receive various kinds of healthcare services, including payment paid by citizens who are entitled to various kinds of healthcare insurance systems when they receive healthcare services.

INDUSTRY OVERVIEW

Growth in per capita healthcare expenditure in the PRC

In addition, urban per capita healthcare expenditure increased continuously from RMB2,176.6 in 2009 to RMB3,234.1 in 2013, representing a CAGR of about 10.4%, while rural per capita healthcare expenditure increased significantly from RMB562.0 in 2009 to RMB1,274.4 in 2013, representing a CAGR of about 22.7%. The proportion of urban per capita healthcare expenditure to overall per capita consumer expenditure increased from about 17.7% in 2009 to about 17.9% in 2013, representing a CAGR of about 0.3%. Also, the proportion of rural per capita healthcare expenditure to overall per capita expenditure increased from about 14.1% in 2009 to about 19.2% in 2013, representing a CAGR of about 8.0%.

Per capita healthcare expenditure in the PRC



Source: *The National Bureau of Statistics of the PRC*

Healthcare reforms in the PRC

According to the “Opinions of the CPC Central Committee and the State Council on Deepening the Healthcare System Reform” (中共中央國務院關於深化醫藥衛生體制改革的意見) published in 2009, the PRC Government aims to establish a basic medical and healthcare system covering both urban and rural citizens by 2020 through (1) accelerating the establishment of a medical care system; (2) improving the healthcare service system; (3) building a nationwide medical insurance system; and (4) establishing a drug supply guarantee system.

INDUSTRY OVERVIEW

Moreover, according to the “Twelfth Five-Year Special Plan for the Medical Device Industry (2011–2015)” (醫療器械科技產業“十二五”專項規劃 (2011-2015)) issued by the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部) in November 2011, the PRC Government aims to (1) establish a preliminary research and development chain for developing innovative medical devices to improve research and development capabilities in the PRC medical device industry by 2015; (2) develop medical devices with high quality, high performance and low cost which could lessen the reliance on imports; (3) develop innovative brands to increase market competition; and (4) complement the value chain, optimize the industrial structure, increase the market shares of domestic companies and improve the competitiveness of China’s medical device industry in the global market.

Furthermore, according to the “Plan for Deepening the Health Care System Reform during the Twelfth Five-Year Plan Period” (“十二五”期間深化醫藥衛生體制改革規劃暨實施方案) issued by the State Council in March 2012, the PRC Government aims to increase the number of beds and the service capacity in non-public medical institutions to 20% of the total number of beds and service capacity at all medical institutions. In August 2012, the Ministry of Health issued the “Strategic Research Report for Health China 2020” (健康中國2020戰略研究報告) which states that seven major healthcare projects totaling up to RMB400 billion will be implemented in the next eight years, with RMB10.9 billion to be used for improving the technical infrastructure of county-level hospitals. Driven by these healthcare reforms, it is expected that the demand for medical devices from non-public medical institutions and county-level hospitals is expected to increase substantially, according to the Euromonitor Report.

MEDICAL DEVICE MARKET IN THE PRC

According to the China Medical Pharmaceutical Material Association (中國醫藥物資協會), the market size of medical devices^(Note) in the PRC grew at an annual average rate of over 20% from 2009 to 2013, reaching approximately RMB200 billion in 2013 and representing approximately 14.0% of the total value of the medical and pharmaceutical market in the PRC. Due to the wide range of medical equipment products offered in the industry, the PRC market is highly fragmented and most of the manufacturers are small in scale. According to the data from CFDA, there were around 15,000 licensed medical device manufacturers as of the end of 2012. The number of licensees fluctuates over the years, as a large number of new industry players enter into the market while some existing industry players cease to operate.

Note: Medical devices refer to apparatus, equipment, appliance, materials or other items applied individually or as a combination on human bodies for medical use.

INDUSTRY OVERVIEW

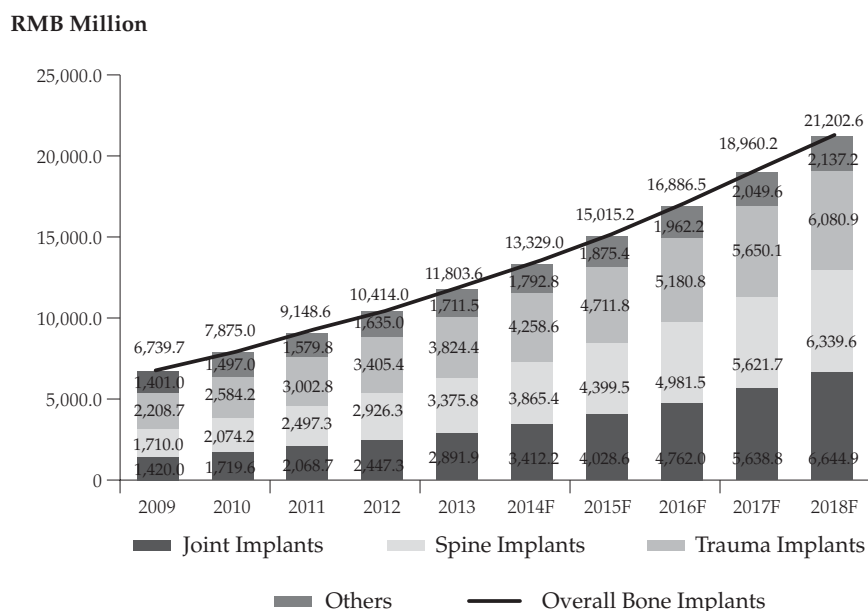
ORTHOPEDIC IMPLANT MARKET IN THE PRC

Size and growth of the orthopedic implant market

The orthopedic implant^(Note 1) market, a segment of the medical device market, has experienced rapid growth in recent years. According to the Euromonitor Report, the market size^(Note 2) for orthopedic implants was approximately RMB11,803.6 million in 2013, nearly a double of the market size of about RMB6,739.7 million in 2009 and an increase at a CAGR of about 15.0% from 2009 to 2013. The market size for orthopedic implants represented approximately 5.9% of the total value of the medical device industry. According to the Euromonitor Report, the five-year period from 2014 to 2018, the orthopedic implant market in the PRC is estimated to grow at a CAGR of 12.3% and reach about RMB21,202.6 million, nearly a double of the market size for 2013.

The orthopedic implant industry is generally divided into four major segments, namely trauma, spine, joint and others. According to the Euromonitor Report, the market size of trauma implants was the largest among the four segments in 2013, followed by spine implants, joint implants and other implants. The growth of the joint implant market was higher than that of the other segments and grew at a CAGR of about 19.5% from 2009 to 2013. The market size of joint implants was approximately RMB2,891.9 million in 2013.

Sales value of orthopedic implant market in the PRC



Source: Euromonitor's estimation based on trade interview and desktop research

- Notes:
- Orthopedic implants refer to medical device products that are used for replacing or as an adjuvant treatment for injured bones and skeleton and implanted into human bodies, including joint implants (such as knee joints, hip joint, shoulder joints and elbow joints), spine implants and trauma implants (such as calcaneal plates and bone pegs), excluding dental fillings.
 - Adopting the sales of orthopedic implants in the enterprises which manufacture orthopedic implants as the statistical basis.

Market players, competitive landscape and trends

Contrary to the medical device market, the orthopedic implant market is relatively concentrated, with about more than 100 manufacturers as of the end of 2013, mainly based in Beijing, Tianjin, Shanghai and Jiangsu. Around 30 of these manufacturers specialise in the joint implant segment and around 10 manufacturers produce both joint and spine implants, while the remaining manufacturers focus on the spine and trauma implant segments.

PRC manufacturers have a relatively short history in the orthopedic industry, yet they enjoyed rapid growth in the past years. However, leveraging on their technological advantages, foreign enterprises still dominate the PRC orthopedic market. Major hospitals in first tier cities mainly source their implant products from foreign enterprises. On the other hand, various government policy and guidelines, for example, the “Twelfth Five-Year Special Plan for the Medical Device Industry (2011-2015)”, lean in favour of domestic medical device manufacturers. As the reform to the existing medical cost reimbursement scheme continues, products from domestic orthopedic implant producers will likely be included in the catalogue of medical devices for insurance coverage, which used to be dominated by products from foreign suppliers, according to the Euromonitor Report. If this change occurs, domestic medical device suppliers will receive an instant boost to their business.

To further increase their market shares in China, notable multinational medical device companies consistently launch high-end products in the domestic market and acquire PRC domestic manufacturers. According to the Euromonitor Report, multinational medical device companies are also eyeing on the PRC markets of second and third-tier cities and it is expected that the competition in these cities will increase.

Entry barriers

The following is a summary of the key entry barriers in the orthopedic implant market, according to the Euromonitor Report:

- *Regulatory measures.* The PRC has implemented various policies and rules to regulate medical device manufacturers, covering areas such as market entry, quality control of design and production processes and quality monitoring after product launch. For example, according to the “Measures For Administration of Medical Device Recall” (醫療器械召回管理辦法), medical device manufacturers are required to establish a quality control system which collects and records data for any quality issues with its products on the market. According to the Euromonitor Report, a new market participant is expected to take four to five years to obtain all licenses and permits required and around ten years to break even. Please refer to the section headed “Business — Competitive strengths — We are one of the enterprises medical device registration certificates in the joint prosthesis sector in China” of this prospectus for the comparison of the types of medical device registration certificates for joint prosthesis held by the major domestic market players in the PRC.

INDUSTRY OVERVIEW

- *Production Technology.* Orthopedic implant manufacturing requires a large sum of capital and equipment investment. Low-end products which are less advanced may be produced by machinery sourced from domestic companies. However, advanced products require machinery imported from Switzerland, Germany, Japan and the United States.
- *Talented personnel.* Orthopedic implant production requires interdisciplinary research effort that involves clinical medicine, biological science, materials science, structural mechanics and mechanical engineering. A research and development team that is comprised of talented personnel from across the fields is one of the prerequisites for entering the orthopedic implant industry. However, due to the general lack of such talent and the long period required for talent cultivation, the difficulty of recruiting necessary talent for the research and development team poses a barrier to entry.
- *Sales distribution.* The medical device industry generally adopts the distributorship sales model, whereby a manufacturer will authorise a distributor to market its products in certain areas or to certain hospitals. The industry places a relatively higher level of demand on distributors, who are required to obtain approvals from regulatory departments and be capable of providing specialised after-sale services to the hospitals. Therefore, a medical device manufacturer usually needs a relatively longer amount of time in establishing a mature and stable sales distribution network.
- *Brand recognition.* Medical devices may have a direct impact on a patient's health and well-being. Therefore, health service providers and patients are particularly keen on brand awareness when deciding on which brand of products to use. A mature brand with a reliable reputation for an orthopedic implant product takes years of effort and investment to build up.

Key growth drivers

The following is a summary of the key growth drivers in the orthopedic implant market, according to the Euromonitor Report:

- *Aging population.* According to the Euromonitor report, over 11% of China's population were aged 65 and above in 2013. As the trend of an aging population leads to an increase in the incidence of orthopedic conditions such as osteoporosis and arthritis, the continuous growth of the aging population is expected to increase the demand for orthopedic implants.
- *Greater acceptance of orthopedic implants.* The continuing rise in income levels and health awareness of the PRC population is allowing more orthopedic patients to consider orthopedic implant surgery in their treatment. According to the Health Reform Office of the State of Council, China has realised full coverage of basic medical care insurance as of the end of 2013. With the inclusion of medical devices in medical care insurance coverage, demand for orthopedic implants has increased noticeably.

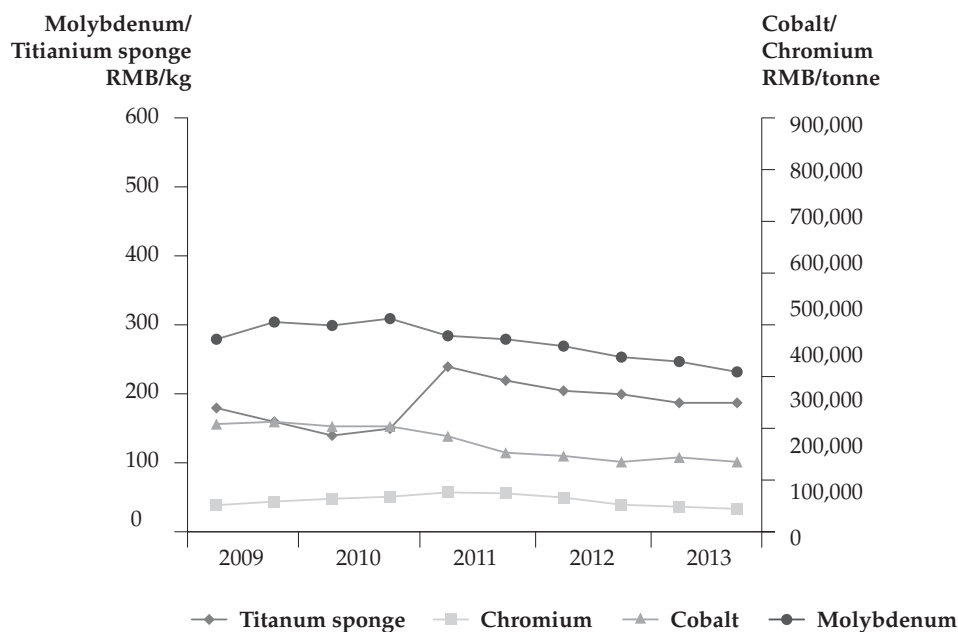
INDUSTRY OVERVIEW

- Improvements in the public healthcare infrastructure.* Since the series of healthcare reforms which commenced in 2009, the PRC Government has spent over RMB500 billion on healthcare as of the end of 2012, most of which went to public healthcare services and insurance covered medical services. Over the same period, public fiscal cumulative expenditure under the healthcare reforms totaled over RMB1 trillion. The expenditure has been used to improve the infrastructure of hospitals at local levels and community healthcare service centres and their medical equipment. Medical institutions at local levels have seen their infrastructure improve significantly, with adequate equipment and qualified medical staff for performing orthopedic surgeries. The increased application of orthopedic surgery in lower-level medical institutions not only benefits more patients but the orthopedic implant industry as well.

Historical prices of major raw materials

Major raw materials of orthopedic implants are titanium alloy, forged titanium alloy and casted cobalt-chromium-molybdenum alloy. The following chart illustrates the historical prices of (i) titanium sponge, which is the core component of titanium alloy and forged titanium alloy and (ii) cobalt, chromium and molybdenum which are the core components of cobalt, chromium and molybdenum, from 2009 to 2013.

Prices of titanium sponge, cobalt, chromium and molybdenum



Source: Shanghai Metals Market (上海有色網)

INDUSTRY OVERVIEW

OVERVIEW OF THE JOINT IMPLANT SEGMENT

Competitive landscape and trends

The market size of the joint implant market reached approximately RMB2,891.9 million in 2013. According to the Euromonitor Report, the joint implant market is highly concentrated, with the top 10 players taking roughly 75% of the market share in terms of sales value. As of 2013, the top 6 market players were all owned or partly owned by multinational corporations, with a combined market share of around 62%, according to the Euromonitor Report. Meanwhile, our Company was the second largest domestic manufacturer in 2013, with a market share of about 3.1%, according to the Euromonitor Report.

Top 10 companies in the joint implant segment (by domestic sales value, export excluded) ^(Note 1)

Rank	Company Name	Market share in PRC joint implant market as of 2013 (%)	Listed or not listed
1	DePuy Orthopaedics, Inc. / DePuy France SAS ^(Note 2)	15.4%	Listed
2	Zimmer Holdings, Inc.	13.4%	Listed
3	Waldmar Link GmbH & Co. KG	10.7%	Not
4	Smith & Nephew Plc	9.7%	Listed
5	Stryker Corporation	9.0%	Listed
6	Biomet, Inc	3.8%	Not
7	Beijing AKEC Medical Co., Ltd.	3.6%	Not
8	Our Company	3.1%	Not
9	Tianjin Zhengtian Medical Device Co., Ltd.	2.7%	Not
10	Tianjin Huajian Orthopaedics Instrument Co., Ltd.	2.4%	Not

Source: Euromonitor's estimation based on trade interview and desktop research

Notes:

- (1) The market share data reported in the table above has been determined by Euromonitor via a fieldwork program consisting of desk research and trade interviews. While audited data was available for some of the companies, they typically do not break the revenue numbers into the relevant categories which were covered in this study. For these companies as well as those companies that are included in the market shares but are not publicly listed, Euromonitor has estimated the markets shares based on estimates provided by various trade sources (i.e. sources other than companies themselves) to seek a consensus on these estimates as much as possible.
- (2) These companies are part of the Johnson & Johnson group according to their company website.

Compared with the trauma and spine implant segments, manufacturers in the joint implant segment require a relatively higher level of technical expertise. This was the main reason multinational corporations dominated the market segment as of 2013. However, according to the Euromonitor Report, domestic companies are expected to increase their market share by upgrading their product offerings as the PRC healthcare reform advances and the government lends support to Chinese companies through favourable policies.

REGULATORY OVERVIEW

This section discloses a number of aspects of the PRC laws and regulations relating to our business operations in the PRC.

GENERAL REGULATORY FRAMEWORK

The medical device industry in the PRC is subject to strict and extensive regulation and review by governmental authorities. The NDRC is responsible for organising the implementation of policies for the medical device industry, conducting research on the intended industry development plans, supervising the structural realignments within the industry and implementing industry management. Besides, the National Health and Family Planning Commission (“NHFPC”) is responsible for the formulation of health reform and development strategies, plans and guidance policies, drafting of provisional laws and regulations relating to medical devices, development of regulations of medical devices, and formulation of relevant standards and technical specifications. Moreover, the CFDA is responsible for providing administrative supervision and technological management of research, manufacture, distribution and application of medical devices.

Joint implants are subject to regulatory controls governing medical devices. Manufacturers of medical devices are subject to regulations and oversight by CFDA and the local food and drug administrative authorities. We are also subject to other PRC laws and regulations applicable to manufacturers in general. CFDA’s requirements include obtaining production permits, product registrations and compliance with clinical testing standards, manufacturing practices, pricing practices, quality standards, applicable industry standards, reporting procedures with respect to adverse events, and advertising and packaging standards.

CLASSIFICATION OF MEDICAL DEVICES

In China, medical devices are classified into three different categories, Class I, Class II and Class III, based on the invasiveness of and risks associated with each medical device. The classification of a medical device also determines the types of product registration certificates required and the level of regulatory authority involved in granting the product registration certificates. The class to which a medical device is assigned determines, among other things, whether a manufacturer needs to obtain a production permit and the level of regulatory authority involved in granting such permit.

Class I devices pose low risk to human body and its safety and effectiveness can be ensured through routine administration. A registration system was originally implemented for Class I devices and product registration certificates for such products are regulated and granted by the city-level food and drug administration where the manufacturer is located. As from 1 June 2014, a filing system was adopted on Class I devices and manufacturers are required to file with the city-level level food and drug administrative authorities of which they are located. Class II devices pose medium risk to the human body and its safety and effectiveness shall be strictly controlled. Product registration certificates for Class II devices are regulated and granted by the provincial-level food and drug administration where the manufacturer is located, usually through a quality system assessment. Class III devices pose high risk to human body, like life-sustaining, life-supporting and implantable devices. Product registration certificates

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for Class III devices are regulated and granted by the food and drug administrative authorities of the state under the strictest regulatory control.

Our surgical devices are classified as Class I devices, and our orthopedic implants are classified as Class III devices.

PRODUCT REGISTRATION CERTIFICATE

Pursuant to the “Administrative Measures for the Medical Devices Registration” promulgated by the CFDA and became effective on 9 August 2004, a manufacturer must register and obtain a medical device registration certificate for the medical device by proving its safety and effectiveness to the satisfaction of the respective levels of the food and drug administrative authorities before manufacturing medical devices for commercial distribution. Production of Class I medical devices is subject to the inspection and approval of the local drug administrative authority of the PRC Government at prefectural level, and shall obtain product production registration certificate. Meanwhile, production of Class II medical devices is subject to the inspection and approval of the drug administrative authorities of the PRC Government of provinces, autonomous regions, municipalities, and shall obtain a product production registration certificate. Furthermore, production of Class III medical devices shall be subject inspected, approved and granted a product production registration certificate by the CFDA. The term for the registration certificate of medical devices is four years, which must be renewed within six months prior to expiration. Production of Class II and Class III medical devices shall pass clinical verifications. Pharmaceutical regulatory authorities of provinces, autonomous regions, municipalities are responsible for inspecting and approving the clinical trials or clinical verifications of Class II medical devices within their own administrative regions, while the CFDA is responsible for the inspection and approval of clinical trials or clinical verifications of Class III medical devices.

On 30 July 2014, the “Administrative Measures for the Medical Devices Registration” as amended was promulgated by the CFDA and such amended administrative measures will come into effect from 1 October 2014. Pursuant to the “Administrative Measures for the Medical Devices Registration” as amended, manufacturers engaging in the production Class I medical devices are required to file with the city-level level food and drug administrative authorities of which they are located. Moreover, production of Class II medical devices is subject to the inspection and approval of the drug administrative authorities under the PRC government at the level of provinces, autonomous regions, municipalities, and the grant of product registration certificates. Furthermore, production of Class III medical devices shall be subject to the inspection and approval and the grant of a product registration certificate by the CFDA. The product registration certificate is valid for four years and the holder of which shall apply for extension within six months prior to its expiration. Production of Class II and Class III medical devices shall pass clinical verification. Clinical verification is not required under any of the following circumstances:

- Medical devices with detailed operation mechanism, fixed design and mature manufacturing technology, while the same types of medical devices in the market have no record of severe adverse events after years of clinical application, and there are no changes on its ordinary usage;

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- medical devices that are proven to be safe and effective through non-clinical evaluation;
- medical device that are proven to be safe and effective through the clinical trial conducted on the same types of medical devices or analytical evaluation on information obtained from clinical application.

List of medical devices exempted from clinical trials will be formulated, adjusted and published by the CFDA. Conducting clinical trials for Class III medical devices impose higher risks on human bodies and thus it shall be approved by the CFDA. List of Class III medical devices which clinical trials are required will be formulated, adjusted and published by the CFDA.

MEDICAL DEVICE MANUFACTURING LICENSE

Pursuant to the Regulations on the Supervision of Medical Devices (醫療器械監督管理條例), which was amended by the 39th meeting of standing committee of the State Council of the PRC on 12 February 2014 and has come into effect from 1 June 2014, a manufacturer must accomplish the registration of product, and obtain a production permit from the respective level of food and drug administration before commencing the manufacture of Classes II and III medical devices.

The establishment of an enterprise which engages in the manufacture of Class I medical devices shall be carry out record-filing with the drug administrative authorities of the PRC Government of prefecture-level cities. Meanwhile, the establishment of an enterprise engaging in the manufacture of Class II and Class III medical devices shall be subject to examination and approval by the drug administration authorities within the PRC Government of various provinces, autonomous regions, municipalities, and shall obtain a Medical Device Manufacturing License. Accordingly, a manufacturer will not be able to commence any business operations without submitting a filing or obtaining a Medical Device Manufacturing License. The term of the validity of the Medical Device Manufacturing Enterprise License is five years and shall apply for extension within six months prior to its expiry.

GOOD MANUFACTURING PRACTICE FOR MEDICAL APPARATUS AND INSTRUMENTS

CFDA promulgated “Good Manufacturing Practice Rules for Medical Devices (for Trial implementation)” on 16 December 2009, which became effective as from 1 January 2011 with two relevant standards — “Implementation Regulations on Implantable Medical Devices Manufacturing (for Trial Implementation)” and “Implementation Regulations on Sterilised Medical Devices (for Trial Implementation)”. CFDA promulgated the revised “Good Manufacturing Practice Rules for Medical Devices” on 29 December 2014, which will become effective as from 1 March 2015.

“Good Manufacturing Practice Rules for Medical Devices” is regarded as the basic principles of the quality control system of medical devices manufacturing and is

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applicable to the entire process of design and development, production, sales and after-sales services of medical devices. Manufacturing enterprises of medical devices shall establish sound quality control systems which are compatible with the medical devices that they produce in accordance with the features of the products and the GMP requirements, and to maintain effective operations. As a component of the quality control system, manufacturing enterprises shall implement risk management throughout the entire process of product production.

Pursuant to the “Administrative Measures for Inspection of Good Manufacturing Practice for Medical Devices (for Trial Implementation)” which became effective as from 1 January 2011, Pharmaceutical Certification Management Center (“**Certification Management Center**”) of the CFDA was appointed by the CFDA to conduct quality control inspection of the manufacturing of certain Class III medical devices with high risks. The provincial-level drug administrative authorities are responsible for the quality control inspection of the manufacturing of Class II medical devices and other Class III medical devices excluding certain Class III medical devices with high risks inspected by the Certification Management Center; the inspection formalities on the control of reporting information regarding the quality control inspection of the manufacturing of certain high risks Class III medical devices, and the daily supervision and administration of the quality control system of the medical devices manufacturing enterprises within their respective administrative regions. Medical devices manufacturing enterprises will receive “Notice on the Inspection Results of the Good Manufacturing Practice for Medical Devices” issued by the CFDA and provincial-level drug administrative authorities after inspections, and the results of such inspections are divided into “Passed”, “Reassessment after rectification” and “Failed”. The validity of “Notice on the Inspection Results of the Good Manufacturing Practice for Medical Devices” obtained by those manufacturing enterprises of medical devices which passed the inspection is four years, and such enterprise shall re-apply for inspection prior to its expiry.

China is implementing certain quality control systems as part of the effort in achieving the standardisation of medical devices. China has established a quality certification system for medical devices. We have conducted our production operation and have established a strict quality control system for our medical devices pursuant to the requirements of GB/T19001-2000 quality control system and YY/T0287 standards since June 2001. Meanwhile, the quality control system was continuously improved and strengthened through our regular administrative assessment and internal audit on the compliance, effectiveness and sufficiency of the implementation of the quality control system. We first passed the on-site inspection of CMDC (later renamed as “Beijing Hua Guang Certification of Medical Devices Co., Ltd.”) in March 2002 and duly passed all the annual retesting or reassessment of Hua Guang Quality Control System onwards. Furthermore, we passed the on-site inspection of BFDA’s “Implementation Regulations on Implantable Medical Devices Manufacturing” in January 2004, July 2005 and September 2009, respectively. Moreover, we passed the GB/T19001 idt ISO 9001 quality control system certification and the inspection for an upgraded version of YY/T 0287 idt ISO 13485 medical devices quality control system organised by Beijing Hua Guang Certification of Medical Devices Co., Ltd. in May 2008. Our hip, shoulder, elbow and knee joint prosthesis products also passed the GMP on-site inspection of medical devices manufacturing in January and June 2012.

PERMIT FOR MEDICAL DEVICE OPERATION ENTERPRISES

Pursuant to the “Regulations on the Supervision of Medical Devices”, enterprises engaging in the operations of Class I medical devices are not required to obtain approval and submit a filing; enterprises engaging in the operations of Class II medical devices are required to file with food and drug administrative authorities at the city level in which the enterprises operate, while enterprises engaging in the operations of Class III medical devices shall apply to the food and drug administrative authorities at the city level in which the enterprises operate to obtain the operation permits.

The term of validity of the Permit for Medical Device Operation is five years. Manufacturing enterprises of medical devices which continue to engage in the operation of medical devices shall submit applications to the drug administrative authorities which issued the original permit for extension of the Permit for Medical Device Operation Enterprises at least six months prior to their expiry.

Medical devices manufacturing enterprises engaging in the sale of self-produced products are not required to obtain the Permit for Medical Device Operation Enterprises.

MEDICAL INSURANCE

The Notice of Opinion on the Diagnosis and Treatment Management, Scope and Payment Standards of Medical Service Facilities Covered by the National Urban Employees Basic Medical Insurance Scheme (Lao She Bu Fa [1999] No. 22) (關於印發城鎮職工基本醫療保險診療項目管理、醫療服務設施範圍和支付標準意見的通知) (勞社部發[1999]22號) prescribes the coverage of diagnosis and treatment where part of the fees is paid through the basic medical insurance scheme. The basic medical insurance scheme shall cover “artificial organs and materials implanted within human body, including pacemakers, joint prosthesis, intraocular lens, intravascular stents”. Our joint prosthesis products and spinal products are categorised as medical materials by the basic medical insurance scheme. According to the current medical insurance scheme in the PRC, the medical fees incurred by individuals who are patients who have medical insurance will be paid to medical institutions such as hospitals in two portions. Part of the medical fees will be settled by the social insurance management institutions with the State Basic Medical Insurance Funds (國家基本醫療保險基金) pursuant to Rule 29 of the Insurance Law (中華人民共和國社會保險法) of the PRC, while the remaining will be directly paid to the medical institutions by individuals. The labour protection administration department of each district shall prescribe their own specific ratio of the fees to be paid by the patients. The medical coverage of the basic medical insurance scheme for our joint prosthesis products and spinal products for most of the districts in China range from around 70% to 90% of the total price of our products. The proportion of reimbursement for medical insurance varies in different parts of the PRC, and such portion of medical fees will be settled directly by the social insurance management institutions with hospitals. Patients will be required to pay the remaining 10% to 30% only. In other words, the patients will not be required to make subsequent claims against the insurance institutions.

The settlement of medical fees by social insurance management institutions with hospitals are generally governed by relevant policies of the different parts of the PRC

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stipulated based on actual local circumstances. Generally, settlement by the social insurance management institutions with hospitals are made on a monthly basis, and the medical institutions shall file the applications for the settlement of medical fees incurred in the previous month accompanied with related materials to the social insurance management institutions before a specified date every month. While social insurance management institutions shall generally complete the review within 15 to 30 working days, and make the payment upon completion of review, certain particular regions such as Chengdu City make settlements on a quarterly basis. In addition, the ways for medical insurance fees payments vary at different parts of the PRC. For example, in Jinan City, it is stipulated that 90% of the medical fees paid to hospitals shall be paid on the outset, while the remaining 10% shall constitute as quality assurance retention money, which shall be paid based on the results of quality evaluation on medical services.

EXPORT REGISTRATION

CFDA maintains a registration system for the export of medical devices. Medical devices manufacturers, including the PRC domestic companies and foreign-invested enterprises, must obtain export registration certificates from CFDA before exporting any medical device. Pursuant to the “Rules on the Application and Issuance of Medical Device Exporting Certificate” promulgated by the CFDA on 6 January 1996, CFDA represents the PRC Government to conduct inspections of safety and legality of the products manufactured by domestic enterprises (including the PRC enterprises, sino-foreign equity joint ventures and foreign-owned enterprises) in accordance with the spirit of the Notice of Guo Ban Fa [94] No. 66 of the State Council, and to grant Exporting Certificate in accordance with the international conventions so as to prove that such products have obtained legitimate production permit within Chinese territory. Medical Device Exporting Certificate granted by the CFDA must be used with the Safety and Quality Assurance Disclaimer issued by the manufacturers of such products at the same time, and such certificate shall not be used separately. Chinese version of the Exporting Certificate is regarded as the original copy and its English translation is deemed as a copy. Such certificate, except being specified for one time use, is valid for a term of two years.

ADVERTISING AND PROMOTION

Relevant PRC laws and regulations governing the advertisements of medical devices include the “PRC Advertising Law” which became effective on 1 February 1995, “Regulations on the Supervision and Administration of Medical Devices” which came into effect from 1 April 2000 and amended on 12 February 2014, “Criteria for the Examination and Publication of Medical Device Advertisements” which became effective from 20 May 2009 as well as other regulations relating to administration of advertising in the PRC.

In accordance with the “Measures for the Examination of Medical Devices Advertisements” which became effective from 20 May 2009, in order to obtain an approval code of medical devices advertisement, a manufacturer of medical devices shall submit an application to the provincial-level drug administrative authority to obtain an approval code of medical devices advertisement, and an approval code of medical devices advertisement will be issued. The term of validity of the approval code of medical devices advertisement is one year. No advertisements in relation to medical devices shall be

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published or broadcasted by an enterprise or organisation which has not obtained an approval code of advertisement. In addition, the content of advertisements for medical devices is subject to certain guidelines approved by the CFDA or the provincial-level drug administrative authorities.

CONTINUING REGULATION OF CFDA OR ITS RELEVANT LOCAL COUNTERPARTS

We are subject to the continuing supervision by the CFDA and its relevant local counterparts. In the event of significant modification to an approved medical device, its labelling or its manufacturing process, a new pre-market approval or pre-market approval supplement may be required. Our products are subject to, among others, the following regulations:

Renewal of permits and certificates

Production permits are valid for five years from their issuance date and product registration certificates expire after five years. Applications for renewal of such permits and certificates must be submitted to the respective food and drug administrative authorities within the prescribed timeframe prior to their expiry. Failure to renew the relevant permit and/or certificate on time may result in fines being imposed by the CFDA and its relevant local counterparts or revocation of the permit and/or certificate.

Changes to content of permits and certificates

Any changes to the contents or particulars stated in the production permit must be reported to the CFDA or its relevant local counterparts. Pursuant to “Regulations on Supervision of Medical Devices”, if any of the contents stated in the product registration certificate is changed, an application for modification or re-registration of the product registration certificate must be filed with the CFDA or its relevant local counterparts. If there are non-substantive changes of the registered Class II and Class III medical devices which do not affect the safety and effectiveness of such medical devices, registrants shall report to the original registration authorities for records.

Other continuing regulations

- “Regulations on Good Manufacturing Practice for Medical Devices ” requires manufacturers to create, implement and follow certain design, procurement, production management, quality control, sales, monitoring and other quality assurance procedures;
- Regulations on Reporting Adverse Reaction of Medical Devices stipulates that manufacturers shall report to the CFDA specified types of adverse reaction and other incidents involving such adverse reaction;
- Pursuant to “Medical Device Recall Management Measures (for Trial Implementation)” issued by the Ministry of Health, manufacturers of medical devices shall immediately decide to make a voluntary recall when a defective product was found in defect investigation; and

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- CFDA and its relevant local counterparts impose general prohibition against promoting products for unapproved uses.

We are also subject to inspection and market surveillance by the CFDA and its relevant local counterparts to determine compliance with regulatory requirements. If CFDA and its relevant local counterparts decide to enforce its regulations and rules, the agency may institute a wide variety of enforcement actions such as:

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

PRICING AND TENDER PROCESS

In China, public hospitals and healthcare institutions are required to purchase high value medical supplies, including our joint prosthesis products and spinal products, at prices established through a periodic tender process.

Pursuant to the “Trial Working Plan for Centralised Purchasing of High Value Medical Supplies by Health Institutions in Eight Provinces and Municipalities” promulgated by the MOH on 31 August 2004, pursuant to which, trading manufacturers under the MOH and its counterparts in eight provinces and municipalities, including Beijing and Shanghai, confirmed and supervised the selling prices of high value medical devices by the way of a centralised bidding process, in order to set the procurement prices for medical institutions of such provinces and municipalities.

On 21 June 2007, MOH issued the “Notice of the Ministry of Health on Further Strengthening the Administration of Centralised Procurement of Medical Devices” (Wei Gui Cai Fa [2007] No. 208) to comprehensively implement the system of centralised procurement of medical devices.

On 9 November 2009, NDRC, MOH as well as Ministry of Human Resources and Social Security jointly issued the “Notice of Opinion on Reform of Pricing System of Pharmaceuticals and Medical Services” (Fa Gai Jia Ge [2009] No. 2844), pursuant to which NDRC will strengthen its intervention in the pricing of high-valued medical devices (especially the medical implants), limit the profit margins of the supply chain, and periodically announce market price information of medical devices.

On 17 December 2012, six ministries including the MOH and CFDA jointly issued the “Administrative Regulations on Centralised Procurement of High-valued Medical

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Consumables (for Trial Implementation)” to implement the centralised procurement of online high-valued medical devices (including our joint prosthesis products and spinal products) which is government-led and to be conducted with province (region or municipality) as a unit. Each provincial (regional or municipal) government is responsible for the establishment of an online regulatory platform for the procurement of medical devices (‘procurement platform’), while public medical institutions as well as operation and production enterprises of medical devices shall conduct procurement through such procurement platform, in order to establish an unified organisation and platform and to implement unified regulation. Each province (region or municipality) is responsible for formulating and preparing a centralised procurement list of high-valued medical devices with its administrative region, implementing public tenders and invitational tenders of the medical devices listed on the centralised procurement list as well as conducting procurement in other means stipulated in the PRC laws and regulations. After determining the procurement prices, public medical institutions within the relevant regions shall conduct procurement strictly in accordance with the tender prices. Pursuant to the Tender and Bidding Law of the which became effective on 1 January 2000 and the “Regulation on the Implementation of the Tender and Bidding Law of the PRC” which came into effect on 1 February 2012, the tendering process of medical devices procurement primarily include announcements of tender invitations, preparation and issuance of tender documents, submission of bids made by suppliers, tender opening and tender evaluation, confirmation of successful bidder, issuance of confirmation letter, signing of contract and filing for a record. After the confirmation of supplier, the tender shall enter into a written contract in accordance with the tender document and that of the successful bidder, of which the successful bidder shall not re-enter into other agreements which will be contrary to the substantive content of the contract.

LABOUR AND SOCIAL PROTECTION

Labour

Pursuant to the Labour Law of the PRC effective on 1 January 1995 and the Employment Contract Law of the PRC which became effective on 1 January 2008, employers must establish a comprehensive management system to protect the rights of their employees, including a system governing occupational health and safety to provide employees with occupational training to prevent occupational injury. In addition, employers and employees shall enter into written employment contracts to establish their employment relationship with the employers. Employers are required to inform the employees about their job duties, working conditions, occupational hazards, remuneration and other matters with which employees may be concerned. Employers shall pay remuneration to employees on time and in full in accordance with the commitments set forth in the employment contracts and the PRC regulations.

Pursuant to the Social Insurance Law of the PRC effective from 1 July 2011, and the “Regulations on the Administration of Housing Accumulation Funds” which was amended and became effective on 24 March 2002, employers in the PRC shall provide their employees with welfare schemes including pension insurance, medical insurance, unemployment insurance, maternity insurance, occupational injury insurance and housing fund.

Production safety

Pursuant to the Production Safety Law of the PRC which became effective on 1 November 2002, and was amended on 27 August 2009 and 31 August 2014, enterprises and institutions shall be equipped with the conditions for safe production as provided in the Production Safety Law of the PRC and other relevant laws, administrative regulations, national standards and industrial standards, and shall promote standardization on production safety. Any entity that is not equipped with such conditions is not allowed to engage in production and business operation activities. Enterprises and institutions shall educate their employees regarding production safety. The labour union shall conduct supervision on work safety production according to the laws. In addition, enterprises and institutions shall provide personal protective equipment that attains national standards or industrial standards to the employees, and supervise and educate them to use such equipment.

INTELLECTUAL PROPERTY RIGHTS

According to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated on 12 March 1984 with the last amendment effective on 1 October 2009, patent protection is divided into three categories, namely, invention patent, utility patent and design patent. Invention patents are intellectual property rights in relation to new technology of a product, method, or its improvement. Utility patents are intellectual property rights in relation to new technology to increase the utility of product's shape, structure or combination. Design patents are intellectual property rights in relation to new design of a product's shape graphic or colour with aesthetic and industrial application value. Invention patents are valid for twenty years from the date of application, while design patents and utility patents are valid for ten years from the date of application. Once an invention patent, utility patent or a design patent is granted, unless otherwise permitted by law, no individual or entities are permitted to engage in the manufacture, use, sale, or import of the product protected by such patent or otherwise engage in the manufacture, use, sale, or import of the product directly derived from applying the production technology or method protected by such patent, without consent of the patent holder.

Pursuant to the PRC Trademark Law effective on 1 March 1983 and amended on 22 February 1993, 27 October 2001 and 30 August 2013 and "Regulation for the Implementation of the PRC Trademark Law" which came into effect on 15 September 2002 and was amended on 29 April 2014, the term of validity of a registered trademark is ten years, calculated from the date of approval of the registration. If a registrant needs to continue to use the registered trademark after the term of validity, an application for renewal of registration shall be made within six months before the expiration. Violation of the Trademark Law of the PRC may result in the imposition of fines and, confiscation and destruction of the infringing commodities.

PRODUCT LIABILITY AND CONSUMER PROTECTION

The Product Quality Law of the PRC which was enacted on 1 September 1993 and amended on 27 August 2009 aims to strengthen quality control of products and reinforce consumers' rights. Pursuant to such law, manufacturers and operators who produce and sell defective products may be subject to confiscation of earnings from such sales, the revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liability.

The PRC Tort Law was enacted by the Standing Committee of the National People's Congress on 26 December 2009 and came into effect from 1 July 2010. Pursuant to such law, a patient who suffers injury from defective pharmaceuticals or medical devices can claim for compensations from either the medical institution or the manufacturers. If the patient claims for compensations from the medical institution, the medical institution has the right to claim for repayment from the manufacturer.

The PRC Law on the Protection of the Rights and Interests of Consumers which was promulgated on 31 October 1993, enacted from 1 January 1994 and amended on 27 August 2009 and 25 October 2013 aims to protect consumers' rights when they purchase goods or services. All business operators must comply with such law when they manufacture or sell goods and/or provide services to customers. In some cases, medical device manufacturers and distributors may be subject to criminal liability if their goods or services lead to the death or injuries of patients or other third parties.

OTHER REGULATIONS

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

REGULATIONS OF OVERSEAS LISTINGS

"Regulatory Guideline in relation to Offshore Issuance of Shares by Companies Limited by Shares and Documents and Approval Procedure for Application for Listing" which was promulgated by the CSRC (CSRC Announcement [2012] No. 45) on 20 December 2012 and became effective on 1 January 2013 requires that limited companies established in accordance with the PRC Company Law shall proactively submit an application to the CSRC for the issue and listing of shares outside China in compliance of the listing conditions of the overseas listing places. The CSRC will accept, review and make an administrative approval for application for administrative permission submitted by a company. The company may upon receipt of the acceptance notice submit to overseas securities regulatory authority or stock exchange a preliminary application for stock issuance and listing, and may upon receipt of the approval document for administrative licensing from CSRC submit to overseas securities regulatory authority or stock exchanges a formal application for stock issuance and listing.

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On 30 June 2014, our Company received the CSRC's Acceptance Notice of the Application for Administrative Approval. CSRC was of the view that the application materials for "Initial public offering of overseas listed foreign shares (H shares) of Beijing Chunlizhengda Medical Instruments Co., Ltd and its listing on the Main Board of The Stock Exchange of Hong Kong Limited" (北京市春立正達醫療器械股份有限公司首次公開發行境外上市外資股(H股)並在香港聯合交易所有限公司主板上市) submitted by the Company were complete and had complied with the statutory form and decided to accept the application for administrative approval for further processing.

DIVIDEND DISTRIBUTION

The principal regulation governing dividend distribution paid by companies is the PRC Company Law. Pursuant to the PRC Company Law, when allocating the after-tax profits of the current year, a limited company registered in the PRC shall allocate 10% of its profit to the statutory common reserve fund of the company. In the event that the accumulated statutory common reserve fund of the company has reached more than 50% of the registered capital of the company, no allocation is needed. In the event that the statutory common reserve fund of the company is insufficient to make up the losses of the previous year, before allocating the statutory common reserve fund in accordance with the stipulations of the previous paragraph, the company shall first make up the losses by using the profits of the current year. After allocating the statutory common reserve fund from the after-tax profits of the company, the company can allocate the arbitrary common reserve fund according to the resolution of shareholders' general meeting, and the proportion of the allocation of the arbitrary common reserve fund is subject to the approval of the shareholders' general meeting. The profits after tax of the company, after covering the losses and making allocation to the statutory revenue reserve, shall be distributed to the shareholders in accordance with their proportion of shareholdings in the company, except for the non-pro rata distribution required by the articles of association of such limited company. If it is resolved at the shareholders' general meeting or the board of directors to distribute profit to shareholders before covering the losses and making allocation to statutory revenue reserve in violation to the provisions of the previous paragraph, the shareholders shall return such distributed profits to the company. The shares held by the company shall not be used in the profit distribution.

REGULATIONS ON EMPLOYEE SHARE OPTIONS

On 25 December 2006, the People's Bank of China promulgated the "Administrative Measures for Individual Foreign Exchange", of which it set forth the respective requirements for foreign exchange transactions by PRC individuals under either the current account or the capital account. The "Implementation Rules of the Administrative Measures for Individual Foreign Exchange", issued on 5 January 2007 by SAFE, specify the approval requirements for PRC citizens who are granted shares or share options by an overseas listed company according to its employee stock ownership scheme or stock option scheme.

On 15 February 2012, SAFE promulgated the "Notice on Several Issues Relating to Domestic Individuals Participating in Share Incentive Scheme of Overseas Listed Company" (Hui Fa [2012] No. 7). Pursuant to such Notice, domestic individuals

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(“**domestic individuals**”) participating in equity incentive schemes of overseas listed companies incorporated in the PRC (“**domestic companies**”) shall through the domestic companies they serve, collectively entrust a foreign agency (“**foreign agency**”) to centrally handle matters such as foreign exchange registration, account opening, funds transfer and exchange, and entrust a domestic agency to handle issues like exercise of options, purchase and sale of related stocks or equity, and funds transfer. Domestic agencies holding relevant documents shall collectively apply to the local branches of SAFE or foreign management departments (“**foreign exchange authorities at the places of registration**”) for foreign exchange registration of individuals participating in share incentive schemes. Domestic individuals can participate in share incentive schemes using domestic legal funds like self-owned foreign exchange or Renminbi from their personal foreign exchange savings accounts. Domestic agencies shall open domestic specific foreign exchange accounts in banks with foreign exchange registration certificates of share incentive schemes. The sources of income of such accounts are foreign funds transferred from a personal foreign exchange savings account, foreign funds of domestic agencies generated from collective personal purchase of foreign currency, principal and interest repatriated from personal sale of shares or interests under share incentive schemes, repatriated funds for dividends, and other incomes approved by foreign exchange authorities at the places of registration. The areas of expenses are overseas payment of required funds for participating in share incentive schemes, settlement of repatriated overseas funds or funds transferred to personal foreign exchange savings accounts, and other expenses approved by foreign exchange authorities at the places of registration. After repatriation of foreign exchange income generated from share incentive schemes participated by domestic individuals, domestic agencies shall transfer the funds from their domestic specific foreign exchange accounts to corresponding personal foreign exchange savings accounts by the way of bank transfers based on the documents like relevant written applications, foreign exchange registration certificates of share incentive schemes and certification of overseas exchanges, and to manage and operate in accordance with the relevant requirements of the personal foreign exchange saving accounts. Settlements of funds corresponding to the purchasing part of the deposits of the repatriated funds and all incomes can be collectively handled by domestic agencies for individuals based on the aforesaid documents, and settlements of funds generated can also be transferred to corresponding personal domestic Renminbi accounts. SAFE and its branches may take regulatory measures and impose administrative sanctions on domestic individuals, domestic companies, domestic agencies and banks that violate the provisions of this Notice.

In addition, the State Administration of Taxation has issued certain circulars concerning employee share options. Under these circulars, our employees working in the PRC who exercise share options will be subject to PRC individual income tax.

We have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay and we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC Governmental authorities.

ANTI-CORRUPTION LAWS IN CHINA

The PRC Government has issued since the early 1990's various laws and regulations with respect to commercial bribery. NPC adopted the Anti-Unfair Competition Law which became effective on 1 December 1993 and provided that a business operator would commit a crime if it offered money or any other bribes in the course of selling or purchasing products. On 15 November 1996, the SAIC issued the "Interim Rules on Prohibition of Commercial Bribery" ("**Order 60**"), which provided that the act of commercial bribery includes offering money, goods, free tours, and unrecorded rebate sales commission in secret to any person when selling or buying products. In accordance with the Anti-Unfair Competition Law and Order 60, SAIC (or its local counterparts), being the principal government authority that supervises matters relating to unfair competition and commercial bribery in the PRC, has the power to impose fines in an amount ranging from RMB10,000 to RMB200,000 and to confiscate the illegal gains of a business operator when convicted of commercial bribery. In addition, if any entity or individual offers any property to any government officials for the purpose of seeking illegitimate gain or interests, such act would be considered a crime under the PRC Criminal Law and become punishable by the relevant PRC Governmental authorities.

OTHER PRC NATIONAL AND PROVINCIAL LEVEL LAWS AND REGULATIONS

We are subject to changing regulation under many other laws and regulations administered by PRC Governmental authorities at the national, provincial and city levels, some of which are, or may not be, applicable to our business.

Laws regulating medical device manufacturers and hospitals cover a broad array of subjects. For example, regulations control the confidentiality of patient medical information and the circumstances under which patient medical information may be released for inclusion in our databases, or released by us to third parties. These laws and regulations governing both the disclosure and the use of confidential patient medical information may become more restrictive in the future.

REQUIREMENTS OF COLLECTIVELY-OWNED LANDS IN THE PRC

Pursuant to the Land Administrative Law of the PRC, which was implemented on 1 January 1999 and was amended and issued on 28 August 2004, the PRC adopts the socialist public ownership of land, the land in PRC is either state-owned or collectively-owned by villagers. Land in urban areas of cities belongs to the state, while land, other than those owned by the state as stated under the laws, in villages and rural areas of cities is collectively-owned by villagers. Residential land, self-retained land plot and self-retained hill are collectively-owned by villagers. State-owned land and land collectively-owned by villagers can be used by a unit or an individual in accordance with the laws. Pursuant to the laws, lands collectively-owned by villagers are owned by villagers collectively and are operated and managed by collective village economic organization or villagers committee. Any unit and individual who wishes to use the land for construction shall apply for the use of state-owned lands in accordance with the laws. Land collectively-owned by villagers can only be used for the construction of township enterprises, houses for villagers, public facilities of townships (towns) or public welfare.

REGULATORY OVERVIEW

Pursuant to the Regulation on the Implementation of the Land Administrative Law, which was implemented on 1 January 1999 and was amended and issued on 8 January 2011, owners of lands collectively-owned by villagers may apply to the competent department of land administration of the people's government in the county where the land is located for land registration. The people's government at the county level shall file the registration, and certify and issue ownership certificate for collectively-owned land to confirm the ownership. For the lands collectively-owned by villagers that are used for non-agricultural construction according to the laws, the owners of which shall apply to the competent department of land administration of the people's government in the county where the land is located for land registration. The people's government at the county level shall file the registration, and certify and issue land use right certificate for collectively-owned lands to confirm the right to use lands for construction purpose.

Notice on Further Accelerating on the Registration and Certification of the Land Use Right for Residential Lands and Collectively-owned Lands for Construction Purpose (《關於進一步加快推進宅基地和集體建設用地使用權確權登記發證工作的通知》), which was promulgated by five government agencies including the Ministry of Land and Resources, the Ministry of Finance and the Ministry of Housing and Urban-rural Development on 1 August 2014, requires the further acceleration on the registration and certification of the land use right for collectively-owned lands for construction purpose, and, each jurisdiction shall, in accordance with the requirements of the unified registration system for real estates, shall give full effect to registration and certification for the right to use collectively-owned lands for construction purpose and the buildings and structures built thereon in order to ensure certificates are issued in appropriate case.

The Opinions relating to the Comprehensively Deepening Reform of the Rural Areas for Accelerating the Modernization of Agriculture (《關於全面深化農村改革推進農業現代化的意見》), which was issued on 19 January 2014 by the PRC Government and the State Council, requires an in-depth on the reform of land system in rural areas, guides and regulates the trading of operational collectively-owned construction land in rural areas. Subject to the compliance with the planning and restrictions on land use, the selling, leasing, acquisition of interests of operational collectively-owned construction lands in rural areas are permitted and a system for operational collectively-owned construction land that allows the same way of trading in an equal value and with equal rights with state-owned lands are implemented in order to accelerate the implementation of systems in respect of ownership transfer and added value allocation of operational collectively-owned construction lands in rural areas.

Pursuant to the requirements of Certain Comments relating to Strengthening the Reform and Innovation on Accelerating Modern Construction of Agriculture by the PRC Government and the State Council (《中共中央、國務院關於加大改革創新力度加快農業現代化建設的若干意見》) issued by Xinhua News Agency on 1 February 2015, to the extent that the nature of public ownership of land remains unchanged and minimum land area for plantation is not exceeded and without the prejudice to the interests of villagers, land system reform in rural areas is prudently accelerated according to the unified planning by the central government. Land expropriation in rural areas, trading of operational collectively-owned construction land and residential land system reform pilots are implemented accordingly. The selling, leasing, acquisition of interests are granted to the

REGULATORY OVERVIEW

operational collectively-owned construction lands in rural areas which comply with the planning and restrictions on land use in order to build a well-rounded market trading rules and service regulation system.

OTHER REGIONS

Most major markets have different levels of regulatory requirements for medical devices. Modifications to the approved products require a new regulatory submission in all major markets. The regulatory requirements, and the review time vary significantly from country to country.

You should read the information set forth under “Risk Factors — Risks Relating to Our Business and Industry — We are subject to risks associated with our international businesses” in this prospectus.

HISTORY AND DEVELOPMENT

CORPORATE HISTORY

Establishment of our Company

Establishment of Chunli Limited

Chunli Limited, the predecessor of our Company, was established as a limited liability company under the PRC laws on 12 February 1998. Chunli Limited was jointly established by Mr. Shi and his wife, Ms. Yue, using their own funds. At the time of its establishment, Chunli Limited had a registered capital of RMB300,000 which was owned as to 66.67% by Mr. Shi and 33.33% by Ms. Yue. Details of the background information of Mr. Shi and Ms. Yue are set forth in the section headed “Directors, Supervisors and Senior Management” in this prospectus.

On 18 December 2001, the registered capital of Chunli Limited was increased from RMB300,000 to RMB1,600,000, of which each of Mr. Shi and Ms. Yue made a cash contribution of RMB650,000. As a result of such capital contribution, Mr. Shi and Ms. Yue held 53.1% and 46.9% equity interest respectively. The capital contributed by Mr. Shi and Ms. Yue was fully paid up on 13 December 2001.

As Chunli Limited intended to introduce other investors in order to avoid the highly concentrated ownership and to optimise the capital structure, on 14 June 2010, Ms. Yue entered into an equity transfer agreement with each of Wang Haiya (王海雅) (an Independent Third Party) and Jin Jie (金杰) (an Independent Third Party). Pursuant to the equity transfer agreements, Ms. Yue transferred her equity interest in Chunli Limited with an amount of RMB24,883 and RMB49,767 to Wang Haiya and Jin Jie at a consideration of RMB5,000,000 and RMB10,000,000 respectively. Ms. Yue received the consideration from Wang Haiya on 28 May 2010 and 31 May 2010 and received the consideration from Jin Jie on 17 June 2010.

On 2 July 2010, the registered capital of Chunli Limited was increased from RMB1,600,000 to RMB1,866,252, such increase was contributed by nine equity holders, namely Gu Changyue (谷長躍), Xin'an Caifu, Zhang Zhaohui (張朝暉), Sun Weiqi (孫偉琦), Lin Yiming (林一鳴), Ni Xuezhen (倪學禎), Huang Dong (黃東), He Rongmei (何榮梅) and Chen Xusheng (陳旭勝), by way of cash. The capital contributed by the nine new equity holders was fully paid up on 28 June 2010. Save that Lin Yiming was appointed as a non-executive Director of Chunli Limited on 17 September 2010, the other eight equity holders are all Independent Third Parties. The considerations for such equity transfers and capital contribution were determined by all parties with reference to the corporate value of Chunli Limited at the time. On 2 July 2010, the registration for such changes with Beijing Administration for Industry and Commerce, Tongzhou Branch was completed and an updated business license was issued by Beijing Administration for Industry and Commerce, Tongzhou Branch.

HISTORY AND DEVELOPMENT

Upon the completion of the equity transfers and capital contribution, the capital structure of Chunli Limited was as follows:

Name of equity holder	Registered capital		Nature of equity interest
	(RMB)	Approximate %	
Shi Chunbao (史春寶)	850,000.00	45.6%	Natural person
Yue Shujun (岳術俊)	675,350.00	36.2%	Natural person
Sun Weiqi (孫偉琦)	64,698.00	3.5%	Natural person
Xin'an Caifu	49,767.00	2.7%	State-owned enterprise
Jin Jie (金杰)	49,767.00	2.7%	Natural person
Lin Yiming (林一鳴)	43,297.00	2.3%	Natural person
Gu Changyue (谷長躍)	29,860.00	1.6%	Natural person
Huang Dong (黃東)	24,883.00	1.3%	Natural person
Wang Haiya (王海雅)	24,883.00	1.3%	Natural person
He Rongmei (何榮梅)	24,883.00	1.3%	Natural person
Ni Xuezhen (倪學禎)	14,930.00	0.8%	Natural person
Zhang Zhaohui (張朝暉)	9,953.00	0.5%	Natural person
Chen Xusheng (陳旭勝)	3,981.00	0.2%	Natural person
Total	<u>1,866,252.00</u>	<u>100%</u>	

Restructured as joint stock limited company

On 28 August 2010, the Promoters entered into a promoters agreement whereby it was unanimously agreed to convert Chunli Limited from a limited liability company into a joint stock limited company.

Chunli Limited was restructured from a limited liability company to a joint stock limited company (the “**Restructuring**”) on 17 September 2010 based on the audited net asset value of RMB111,552,595.15 as of 31 July 2010 with RMB50,000,000 of its share capital, divided to 50,000,000 ordinary shares at a par value of RMB1.00.

On 17 September 2010, our Company received a new business license issued by Beijing Administration for Industry and Commerce, and our PRC Legal Advisers have advised that the Restructuring has obtained approval from all relevant authorities and fully complied with the applicable PRC laws and regulations for its incorporation. After the Restructuring, Chunli Limited was renamed as Beijing Chunlizhengda Medical Instrument Co., Ltd. (北京市春立正達醫療器械股份有限公司), our current name. The business scope includes the production of Class III medical devices such as III-6846-1 implants, III-6846-2 artificial organ implants, the sales of Class III medical devices such as implants materials and artificial organs, medical knitwear and adhesive, sales of Class II medical devices such as physiotherapy and rehabilitation equipment and orthopedics surgery devices, as well as the sales of Class I medical devices such as basic surgery devices, and normal operating projects: imports and exports and technology promotion.

HISTORY AND DEVELOPMENT

At the relevant time, we had a registered capital and a paid-up capital of RMB50,000,000 which was contributed by the Shareholders as listed below:

Name of Shareholder	Number of Shares held	Shareholding percentage	Nature of shares
Shi Chunbao (史春寶)	22,772,917	45.6%	Natural person
Yue Shujun (岳術俊)	18,093,750	36.2%	Natural person
Sun Weiqi (孫偉琦)	1,733,333	3.5%	Natural person
Xin'an Caifu	1,333,333	2.7%	State-owned enterprise
Jin Jie (金杰)	1,333,333	2.7%	Natural person
Lin Yiming (林一鳴)	1,160,000	2.3%	Natural person
Gu Changyue (谷長躍)	800,000	1.6%	Natural person
Wang Haiya (王海雅)	666,667	1.3%	Natural person
Huang Dong (黃東)	666,667	1.3%	Natural person
He Rongmei (何榮梅)	666,667	1.3%	Natural person
Ni Xuezhen (倪學禎)	400,000	0.8%	Natural person
Zhang Zhaohui (張朝暉)	266,666	0.5%	Natural person
Chen Xusheng (陳旭勝)	106,667	0.2%	Natural person
Total	<u>50,000,000</u>	<u>100%</u>	

Some of the capital contributed by Gu Changyue (谷長躍) was borrowed funds and since our Company delayed its plan for applying listing of A shares due to the downward trend of the stock market, Gu Changyue encountered financial pressure and therefore desired to transfer the shares of our Company in order to obtain funding. On 25 June 2012, Gu Changyue entered into a share transfer agreement with Mr. Shi, pursuant to which Gu Changyue transferred his interest in 800,000 shares of our Company, representing 1.6% of the total registered capital of our Company, to Mr. Shi for a consideration of RMB7,200,000. Mr. Shi paid in two instalments of RMB3.5 million and RMB3.7 million to settle the consideration on 10 July 2012 and 12 September 2012 respectively. The consideration was mutually agreed with reference to various factors, such as the cost of capital of Gu Changyue, and the price to earnings ratio of the medical industry at the time of transfer. The transfer was duly registered with the Beijing Administration for Industry and Commerce.

HISTORY AND DEVELOPMENT

The shareholding structure of our Company upon completion of this transfer was as follows:

Name of Shareholder	Number of shares held	Shareholding percentage	Nature of shares
Shi Chunbao (史春寶)	23,572,917	47.2%	Natural person
Yue Shujun (岳術俊)	18,093,750	36.2%	Natural person
Sun Weiqi (孫偉琦)	1,733,333	3.5%	Natural person
Xin'an Caifu	1,333,333	2.7%	State-owned enterprise
Jin Jie (金杰)	1,333,333	2.7%	Natural person
Lin Yiming (林一鳴)	1,160,000	2.3%	Natural person
Wang Haiya (王海雅)	666,667	1.3%	Natural person
Huang Dong (黃東)	666,667	1.3%	Natural person
He Rongmei (何榮梅)	666,667	1.3%	Natural person
Ni Xuezhen (倪學禎)	400,000	0.8%	Natural person
Zhang Zhaohui (張朝暉)	266,666	0.5%	Natural person
Chen Xusheng (陳旭勝)	106,667	0.2%	Natural person
Total	50,000,000	100%	

As the shares held by Xin'an Caifu are state-owned shares and Xin'an Caifu was not able to obtain the exemption for the state-owned share transfer obligation in accordance with the Notice of the Ministry of Finance, the State-owned Assets Supervision and Administration Commission, the CSRC and the National Council for Social Security Fund on Exempting State-owned Venture Investment Institutions and Stated-owned Venture Investment Guidance Funds from the State-owned Share Transfer Obligation (Cai Qi [2010] No. 278) (財政部、國資委、中國證監會、社保基金會關於豁免國有創業投資機構和國有創業投資引導基金國有股轉持義務有關問題的通知(財企(2010)278號)) for our Company's overseas listing, Xin'an Caifu decided to transfer its state-owned shares in our Company. On 13 December 2013, Xin'an Caifu entered into a transaction agreement for the state-owned shares with Mr. Shi and Ms. Yue pursuant to which Xin'an Caifu transferred its interests in 1,333,333 shares of our Company (representing 2.67% of the total registered capital of our Company), to Mr. Shi and Ms. Yue, at a total consideration of RMB14,180,000, Mr. Shi purchased 664,170 shares, representing approximately 1.3% of the total share capital of our Company, and Ms. Yue purchased 669,163 shares, representing approximately 1.4% of the total share capital of our Company. Mr. Shi and Ms. Yue paid the consideration on 16 and 17 December 2013 respectively. As the shares were held by a state-owned enterprise, pursuant to the "Provisional Measures on the Administration of Transfer of State-owned Shares" (企業國有產權轉讓管理暫行辦法) and other relevant laws and regulations in the PRC, the consideration for the share transfer shall be determined by auction. On 23 December 2013, Property Rights Trading Center in Henan Province (河南省產權交易中心) issued "Certificate on the Property Transaction" (產權交易憑證) to confirm the regulatory compliance of the transaction above.

HISTORY AND DEVELOPMENT

The shareholding structure of our Company upon completion of this transfer was as follows:

Name of Shareholder	Number of shares held	Shareholding percentage	Nature of Shares
Shi Chunbao (史春寶)	24,237,087	48.5%	Natural person
Yue Shujun (岳術俊)	18,762,913	37.6%	Natural person
Sun Weiqi (孫偉琦)	1,733,333	3.5%	Natural person
Jin Jie (金杰)	1,333,333	2.7%	Natural person
Lin Yiming (林一鳴)	1,160,000	2.3%	Natural person
Wang Haiya (王海雅)	666,667	1.3%	Natural person
Huang Dong (黃東)	666,667	1.3%	Natural person
He Rongmei (何榮梅)	666,667	1.3%	Natural person
Ni Xuezhen (倪學禎)	400,000	0.8%	Natural person
Zhang Zhaohui (張朝暉)	266,666	0.5%	Natural person
Chen Xusheng (陳旭勝)	106,667	0.2%	Natural person
Total	<u>50,000,000</u>	<u>100%</u>	

As advised by our PRC Legal Advisers, all of the above capital increase and share transfers of our Company are legal and valid. They are binding on the relevant parties, and are duly completed, fully-paid and delivered in accordance with the applicable laws and regulations in the PRC. All necessary approvals as required by the relevant authorities have been obtained.

During the year ended 31 December 2011, our Company provided logistics services in China, which accounted for approximately 0.9% of the total revenue of this year. In order to focus on our Company's core business, we decided to devote more resources and efforts in the manufacturing and selling of orthopedic medical devices and accordingly, we have not provided any logistic services since 2012. There had not been any disposition of this business by our Group.

Establishment of Zhao Yi Te

Zhao Yi Te was established by Chunli Limited with a capital contribution of RMB660,000. On 8 June 2006, Zhao Yi Te became a wholly-owned subsidiary of Chunli Limited upon its registration with the Tongzhou Branch of Beijing Administration for Industry and Commerce. Its business scope includes the sales of Class III medical devices such as implants materials and artificial organs, medical knitwear and adhesive, the sales of Class II medical devices such as orthopedic surgery devices and the sales of Class I medical devices. The main business of Zhao Yi Te is the sales of medical devices.

Prior to the establishment of our Company, Chunli Limited was the holding company of, Zhao Yi Te, the subsidiary of the Group. Our Company has replaced Chunli Limited and became the holding company of the subsidiary since the establishment on 17 September 2010.

HISTORY AND DEVELOPMENT

Establishment of branch

Chunli Limited Research Center was established by Chunli Limited. On 19 August 2009, upon the registration with the Tongzhou Branch of Beijing Administration for Industry and Commerce, Chunli Limited Research Center became a branch of Chunli Limited, which was not a separate legal entity. Chunli Limited Research Center was renamed as Beijing Chunlizhengda Medical Instruments Co., Ltd. Research Center (北京市春立正達醫療器械股份有限公司春立高科人工關節技術研究所) in correspondence with the restructuring of its holding company, Chunli Limited, and received an updated business license issued by the Tongzhou Branch of Beijing Administration for Industry and Commerce on 29 December 2010. Its business scope includes technology development, consulting, services and transfer.

Our PRC Legal Advisers have advised that our Company and our subsidiary, Zhao Yi Te, have obtained all necessary approvals from the competent regulatory authorities in the PRC under the applicable PRC laws and regulations for their incorporation.

Application for listing of A Shares

On 19 September 2012, we submitted an application for the listing of A shares¹ on the Growth Enterprise Market of the Shenzhen Stock Exchange to the CSRC, for raising capital to our business. We believed that this would be beneficial to our business development as our revenue were mainly derived from sales to our domestic distributors. However, due to an increase in demand from our overseas customers (distributors and customers on ODM and OEM bases), we decided to allocate more resources on our expansion of sales in the overseas market. We planned to accelerate our expansion plan to accommodate the increased demand from our overseas customers and to expedient the development of our business in the overseas market. Due to the change of development strategy and in order to accelerate our fund raising exercise for our expansion plan, having considered the benefits of listing in a place with broader international investor base, we decided to apply for listing on the Hong Kong Stock Exchange instead and made an application to discontinue our listing application to the CSRC on 26 March 2013 and no written submission had been made to address to the first written comments given by the CSRC regarding the A shares listing application. The CSRC confirmed that they have acknowledged and discontinued to its review of our listing application in respect of A Shares on 3 April 2013. The Company is of the view, and the Sponsor concurs, that there was no major matter raised by the CSRC during their vetting of the Company's A shares listing application of such serious nature which might lead to a rejection by the CSRC of the previous A shares listing application by the Company or would affect the suitability of the Company to list on the Main Board of the Hong Kong Stock Exchange.

¹ Domestic Shares subscribed or credited as fully paid in RMB and will be listed and traded in stock exchange in China.

HISTORY AND DEVELOPMENT

Business milestones

Our major business development and achievements are set forth below:

- 1998 Our predecessor, Chunli Limited, was established in February 1998 as a limited liability company
- 2003 Chunli Limited obtained medical device registration certificate from CFDA for the production of CL series hip joint prosthesis products
- 2005 Chunli Limited obtained nine medical device registration certificates from CFDA for the production of YTQ cervical plate, CF spinal fixation device, surface knee joint prosthesis products, shoulder and knee joint prosthesis products
- 2006 Chunli Limited established Zhao Yi Te in June 2006 as its wholly-owned subsidiary
- 2007 Chunli Limited obtained three medical device registration certificates from CFDA for the production of spinal fixation system, hip joint surgical device and knee joint surgical device
- 2009 Chunli Limited obtained five medical device registration certificates from CFDA for the production of hip joint prosthesis products, shoulder joint prosthesis products, knee joint prosthesis products, posterior cervical plate and elbow joint prosthesis products
- Chunli Limited established Chunli Limited Research Centre in August 2009
- 2010 Our Company was established in September 2010 as a joint stock limited company pursuant to the restructuring of Chunli Limited
- Made a full taper conversion in our main product — the hip joint prosthesis products, making the taper of our hip joint prosthesis products fit for the demand of overseas markets
- Completed the registrations of nine patents with SIPO
- Obtained five medical device registration certificates from CFDA for the production of knee joint prosthesis products, hip joint prosthesis products, anterior cervical plate, CS anterior spinal fixation device and CF posterior spinal fixation device
- 2011 Obtained certificate of medical devices quality system (ISO13485) and certificate of medical devices quality system (ISO9001)

HISTORY AND DEVELOPMENT

Updated our medical device registration certificates for knee joint prosthesis products and hip joint prosthesis products due to enhancement of product specifications

Obtained medical device registration certificates from CFDA for the production of the production of shoulder joint prosthesis and elbow joint prosthesis surgical device

Completed the registration of eight patents with SIPO

2012 Obtained the “Notice on the Inspection Results of the Good Manufacturing Practice for Medical Devices” (醫療器械生產質量管理管制規範檢查結果通知書) issued by the BFDA

2013 Renewed 13 registrations of medical devices registration certificates

2014 Renewed one registration of medical devices registration certificate

Completed the registration of two patents with SIPO

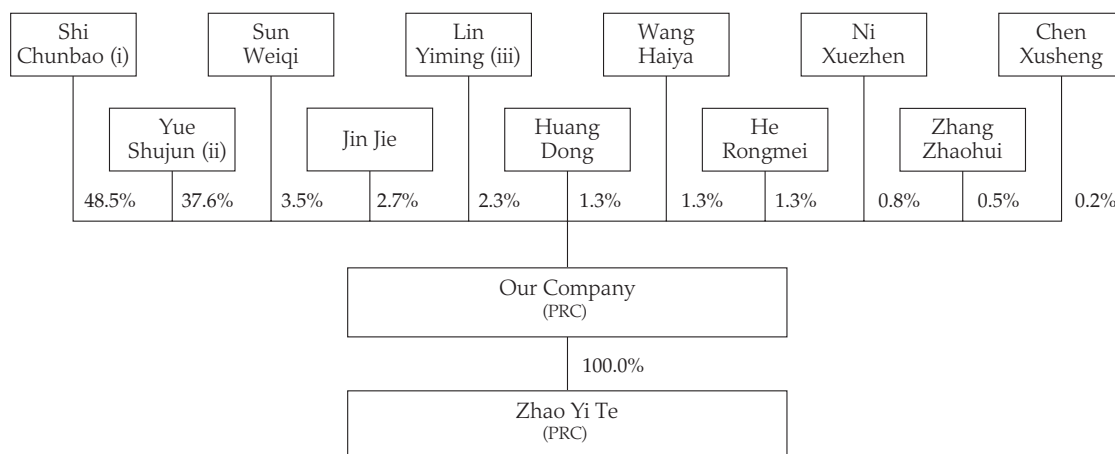
Our corporate structure

Prior to the Global Offering and as of the Latest Practicable Date, we issued 50,000,000 Domestic Shares and have a registered capital of RMB50,000,000.

Immediately before completion of the Global Offering, 48.5% and 37.6% of the total issued share capital of our Company are held by Mr. Shi and Ms. Yue respectively.

Immediately prior to completion of the Global Offering

The corporate structure of our Company as of the Latest Practicable Date immediately prior to the completion of the Global Offering is set forth below:



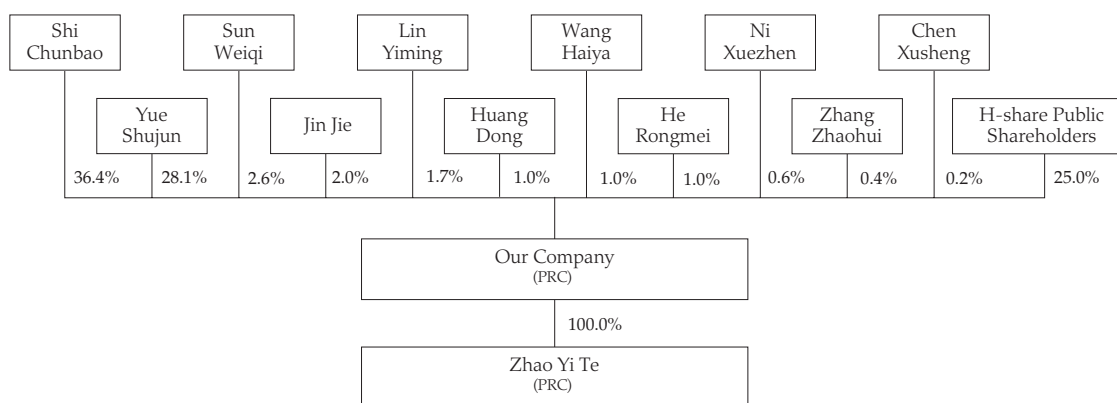
HISTORY AND DEVELOPMENT

- (i) Mr. Shi, our executive Director and Controlling Shareholder, holds 24,237,087 Domestic Shares of our Company as of the Latest Practicable Date. Mr. Shi is the husband of Ms. Yue.
- (ii) Ms. Yue, our executive Director and Controlling Shareholder, holds 18,762,913 Domestic Shares of our Company as of the Latest Practicable Date. Ms. Yue is the wife of Mr. Shi.
- (iii) Mr. Lin Yiming, our non-executive Director and Shareholder holds 1,160,000 Domestic Shares of our Company as of the Latest Practicable Date.
- (iv) Save for Mr. Shi, Ms. Yue and Mr. Lin Yiming, all the Shareholders of our Company are Independent Third Parties.

Immediately after completion of the Global Offering

Mr. Shi and Ms. Yue will hold approximately 36.4% and 28.1% of the enlarged issued share capital of our Company, assuming the Over-allotment Option is not exercised (or approximately 35.0% and 27.1% assuming the Over-allotment Option is fully exercised) immediately after completion of the Global Offering. As husband and wife, Mr. Shi and Ms. Yue will be deemed to be interested in each other's shareholding. Therefore, each of them will be deemed to be interested in 64.5% of the enlarged issued share capital and will remain as the Controlling Shareholders of our Company.

Assuming the Over-allotment Option is not exercised and there are no changes in the shareholdings by our Shareholders listed below after the Latest Practicable Date, our corporate structure immediately after completion of the Global Offering is as follows:



OVERVIEW

We are a well-established orthopedic medical device company in China focusing on the research and development, production and sales of implantable orthopedic medical devices which include joint prosthesis products and spinal products. Our joint prosthesis products include hip joint prosthesis, knee joint prosthesis, shoulder joint prosthesis and elbow joint prosthesis products. Our spinal products comprise a full product portfolio of spinal fixation systems, including fixation systems in anterior and posterior cervical, thoracic and lumbar vertebrae. Our products are primarily sold under the brand name of “春立 Chunli” in China. In terms of domestic sales revenue in 2013, our market share of joint prosthesis industry in China reached approximately 3.1% and we ranked second among all domestic enterprises and eighth among all enterprises (including foreign enterprises) in the joint prosthesis industry in China, according to the Euromonitor Report.

Orthopedic implant is a fast-growing segment in the medical device industry in China. According to Euromonitor and China Medical Pharmaceutical Material Association (中國醫藥物資協會), the revenue of orthopedic implant segment contributed to approximately 5.9% of the total revenue of the PRC medical devices market in 2013. The revenue of the PRC orthopedic implant segment grew from approximately RMB6.7 billion to approximately RMB11.8 billion from 2009 to 2013, representing a CAGR of approximately 15.0%. During the same period, revenue derived from the sales of joint prosthesis products in the PRC grew from approximately RMB1.4 billion to approximately RMB2.9 billion, representing a CAGR of approximately 19.5%. According to the Euromonitor Report, the joint prosthesis market is expected to grow at a CAGR of approximately 18.1% from 2014 to 2018 and various favourable factors such as aging population, increasing per capita income and enlarging medical coverage will continue to sustain the rapid development of the PRC orthopedic implant industry. We intend to leverage on such growth to further bolster our position in the orthopedic implant industry in China.

We have been launching new products to meet market demand and cater for patients' needs according to the market trend and in response to clinical feedbacks. As at the Latest Practicable Date, the domestic joint products registration index (國產關節類產品註冊檢索) of the CFDA showed that we were one of the medical device companies that held the most comprehensive medical device registration certificates in the joint prosthesis market in China in terms of number and types of certificates. As at the Latest Practicable Date, we held 14 medical device registration certificates in China for the production of medical devices which cover joint prosthesis products for four major joints (namely, shoulder, elbow, hip and knee joints) and spinal products, nine of which are Class III medical device registration certificates and five of which are Class I medical device registration certificates. We are dedicated to the development of new products through communication and cooperation with various orthopedic and medical research and development institutions. As at the Latest Practicable Date, we possessed a total of 23 registered patents, of which nine are invention patents and 14 are utility patents, and we have made applications for seven invention patents.

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According to the Euromonitor Report, while the market share taken up by the top six market players which were owned or partly owned by foreign enterprises with respect to the sales of joint implant in China was around 62% in 2013, it was forecasted that, domestic enterprises are likely to enlarge their market shares by upgrading their product offerings as China's reform in the healthcare sector advances and the government lends support to Chinese companies through favourable policies. Most of our products are sold in China and some are exported to other countries in Asia, South America, Africa, Oceania and Europe under the brand name of "春立 Chunli". We also export our products on ODM and OEM bases. For the three years ended 31 December 2013 and for the nine months ended 30 September 2014, our revenue derived from domestic market represented approximately 96.0%, 89.5%, 87.9% and 85.7% of our total revenue respectively, with the remaining generated from overseas markets, represented approximately 4.0%, 10.5%, 12.1% and 14.3% of our total revenue, respectively.

We sell our products mainly through distributors. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, approximately 88.7%, 85.2%, 83.0% and 78.9% of our revenue was derived from our sales to distributors in both China and overseas, whereas our remaining revenue was derived from other sales channels including sales to ODM and OEM customers overseas and direct sales to hospitals in China. As at the Latest Practicable Date, we had established stable relationship with approximately 476 distributors and had not placed reliance on any single distributor. Currently, we have built an extensive distribution network covering all provinces, municipalities and autonomous regions in China, and our sales network has covered numerous hospitals located in these regions through our distributors. The table below sets forth the number of our distributors and customers in China and overseas during the Track Record Period:

		As at 31 December		As at 30 September 2014
	2011	2012	2013	2014
China				
Distributors	318	337	377	414
Hospitals	10	13	8	34
	328	350	385	448
Overseas				
Distributors	4	21	21	27
ODM and OEM customers	12	11	16	21
	16	32	37	48
	344	382	422	496

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Our two production sites, the Tongzhou First Production Base and the Tongzhou Second Production Base, are both located at the southern district of Beijing Tongzhou Economic Development Zone. For the nine months ended 30 September 2014, our actual production volume of standard joint prosthesis products, custom joint prosthesis products and spinal products was approximately 36,700 sets, 2,500 sets and 9,400 sets, respectively. For the nine months ended 30 September 2014, our maximum annual production capacity of these products was approximately 37,100 sets, 2,600 sets and 9,500 sets, respectively and the utilisation rate of our production facilities was approximately 98.9%, 96.2% and 98.9%, respectively. Our bases and assumptions used in calculation of our utilisation rate are set out in the section headed “Business — Production” in this prospectus.

In January 2011, we acquired the Tongzhou Second Production Base and the land on which it is erected adjacent to our Tongzhou First Production Base. Renovation of the Tongzhou Second Production Base and relocation from the Tongzhou First Production Base to the Tongzhou Second Production Base have been completed, whereas most of our production facilities have been moved from our Tongzhou First Production Base to our Tongzhou Second Production Base. We have commenced trial production at our Tongzhou Second Production Base in January 2015 and we carried out production at these two production sites since then. Moreover, we are constructing a new production facility that has not commenced operations. In March 2014, we commenced construction of new production facilities in the Daxing New Production Base which we acquired in September 2012. The construction will be carried out in two phases. It is expected that the operation of phase I of the Daxing New Production Base will commence in around October 2017, which would generate additional maximum designed annual production capacity of standard joint prosthesis products, spinal products and advanced customised joint prosthesis products of approximately 40,000 sets, 25,000 sets and 5,000 sets, respectively. It is further expected that the operation of phase II of the Daxing New Production Base will commence in around October 2019. For more details of our production plants, please refer to the section headed “Business — Land and Properties” in this prospectus.

For the three years ended 31 December 2013, our revenue was approximately RMB80.3 million, RMB98.1 million and RMB110.5 million, respectively, representing a CAGR of approximately 17.4% between 2011 and 2013 and further increased by approximately 25.6% from approximately RMB72.7 million for the nine months ended 30 September 2013 to approximately RMB91.3 million for the nine months ended 30 September 2014. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our net profit was approximately RMB30.4 million, RMB31.9 million, RMB32.7 million and RMB22.7 million, respectively.

COMPETITIVE STRENGTHS

We believe our competitive strengths set forth below will enable us to distinguish ourselves from our competitors and allow us to compete effectively in the industry:

Our leading position in the fast-growing joint prosthesis sector of orthopedic medical devices industry among domestic entities in China

We are one of the leading manufacturers of joint prosthesis products among domestic entities in China. According to the Euromonitor Report, based on the domestic

sales revenue in 2013, our market share of joint prosthesis industry in China reached approximately 3.1% and we ranked second among domestic enterprises and eighth among all enterprises (including foreign enterprises) in the joint prosthesis industry in China.

The extension of average life span of the Chinese population and the aging population favoured the development of the PRC orthopedic medical devices market industry. According to the Euromonitor Report, the CAGR of the revenue of joint prosthesis products in China between 2009 and 2013 was approximately 19.5% and is expected to grow at a CAGR of 18.1% from 2014 to 2018.

By virtue of our diversified product portfolio, our extensive distribution network, our industry experience accumulated over the years and our industry-wide recognition, we have maintained our competitiveness in the joint prosthesis market and hence our leading market position among domestic enterprises of the joint prosthesis market in the PRC.

The entry barriers to the joint prosthesis market also help maintain our leading position. According to the Euromonitor Report, it takes a new orthopedics company four to five years to obtain all licenses and permits required to manufacture orthopedic products in China and another four to five years for market development and marketing efforts. Therefore, it takes about ten years for a new entrant to break even, if not turning profitable. Since we are one of the first domestic enterprises in China to engage in manufacturing of joint prosthesis products, we are in a more favourable position than other new competitors in the market.

As a leading domestic manufacturer of joint prosthesis products in China, we believe that we are well-positioned to take advantage of the market opportunities provided by the fast-growing joint prosthesis sector in China.

We are one of the domestic enterprises with the most comprehensive medical device registration certificates in the joint prosthesis sector in China

Pursuant to the “Administrative Measures for the Medical Devices Registration” promulgated by the CFDA, a medical device manufacturer must register and obtain the medical device registration certificate for the medical device by proving its safety and effectiveness to the satisfaction of the respective levels of the food and drug administrative authorities before manufacturing medical devices for commercial distribution.

As at the Latest Practicable Date, we held 14 medical device registration certificates for the production of medical devices which cover our joint prosthesis products for the four major joints (namely, shoulder, elbow, hip and knee joints) and spinal products, nine of which are Class III medical device registration certificates and five of which are Class I medical device registration certificates. As at the Latest Practicable Date, the domestic joint prosthesis products registration index (國產關節類產品註冊檢索) of the CFDA showed that we were one of the enterprises that held the most comprehensive medical device registration certificates for joint prosthesis products in China in terms of number and types of certificates. As China adopts strict product registration system for medical

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devices manufacturers, completeness of product registrations for a wide range of products entails of strong market competitiveness. Therefore, our comprehensive medical device registration certificates for joint prosthesis products helps to maintain our leading position in the joint prosthesis market among domestic enterprises in China.

The table below sets out the types of medical device registration certificates for joint prosthesis products that held by top 10 companies in China's orthopedic implant market (by sales value)^(Note 1) as at the Latest Practicable Date:

Company name	Types of registration certificate				
	Hip joint (Titanium)	Hip joint (Co-Cr-Mo)	Knee joint	Shoulder joint	Elbow joint
Our Company	✓	✓	✓	✓	✓
DePuy Orthopaedics, Inc./ DePuy France SAS (Note 2)	✓	✓	✓	✓	
Zimmer Holdings, Inc.	✓	✓	✓	✓	✓
Waldmar Link GmbH & Co. KG	✓	✓	✓		✓
Smith & Nephew Plc	✓	✓	✓		
Stryker Corporation	✓	✓	✓	✓	
Biomet, Inc.	✓	✓	✓	✓	
Beijing AKEC Medical Co., Ltd (北京愛康宜誠醫療器材股份有限公司)	✓	✓	✓		
Tianjin Zhengtian Medical Device Co., Ltd (天津正天醫療器械有限公司)	✓	✓			
Tianjin Huajian Orthopedics Instrument Co., Ltd (天津華劍骨科器械有限公司)	✓	✓			

Source: CFDA's website

Notes:

- (1) The market share data reported in the table above has been determined by Euromonitor via a fieldwork program consisting of desk research and trade interviews. While audited data was available for some of the companies, they typically do not break the revenue numbers into the relevant categories which were covered in this study. For these companies as well as those companies that are included in the market shares but are not publicly listed, Euromonitor has estimated the market share based on estimates provided by various trade sources (i.e. sources other than companies themselves) to seek a consensus on these estimates as much as possible.
- (2) These companies are part of the Johnson & Johnson group according to their company website.

Our diversified product portfolio which can meet different patients' needs enables us to capitalise on the opportunities of the fast-growing market

We believe that the PRC market for joint prosthesis products and spinal products will continue to experience significant growth. As we are one of the few enterprises in the PRC which has the capability to produce both joint prosthesis products and spinal products with a diversified product portfolio, we believe we are able to grow rapidly in this fast growing market.

We are one of the first domestic enterprises to engage in research and development and manufacturing of joint prosthesis products in China. After years of development, we have established a broad portfolio of joint prosthesis products. We have a broad product portfolio which enables our distributors and hospitals to obtain their desired products. To enable our customers to be familiar with the usage of our new products, we provide training courses and seminars to distributors and hospitals to demonstrate the usage of and enhance their knowledge in the products.

According to the Euromonitor Report, in 2013, there were over 100 enterprises engaging in the production of orthopedic implants and around 30 enterprises in the production of joint prosthesis products in China, with the remaining engaging in the production of spinal and trauma products. Including us, there are only around 10 enterprises which produce both joint prosthesis products and spinal products. Our joint prosthesis products cover four major joints (namely, hip, knee, shoulder and elbow) and our spinal products comprise a full product portfolio of the spinal fixation systems, including fixation systems in anterior and posterior cervical, thoracic, and lumbar vertebrae.

We believe we are well-positioned to capitalise on the market opportunities arising out of the rapid development of this industry through our diversified product portfolio. In addition, our diversified product portfolio, together with the comprehensive medical registration certificates, also enhances the recognition and market acceptance of our brand and products, further strengthening our market position and our competitiveness.

Our research and development capabilities of joint prosthesis products are supported by our comprehensive feedback system

We are dedicated to the development of innovative products. We pay strong attention to the latest development in technologies and products in the international joint prosthesis market and have been proactively engaging in innovative product design and product upgrade. As at the Latest Practicable Date, we possessed a total of 23 registered patents, of which nine are invention patents and 14 are utility patents, and we have made applications for seven invention patents.

Our research and development capabilities were attained through our accumulated industry experience, product knowledge and innovation. We believe we possess the know-how that is difficult for competitors to acquire or replicate. Through our Chinese Skeleton Frame Drawing Project (中國人骨骼測繪項目), we have been cooperating with several hospitals to produce a Chinese skeleton database (中國國民骨骼數據庫) for us to

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design joint prosthesis products that suits the needs of Chinese patients. Moreover, we gain advanced medical knowledge through participation in industry meetings and symposiums on a regular basis. For details of our research and development efforts, please refer to the section headed “Business — Research and Development — Chinese skeleton database” in this prospectus.

Our ability to continuously introduce new products to the market reflects our efficient research and development process that is designed to be demand-driven and highly responsive to clinical feedbacks and the latest trends in the market development. Currently, we have established a comprehensive and responsive feedback system. Our research and development team works closely with our sales and marketing team. Our sales and marketing staff actively obtain feedbacks from our customers and we keep ourselves abreast of the latest industry development through regular visits to distributors and major hospitals. Upon receiving feedback from our customers, our marketing and research and development departments would form a project team to analyse the relevant feedback and modify our products in a timely manner.

The transformation from our conventional custom joint prosthesis products to custom (modular) joint prosthesis products was a result of our feedback system. Since the conventional custom joint prosthesis products are specifically designed and produced based on the data on the skeleton structure of a particular patient to satisfy the need of such patient, their production and delivery are time consuming and they may not be able to suit the patients’ needs in emergency cases. In response to this issue, our research and development team has successfully developed custom (modular) joint prosthesis products which are clinically assembled based on ready-made components of joint prosthesis of various specifications and sizes. It is designed and produced pursuant to the statistical analysis derived from the clinical data of a large pool of patients. This product can cater for the various needs of patients with a shorter production and assembling time as compared with conventional custom joint prosthesis products and thus, minimising the delay of medical treatment. For further details, please refer to the section headed “Business — Our Product Portfolio and Application — Our product portfolio — (b) Custom joint prosthesis products (conventional custom joint prosthesis products and custom (modular) joint prosthesis products)” in this prospectus.

Our new research and development project on ceramic hip joint prosthesis products is another product resulting from our feedback system. Ceramic materials possess qualities such as high abrasion compressive resistance and stiffness and are chemically inert. Over the years, orthopedic patients in China have been using imported enterprise ceramic joint prosthesis products. Based on our clinical feedbacks, we believe that the development of ceramic joint prosthesis products will be the future trend in the joint prosthesis market in the PRC. Therefore, we have cooperated with a renowned ceramics manufacturer and have established a specialised technical team to develop our ceramic hip joint prosthesis products. It is expected that our ceramic hip joint prosthesis products will be launched in the market in 2015 after we obtain the relevant medical device registration certificate. For further details, please refer to the section headed “Business — Research and Development — On-going research and development project — Development of ceramic hip joint prosthesis products” in this prospectus.

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To meet the future demand for more advanced products in the orthopedic medical devices market in China, we currently have six research and development projects in progress, including the development of ceramic hip joint prosthesis products and interbody fusion cages made of PEEK materials. Please refer to the section headed “Business — Research and Development” in this prospectus for more details of the research and development projects.

Our research and development capabilities which are supported by our effective feedback system allow us to meet the demands from different consumer segments and expand our customer base. We believe our research and development capabilities enable us to successfully anticipate market developments and trends, and promote and market our products in the PRC. We believe that our future product development activities will continue to contribute to our growth and profitability.

Our extensive distribution network in the PRC

We sell our products primarily through distributors in the PRC. We have established an extensive sales network through our distributors, covering all provinces, municipalities and autonomous regions in China and enabling us to reach a diverse consumer base. As at the Latest Practicable Date, we had approximately 447 domestic distributors covering numerous hospitals in all the provinces, municipalities and autonomous regions in China. Please refer to the section headed “Business — Sales, Distribution Network and Marketing” in this prospectus for more details. The following table sets forth the number of our distributors and hospitals to which we sold our products in China as at the dates indicated:

	2011	As at 31 December 2012	2013	As at 30 September 2014
Domestic distributors	318	337	377	414
Hospitals	10	13	8	34

The table below sets forth the geographic distribution of our domestic distributors as of the dates indicated:

	2011	As at 31 December 2012	2013	As at 30 September 2014
China				
Northern region ⁽¹⁾	86	94	97	111
Western region ⁽²⁾	35	36	44	45
Central region ⁽³⁾	94	94	108	127
Eastern region ⁽⁴⁾	75	77	89	93
Southern region ⁽⁵⁾	28	36	39	38
Total	318	337	377	414

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- (1) Includes Hebei Province, Beijing, Tianjin, Shaanxi Province, Gansu Province, Qinghai Province, Xinjiang Uygur Autonomous Region, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, Liaoning Province, Jilin Province and Heilongjiang Province.
- (2) Includes Yunnan Province, Guizhou Province, Tibet Autonomous Region, Sichuan Province and Chongqing.
- (3) Includes Henan Province, Shanxi Province, Hunan Province, Hubei Province, Jiangxi Province and Anhui Province.
- (4) Includes Guangdong Province, Guangxi Zhuang Autonomous Region and Hainan Province.
- (5) Includes Jiangsu Province, Zhejiang Province, Shanghai, Shandong Province and Fujian Province.

Therefore, our extensive distribution network enables our new products to be launched in the market in a timely manner and obtain pioneer advantages in the market. Through the cooperation with distributors, we take full advantage of their sales network and geographical advantages to make our products readily available to customers nationwide, which has strengthened our marketing ability and has helped expand the market shares of our products. Our extensive distribution network allows us to interact with a wider range of customers and allow us to respond to our customers' expectation in a more effective and timely manner. We believe the extensive coverage of our distribution network is difficult to replicate, providing us with a significant competitive advantage and minimizing our reliance on any single sales channel.

Our stringent quality control system

In compliance with the standards and requirements of various product registration and certification, our quality control measures cover all aspects of our operations, including maintenance of equipment, procurement of raw materials, production and packaging of products, customer feedback, customer complaints and handling. As described in the section headed "Business — Production — Quality control — Quality control measures" and "Business — Sales, distribution network and marketing — Marketing" in this prospectus, our capability in production is supported and supplemented by our quality control measures throughout our production process.

In order to maintain high quality standard, as of the Latest Practicable Date, we had a dedicated quality control department to ensure that our internal quality procedures are duly followed. We place great emphasis on product quality and regularly arrange quality control trainings for our staff. We have established our quality control system in compliance with the relevant regulations and have implemented strict quality control supervision in the production, research and development, sale and after-sale services as well as other sectors.

During the Track Record Period, we obtained quality system certification on the ISO9001 and ISO13485. Our current products have passed the inspection on compliance with GMP for Medical Devices organised by BFDA in January 2012 and June 2012, respectively and obtained the Notice on the Inspection Results of the GMP for Medical Devices (醫療器械生產品質管制規範檢查結果通知書). Further, our products have passed the assessment of the GMP compliance organised by the national drug inspection

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authority in Korea in 2010 and 2013, respectively and obtained the compliance GMP certificate. Moreover, we have obtained CE mark regarding our hip joint prosthesis products and knee joint prosthesis products for sales to European Union countries. These certifications signify our commitment and active pursuit of high quality control standards throughout our operational and production processes.

We believe our commitment to high quality product will support our continued expansion and market leadership by building consumer confidence and loyalty as well as increased brand recognition.

Furthermore, our sales and marketing department is responsible for customer services and handling complaints. We have established an administrative system for handling adverse events as required by the Administrative Measures for the Monitoring and Reassessment of Adverse Events of Medical Devices (for Trial Implementation) (醫療器械不良事件監測和再評價管理辦法(試行)) and Guidance on the Monitoring of Adverse Events of Medical Services (for Trial Implementation) (醫療器械不良事件監測工作指南(試行)). Our regional managers collect product safety information through monitoring adverse events of medical devices and reassess the products accordingly. Our sales and marketing department would report to the quality control department if we receive any complaints regarding our products in order to conduct further analysis.

BUSINESS STRATEGIES AND FUTURE PLANS

Our objectives are to become a leading enterprise in the market with a full range of orthopedic medical devices products and to become one of the internationally renowned orthopedic medical devices manufacturers. We plan to implement the following strategies to achieve the above objectives:

Expansion of our production facilities and strategic relocation

Expansion plan and increase of production capacity

There has been a high level of demand for our products. We expect demand for our products would continue to increase. Moreover, the current utilisation of our production facilities reaches a high level. As at 30 September 2014, the utilisation rates of our current production base, the Tongzhou First Production Base, for standard joint prosthesis products, custom joint prosthesis products and spinal products were approximately 98.9%, 96.2% and 98.9%, respectively. Our bases and assumptions used in calculation of our utilisation rate are set out in the section headed “Business — Production” in this prospectus. As such, we plan to increase our production capacity significantly to meet the anticipated increasing market demand.

At the same time, we need to ensure our sustainability and maintain our competitiveness by expanding our product portfolio while strengthening our competency and innovation capability. Therefore, we plan to purchase advanced equipment from overseas and optimise existing production facilities to strengthen our research and development capacity and trial testing standards.

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To achieve these objectives, we are in the process of building a new production plant and facilities in the Daxing New Production Base. We acquired the land use right of the land located in the Daxing Biomedicine Industrial Base of the Zhongguancun Science Park in Beijing, the PRC in September 2012 and have fully settled the consideration for this acquisition. The Daxing New Production Base has a site area of approximately 44,930.32 sq.m. and an expected total gross floor area of approximately 48,000 sq.m. The land premium of the Daxing New Production Base is approximately RMB34.58 million. We expect that the development will be carried out in two phases. Phase I of the development mainly involves the construction of the first production plant, the acquisition of equipment for the expansion of production capacity of standard joint prosthesis products and spinal products, the development and commercialisation of advanced customised joint prosthesis products and the construction of a research and development center and a sales and marketing center. Phase II of the development mainly includes the construction of the second production plant for the development and commercialisation of ceramic hip joint prosthesis products and further expansion of production capacity of standard joint prosthesis products. Apart from being used as our production site, the Daxing New Production Base will also serve as our headquarters, sales and marketing center and research and development center. For details of research and development center, please refer to the section headed “Business — Business Strategies and Future Plans — Expansion of our production facilities and strategic relocation — Strengthen the innovation ability and increase the research and development resources” in this prospectus.

Our expansion plan is to be carried out in two phases after consideration of our expected future market demand and the investment costs required for the construction. The implementation of development plans of phase I of the Daxing New Production Base is to be implemented based on our consideration of our expected future market demand in the next five years. The development of phase I has commenced in March 2014, and it is expected to be completed in around December 2016 and commence operation in around October 2017. The production permit for Daxing New Production Base is expected to be obtained in around October 2017 and production will commence thereafter. The development of phase II of the Daxing New Production Base is expected to be commenced and completed in around January 2017 and December 2018 respectively. It is expected to commence operation in around October 2019. However, we would continually re-evaluate our projected sales and capital expenditures based on market demand for our products, the progress of the development of our product candidates and technological developments that are relevant to our production process from time to time. We intend to reassess the development plan of phase II of the Daxing New Production Base at the time closer to the commencement of construction and may adjust the schedule of construction and the scale of our operations if needed.

As of the Latest Practicable Date, we had not identified any other specific acquisition plan or target.

Please refer to the table below and the section headed “Business — Production” in this prospectus for further details of our annual production capacity.

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Further details of our expansion plan above are set out below:

Projects	Maximum designed annual production capacity (sets)	Expected annual production capacity ⁽¹⁾ (sets)	Expected/actual date of commencement of construction	Expected date of completion of construction and commencement of operation	Estimated total investment costs ⁽²⁾ (RMB million)	Amount incurred as at the Latest Practicable Date (RMB million)	Source of fund
Phase I			March 2014	December 2016/ October 2017	227.0	2.4	
1. Construction and development of the first production plant and ancillary facilities, and acquisition of equipment for:							
a. expansion of production capacity of standard joint prosthesis products	40,000	32,000			122.2	1.3	} (i) approximately RMB73.7 million from the net proceeds of the Global Offering and (ii) approximately RMB118.7 million from internally generated funds/debt financing/equity financing
b. expansion of production capacity of spinal products	25,000	20,000			32.7	0.3	
c. development and commercialisation of advanced customised joint prosthesis products	5,000	4,000			37.5	0.4	
2. Development of a research and development center	N/A	N/A			26.9	0.3	} (i) approximately RMB17.7 million from the net proceeds of the Global Offering and (ii) approximately RMB9.2 million from internally generated funds/debt financing/equity financing
3. Development of a sales and marketing center	N/A	N/A			7.7	0.1	
Phase II⁽³⁾			January 2017	December 2018/ October 2019	283.3	0	
4. Construction and development of second production plant and ancillary facilities, and acquisition of equipment for:							
a. development and commercialisation of ceramic hip prosthesis products	6,000	4,800			170.4	0	} internally generated funds/debt financing/equity financing
b. further expansion of production capacity of standard joint prosthesis products	80,000	64,000			112.9	0	

Notes:

- (1) Annual production capacity expected to be achieved after the commencement of operation in October 2017 for phase I and annual production capacity expected to be achieved after the commencement of operation in October 2019 for phase II.
- (2) The amount of investment costs expected to be incurred in each of the years from 2015 to 2018 are approximately RMB69.7 million, RMB154.9 million, RMB86.4 million and RMB196.9 million, respectively.
- (3) The implementation of our development plans of phase II of the Daxing New Production Base is subject to our reassessment with reference to our projected sales and capital expenditures based on marked demand of our products, the progress of development of our product candidates and technological developments that are relevant to our production process from our time to time.

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We have obtained the land use right certificate, the permits and licenses associated with environment protection, the construction project planning permit and the construction land planning permit in relation to the Daxing New Production Base. We are in the process of applying for other permits and licenses for the implementation of our expansion plan when necessary. Such permits and licenses are primarily associated with construction. It is expected that upon completion of the construction, pending the obtaining of the final inspection approval from the relevant local environmental authority and final inspection approval on completion of construction, we will submit our application for building ownership certificate and production permits in respect of our Daxing New Production Base after which we can commence formal production. Our PRC Legal Advisers have confirmed that there should be no material legal impediment for us to obtain the construction permit, the building ownership certificate and approvals and permits associated with production.

The details of estimated expenses⁽¹⁾ of phase I and phase II of Daxing New Production Base are set out as below:

	Phase I (RMB'000)	Phase II (RMB'000)	Total (RMB'000)
Construction fees	52,918	68,037	120,955
Acquisition of equipments and installation fees	135,478	168,192	303,670
Ancillary facilities and other fees	37,859	47,079	84,938
Total	226,255	283,308	509,563

The breakeven period⁽²⁾ of our Daxing New Production Base is expected to be approximately 1 year and the payback period⁽³⁾ of our initial setup costs is expected to be approximately 5 years.

Notes:

1. We have only entered into construction contracts in respect of the dormitory and auxiliary facilities of canteen of phase I, pursuant to which, we have committed to make a payment of approximately RMB8.4 million and monthly payment is expected to be made according to the construction progress where the final full settlement shall take place upon the completion of construction. As at the Latest Practicable Date, no other contract has been entered into with respect to the other parts of phase I and the construction projects of phase II.
2. Breakeven period refers to the period of time required for a production plant to generate revenue equal to its operating cost for the first time, assuming gross profit margins would be similar to the existing production facilities.
3. Payback period refers to the period of time required to recover the initial setup costs, which is expected to grow in line with the Group's overall expansion plan of each production plant by its net profit, assuming the revenue will increase in line with the overall business growth and there will be no material impact on the business and operating result of the production plant due to fluctuation in market demand, inflations, increase in raw material costs and labor expenses throughout the operation period.

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We believe that the following factors should substantiate sufficient market demand for the expected increase in our production capacity of phase I of Daxing New Production Base:

- according to the Euromonitor Report, the PRC joint prosthesis market grew at annual average growth rate of approximately 19.5% from 2009 to 2013. It is expected that the PRC joint prosthesis market will grow at a CAGR of approximately 18.1% from 2014 to 2018 and various favourable factors such as aging population, increasing per capita income and enlarging scope of the medical insurance coverage will continue to sustain the rapid development of joint prosthesis market in the PRC. We believe that the demand of our Company's products will continue to increase along with the growth of the PRC joint prosthesis market;
- for the three years ended 31 December 2013, the CAGR of our revenue was approximately 17.4%. The sales of our standard joint prosthesis products, the sales of which amount to nearly 70% of our total revenue for the three years ended 31 December 2013, increased at a CAGR of approximately 22.8% for the three years ended 31 December 2013. We expect that the CAGR for the sales of our standard joint prosthesis products will remain at a relatively high level in the near future;
- the CAGR of the sales of custom joint prosthesis products for the three years ended 31 December 2013 was about 17.8%. We expect the growth of revenue of custom joint prosthesis products to be at a high CAGR in the near future. The reason being that our current custom joint prosthesis products are mainly focused on bone tumour and joint revision patients, but we intend to diversify its product offerings in advanced customised products which have a wider range of application (i.e. which are applicable to the general population including bone tumour and joint revision patients). They are high-end products which can better cater for specific needs of patients;
- since 2014 onwards, we have increased our sales efforts for the spinal products. In early 2014, we established a sales team dedicated to sales and marketing of spinal products. The establishment of such sales team is expected to further enhance the sales of spinal products. For the nine months ended 30 September 2014, the revenue of spinal products increased by approximately 3.8% over the same period in 2013. We expect the spinal products to be able to maintain a high growth rate in the near future;
- our business strategy to deepen market penetration and expand our distribution and sales network through our seven new sales and marketing centers in different provinces. We aim to establish these seven sales and marketing centers by 2016. We have restructured our marketing and sales department into two dedicated teams in January 2014 and also plan to hire another 90 sales representatives by 2017 to increase our sales force. For further details, please refer to the sections headed "Business — Sales, Distribution Network and Marketing — Marketing" and "Business — Business Strategies

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and Future Plans — Expand the breath and depth of our distribution and sales network and further explore the overseas market”;

- the anticipated accelerated expansion of our sales in the overseas market. We are preparing the application for registration of our products to relevant local health regulatory authorities of Brazil and the United States for export to these countries. Since 2009, we have sold products to various overseas countries and have established good relationship with various overseas customers. We are confident that our products would be able to be distributed in a much wider market when our products are successfully registered in these countries;
- sales of certain of our main products, in particular, through ODM and OEM bases, have been historically constrained by limitations on our production capacity. With the additional capacity in the Daxing New Production Base and the expansion of our sales force, we believe we could further develop our business in this area so that our ODM and OEM sales is expected to increase over time;
- we have six research and development projects in progress, all of which we are targeting to launch within the period from 2015 to 2018. For further details, please refer to the section headed “Business — Research and Development — On-going research and development project”;
- our business strategy to strengthen research and development capabilities by increasing our research and development resources and recruiting more talents to join our research and development team to further expand our innovation ability. We also intend to purchase advanced equipment from overseas and optimise existing production facilities to strengthen our research and development capacity and trial testing standards;
- as of the Latest Practicable Date, the Group had 366 employees. We expect to hire approximately another 200 employees by 2017 by recruiting key personnel with most of such new hires to be made to manage the production, quality assurance, procurement and logistics of the Daxing New Production Base. At the same time, we plan to allocate experienced employees from our existing production facilities to manage the production, quality assurance, procurement and logistics of the Daxing New Production Base in order to train the newly recruited local employees of our Daxing New Production Base.

As such, we believe that the proposed scale of expansion of phase I of the Daxing New Production Base would be able to capture the expected growth in the joint prosthesis market in the PRC in the medium term.

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Apart from being used as a production site, the Daxing New Production Base will also serve as the headquarter, sales and marketing center and research and development center of the Group. It is planned that the production site of phase I development of the Daxing New Production Base will occupy about 37.5% (i.e. approximately 18,000 square meters) of the entire Daxing New Production Base. The adjustment of work schedule, such as extending the working hours of labour or increasing the number of shifts at the Tongzhou First Production Base and the Tongzhou Second Production Base and the expansion of production capacity of the Tongzhou First Production Base and the Tongzhou Second Production Base by purchasing additional machineries (as there will be additional gross floor area of 2,000 sq.m), are only interim and contingent measures to be adopted in order to cope with the increasing demand of our products before the commencement of operation of the Daxing New Production Base in 2017. For details, please refer to the section headed “Business — Production” in this prospectus. We consider that the close-to full utilisation of production capacity would limit our flexibility to take on potential increase of orders in the long run and the development of the Daxing New Production Base could ultimately provide a sustainable solution to our long-term future growth.

The Directors believe that there is no impact of the Daxing New Production Base on our Group’s current business model and product portfolio.

Strategic relocation to our Tongzhou Second Production Base

In January 2011, we acquired the Tongzhou Second Production Base and the land on which it is erected adjacent to our current production site, Tongzhou First Production Base. The reason for acquiring the Tongzhou Second Production Base is two-fold. Firstly, we believed that the Tongzhou Second Production Base could cater for the needs of our business growth. The Tongzhou Second Production Base is situated at the southern district of Beijing Tongzhou Economic Development Zone (the “Zone”), which is neighbored by Tianjin and Hebei province, and at the core of Bohai economic circle where major industries such as new medicine and pharmaceutical have been developed in the Zone over the years. As we have started to lease the Tongzhou First Production Base located at the Zone since the year 2003, we are familiar with the business trend and have maintained our good reputation in the Zone. We believe that our business strategies coincide with the industry trend of the Zone. By taking into account numerous factors such as the anticipated high level of demand of our products in the near future, the good geographical location, the industry trend within the Zone and the period of time that we have carried on our business in the Zone, we acquired the Tongzhou Second Production Base. We considered that it could serve as an additional production base in the event we need to take on a sudden increase of orders and expand our production capacity in the short run in response to any increase in demand of our products before phase I of the Daxing New Production Base commences operation.

Secondly, as our Tongzhou First Production Base has title defect, we believed that Tongzhou Second Production Base could serve as a replacement production site in case if we are required to relocate due to the title defect. Our Tongzhou First Production Base is erected on a piece of collectively-owned construction land (集體建設用地). As at the Latest Practicable Date, no collectively-owned construction land use right certificate and

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building ownership certificate has been obtained by the Huoxian Town Cooperative Economic Association in respect of the land and the buildings of the Tongzhou First Production Base (“Title Defect”). For further information of the Title Defect, please refer to the section headed “Business — Land and Properties” in this prospectus. Since the Tongzhou First Production Base is very close to the Tongzhou Second Production Base, our Directors are of the view that the cost of relocation would be low. Furthermore, the Tongzhou Second Production Base has a gross floor area of approximately 2,000 sq.m. larger than the Tongzhou First Production Base, our Directors believe that our Tongzhou Second Production Base has sufficient production capacity to take over all production activities from our Tongzhou First Production Base upon commencing commercial production in case if we are required to relocate due to the Title Defect. We have commenced trial production at our Tongzhou Second Production Base since January 2015, as advised by our PRC Legal Advisers, there is no limitation on the actual production volume during the trial production according to the relevant laws and regulations in the PRC, therefore, our Tongzhou Second Production Base also has sufficient production capacity to take over all production activities from our Tongzhou First Production Base during the trial production.

As it took a great deal of time for us to obtain the approvals, permits, registrations and licenses which are necessary for the production and operations of the Tongzhou Second Production Base, we had not started the renovation immediately after we acquired the Tongzhou Second Production Base in January 2011. In respect of the Tongzhou Second Production Base, we had only obtained the building ownership certificate in April 2012, the medical device production enterprise license (醫療器械生產企業許可證) in August 2012 and two medical device registration certificates in June and July 2013 respectively. Furthermore, it takes time for us to prepare and design for an effective production plan of our production sites. Therefore, we only started the renovation of the Tongzhou Second Production Base in around August 2013 at the time we considered we will soon obtain all the approvals, permits, registrations and licenses for the production and operation of the Tongzhou Second Production Base. As at the Latest Practicable Date, renovation of the Tongzhou Second Production Base and relocation from the Tongzhou First Production Base to the Tongzhou Second Production Base have been completed, whereas most of our production facilities (excluding those for the production of knee joint prosthesis products and shoulder joint prosthesis products) have been moved from our Tongzhou First Production Base to our Tongzhou Second Production Base. We have commenced trial production at our Tongzhou Second Production Base in January 2015 and we carried out production at these two production sites since then. Our PRC Legal Advisers confirmed that there is no limitation on the actual production volume on the Tongzhou Second Production Base during the trial production according to the relevant laws and regulations in the PRC. Our Directors believe that the working environment of our employees is improved by having two production sites, due to the additional floor space. The gross floor area of Tongzhou First Production Base and Tongzhou Second Production Base are approximately 4,370 sq.m. and 6,457.36 sq.m. respectively. The land premium of the Tongzhou Second Production Base of approximately RMB2.47 million has been fully settled.

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The lease of the Tongzhou First Production Base was renewed in April 2013. At that time, we had not obtained any medical device registration certificates for Tongzhou Second Production Base. Furthermore, we had not completed our production planning for the Tongzhou Second Production Base and had not started the renovation of the Tongzhou Second Production Base at that time. In addition, we had obtained confirmation from the relevant government authorities that there was no title dispute in relation to the Tongzhou First Production Base and it was not listed in any demolition plan, our Directors believe that the risk of relocation was low. In addition, since Beijing Jin San Jiao Investment Management Company (北京市金三角投資管理有限公司) (the “Lessor”) has given an undertaking to us that in the event of early termination of the lease agreement due to title disputes, they shall give us 12-months prior notice and we have not received any such notice during the lease term. Therefore, we renewed the lease of the Tongzhou First Production Base in April 2013.

Our Directors are advised by our PRC Legal Advisers that, (a) the lease did not contravene the mandatory provisions of PRC laws and regulations and (b) the Title Defect of the Tongzhou First Production Base is primarily due to the default on the part of the Southern District Management Committee or the Huoxian Town Cooperative Economic Association who are responsible for securing the necessary ownership certificates and we, who are merely the lessee, are not exposed to any legal liability and are not liable for any potential liabilities in respect of the Title Defect. Therefore, our Directors are of the view that the renewal of the lease of the Tongzhou First Production Base in April 2013 and the intention to negotiate with the Lessor after the expiry of the current lease term in 2018 would not adversely affected our compliance culture.

Furthermore, as the rental expenses of our Tongzhou First Production Base were low, the renewal of the lease of Tongzhou First Production Base until 30 April 2018 will not have material effect on our financial condition. Therefore, currently we do not have any intention to terminate the lease contract with the Lessor in relation to our Tongzhou First Production Base. We are not aware of any factors which would cause any material adverse financial effect on the Group if the Group had been operating at the Tongzhou First Production Base without Title Defect since the beginning of the lease. The Lessor has given an undertaking to us that in the event of early termination of the lease agreement due to title disputes, they shall give us 12-months prior notice otherwise they shall indemnify us all our losses. The Lessor is an indirect subsidiary of the local government of Huoxian Town of Tongzhou District (通州區漷縣鎮政府), with a registered and paid capital of RMB10.0 million. As such, we are of the view that the Lessor has the financial capability to indemnify us all our losses in the event of early termination of the lease Agreement due to title disputes. We are also not aware of any factors which would cause material difference in our rental payments if the leased property did not have any defect titles. Therefore, we believe that there would not be any material adverse financial effect on the Group. We would take into account various factors to decide whether to renew the lease with the Lessor upon the expiry of the lease in April 2018, such as the status in obtaining the collectively-owned construction land use right certificate and building ownership certificate in respect of the land and the buildings of the Tongzhou First Production Base by the Huoxian Town Cooperative Economic Association, our demand for the production capacity, the proposed new rent, the prevailing market rent, and the progress for the development of phase I of the Daxing New Production Base.

Our PRC Legal Advisers advised that we have obtained all permits, licenses and approvals from the relevant regulatory authorities which are necessary for producing all products in our existing product portfolio in the Tongzhou Second Production Base (including our knee and shoulder joint prosthesis products), except for the final environmental inspection approval on the Tongzhou Second Production Base. In respect of the final environmental inspection approval on the Tongzhou Second Production Base, the application for the final environmental inspection has been accepted by Beijing Tongzhou District Environmental Protection Bureau after relocation of the Tongzhou Second Production Base which was in January 2015. We expect that the final environmental inspection approval on the Tongzhou Second Production Base shall be obtained by April 2015. For further information of the permits, licenses and approvals which are necessary for the production and operation, please refer to the section headed “Statutory and General Information — 4. Further Information About Our Business — C. Licenses and registration certificates required for our production and operation” in Appendix VII to this prospectus.

Diversify our product series and develop advanced customised joint prosthesis products

We will continue to provide high-quality orthopedic products for patients, and continue to conduct optimisation and modification of our existing products. At the same time, we will keep abreast of the technology development of the joint prosthesis sector and invest more resources in the research and development of new products. We will develop more products catering for patients’ needs through the application of new materials and the improvement of production processes, in order to build a more comprehensive product series and to achieve product diversification. Projects that are currently under research and development include ceramic hip joint prosthesis products, mobile bearing knee joint prosthesis products, cementless custom (modular) joint prosthesis products and interbody fusion cages using PEEK materials. With our technical expertise, we will continue to diversify and expand the development of both joint prosthesis products and spinal products.

We are currently developing a new custom joint prosthesis product called advanced customised joint prosthesis. It is an advanced model of our conventional custom joint prosthesis products with the use of advanced technologies such as 3D reconstruction on the basis of the Chinese skeleton database (中國國民骨骼數據庫). Our competitive advantages in the joint prosthesis market in China provide us with the potential to develop advanced customised joints prosthesis products. Our existing custom joint prosthesis products mainly target patients suffering from bone tumor and joint revision whereas the advanced customised joint prosthesis products have a wider range of application. They are high-end products which can better analyse and cater for specific needs of patients. As such, we believe that advanced customised joint prosthesis products can attract higher profit margin.

Expand the breadth and depth of our distribution and sales network and further explore the overseas market

Orthopedic medical devices is highly specialized industry and highly relies on the networks of distributors to achieve product promotion, marketing and sales. Therefore, to

further strengthen our market coverage and share, we strive to deepen and broaden our existing distribution and sales network.

Currently, the competition in orthopedic medical devices industry in PRC is intense and distribution and sales network is crucial to obtain competitive advantages for enterprises in this sector.

Therefore, we plan to expand our distribution and sales network by establishing various sales and marketing centers in different provinces including our central sales and marketing center in Daxing New Production Base. We aim to establish a total of seven marketing service centers by 2016. They are strategically located in markets where we have lower brand presence. Through these sales and marketing centers, we could also provide in-store display of our existing and any newly launched products with our marketing team providing instant products introduction to distributors. Our sales and marketing centers will be equipped with our professional sales representatives to provide service support to our existing distributors and identify other experienced and qualified distributors.

To further expand and strengthen our marketing and sales network, we have restructured our marketing and sales department into two dedicated teams focusing our joint prosthesis products and spinal products in January 2014. We also plan to gradually hire another 90 sales representatives to increase our sales force by 2017. We have also formulated plans to enhance sales and marketing training to our existing sales personnel. In addition, our sales and marketing department is responsible for new product pre-marketing strategy, including market research and planning, allocation of marketing resources, and, based on new product features and competitive conditions, pricing strategy. In addition to our continuous efforts to strengthen our sales force recruiting, training and management programmes, we have also developed an internal management system and a robust compliance programme to manage and support our sales and marketing department, as well as our distribution network.

By establishing this kind of local presence, we can also better monitor the sales performance of our existing distributors on a more regular basis and allow for more frequent inspections at our distributors to ensure our products are properly marketed and promoted in a legal and effective manner. We believe that such practice can strengthen our market coverage and penetration, expand distribution and sales network and improve our sale services.

At the same time, we plan to accelerate the expansion of our sales in the overseas market. Since the obtaining of CE mark in 2009, we have sold products to various countries such as Greece, Turkey, South Korea and Egypt on ODM and OEM bases or under the brand name of “春立 Chunli” with our product technology and product quality. We have established good relationship with various overseas customers. With continuous effort in recent years, we have been exporting our products to various countries. Meanwhile, we are preparing the application for registration of our products to relevant local health regulatory authorities of Brazil and the United States for export to these countries. If our products are successfully registered in these countries, our products would be able to be distributed in a much wider market.

For details of our sales and marketing centers, for instance costs of establishment and respective locations, please refer to the section head “Business — Sales, Distribution Network and Marketing — Marketing” in this prospectus.

Strengthen our innovation ability and increase the research and development resources

We have been keeping ourselves in line with the trends in the international market and consistently conducting research and development of new products. Our current research and development projects include the development of ceramic hip joint prosthesis products, mobile bearing knee joint prosthesis products, cementless custom (modular) joint prosthesis products, and interbody fusion cages using PEEK materials. In the future, we shall continue our focus on the research and development of standard joint prosthesis products, advanced customised joint prosthesis products and spinal products. We plan to establish a product research and development center at our Daxing New Production Base. This product research and development center is expected to consist of standard joint prostheses department, spinal products department, orthopedic trauma product department, biomechanics center and orthopedic devices standardisation research and development center. After the completion of construction of phase I of the Daxing New Production Base, we will have a wide range of product research and development capabilities for the research of new products, small scale trial production and product examination. Meanwhile, we would attract more research and development talents to join our research and development team, which would be helpful for the establishment of the large-scale science research and development center. In addition, with our product research and development center, we can enhance our cooperation with well-known domestic and overseas medical institutes in order to strengthen our technology expertise and knowhow and competitiveness.

Expand our brand influence

We believe that a successful brand image is a key factor to our business development and that wide recognition and popularity of our brand name of “春立 Chunli” have been a major factor for our Group’s success. To further strengthen our brand, we will continue to implement strict supervision on product quality to maintain our brand image. At the same time, we will actively organise and participate in seminars for market practitioners including distributors and representatives from hospitals on orthopedic medical devices with well-known experts and professors in the industry from both China and overseas to promote our products during such seminars. We will also strengthen the cooperation with different academic institutes and hospitals, and organise academic seminars at different levels and in various aspects so as to further increase our brand influence.

Retention of talents

The development of orthopedic medical devices involves various areas of science, including clinical medical science, human physiology, material science, structural mechanics and mechanic engineering and production. As there is a shortage of professionals in the industry, competition for quality talents is particularly fierce. Most of our core technical and sales team are trained by us. We place great emphasis on the recruitment, training, appraisal, remuneration, promotion and retention of talents. We

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will continue to adhere to our existing talent development policy. On the one hand, we will attract high quality talents with competitive remuneration package and talent development policy to improve our operational and management competence, on the other hand, we have established an effective incentive and appraisal system to motivate the employees and ensure the retention of talents.

OUR PRODUCT PORTFOLIO AND APPLICATION

Our product portfolio

Our products include joint prosthesis products and spinal products. The table below sets out our sales volume and average selling prices by our products for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September	
	2011		2012		2013		2014	
	Sales volume (sets)	Average selling prices RMB	Sales volume (sets)	Average selling prices RMB	Sales volume (sets)	Average selling prices RMB	Sales volume (sets)	Average selling prices RMB
Standard joint prosthesis products	21,496	2,385	28,180	2,395	31,562	2,454	26,882	2,330
Custom joint prosthesis products	1,700	9,905	1,930	10,420	2,770	8,424	2,281	9,144
Spinal products	9,475	1,203	8,913	1,179	8,114	1,203	8,833	888

The average selling prices of standard joint prosthesis products remained stable over the Track Record Period, while the average selling prices of custom joint prosthesis products fluctuated mainly due to the price range of custom joint prosthesis products varied depending on the specifications. In addition, since we have established a new sales team dedicated in the spinal products in 2014, and in order to facilitate the business of the new sales team, we have some marketing and promotional events during the year 2014 which led to the changes in the average selling price of the spinal products.

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The following table sets forth our revenue and growth rate by products and business during the periods indicated.

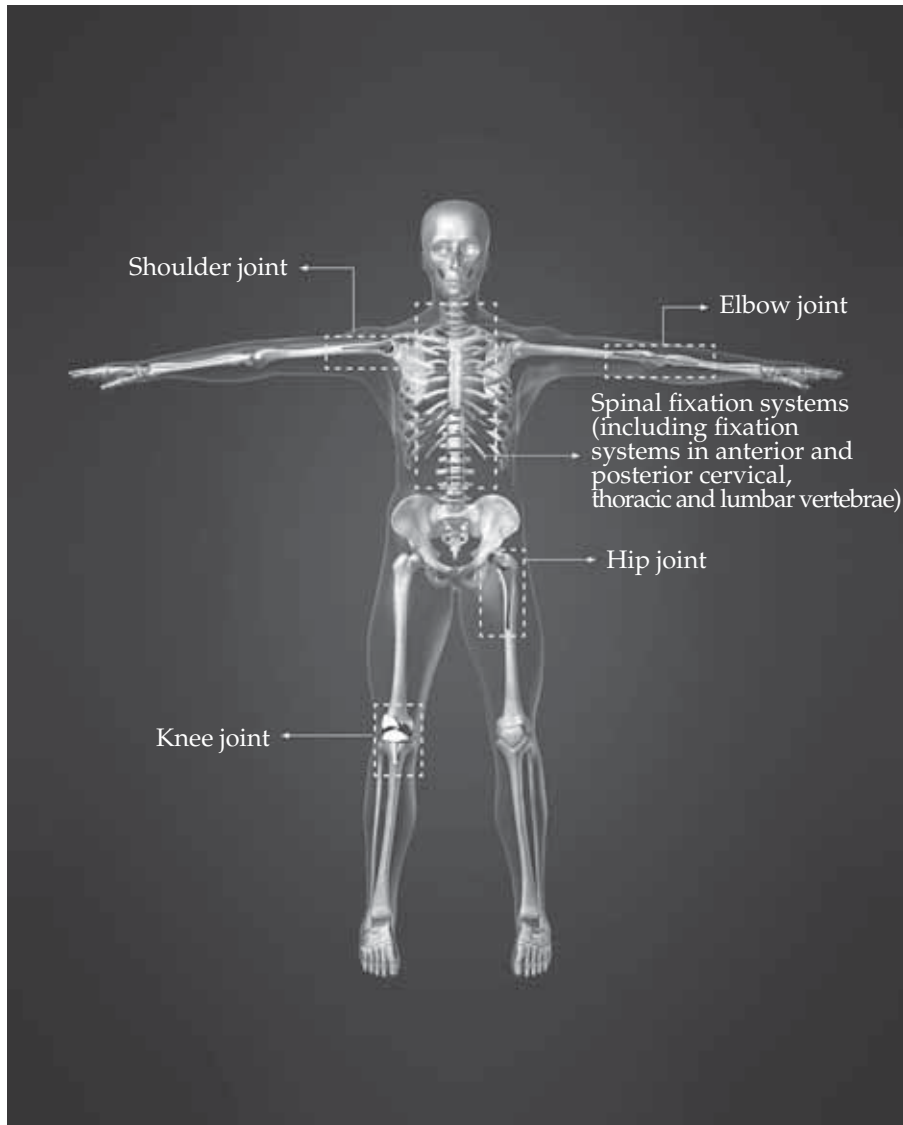
Products/Business	For the year ended 31 December					For the nine months ended 30 September	
	2011	2012	2013		2014		
	RMB'000	RMB'000	Growth rate %	RMB'000	Growth rate %	RMB'000	Growth rate %
Standard joint prosthesis products	51,262	67,479	31.6 ⁽¹⁾	77,449	14.8	62,644	27.1 ⁽²⁾
Custom joint prosthesis products	16,839	20,111	19.4	23,336	16.0	20,858	31.9 ⁽³⁾
Spinal products	11,400	10,505	-7.9 ⁽⁴⁾	9,761	-7.1 ⁽⁴⁾	7,844	3.8 ⁽⁴⁾
Others ⁽³⁾	759	-	-	-	-	-	-
Total	80,260	98,095	22.2	110,546	12.7	91,346	25.6

Notes:

1. The higher growth rate of standard joint prosthesis products in 2012 was attributable to the significant increase in the overseas sales of standard joint prosthesis products in that year.
2. The higher growth rate of standard joint prosthesis products for the nine months ended 30 September 2014 was attributable to the increase in the market demand and sales of our standard joint prosthesis products.
3. The higher growth rate of custom joint prosthesis products for the nine months ended 30 September 2014 was attributable to the increase in the purchase orders of custom joint prosthesis products from the hospitals.
4. The growth rate of our spinal products in 2012 and 2013 was negative because it was our strategy to prioritise the development of the sales of joint prosthesis products first which had a higher market demand and to leverage on the growth of the sales of our joint prosthesis products to expand the sales of our spinal products. The growth rate of our spinal products for the nine months ended 30 September 2014 increased because we have established a sales team dedicated to sales and marketing of spinal products in early 2014.
5. Others represent logistics services which we have not engaged in since 2012.

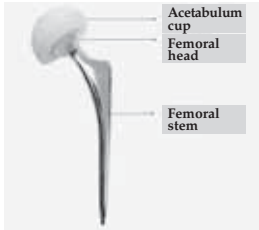

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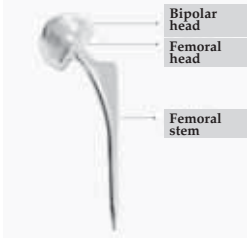
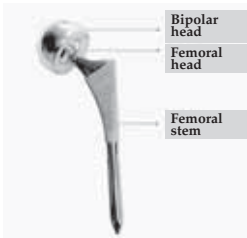
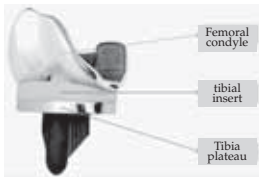
Our products are applicable to different parts of human body, such as hip joints, knee joints, shoulder joints, elbow joints as well as cervical, thoracic and lumbar vertebrae. Please refer to the diagram below for details:



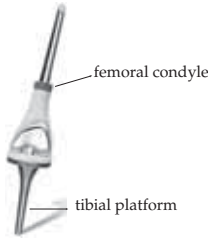
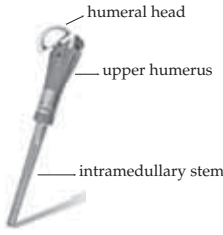
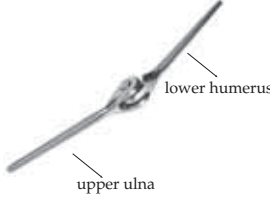
(a) Standard joint prosthesis products

Our standard joint prosthesis products mainly include hip joint prostheses products and knee joint prostheses products which are primarily used for treatment of osteoarthritis, rheumatoid arthritis and other diseases. There are four types of standard hip joint prosthesis products, namely cemented total hip joint prosthesis products, total hip joint prosthesis products, cemented hemi hip joint prosthesis products and hemi joint prosthesis products. There is only one type of standard knee joint prosthesis products.

<u>Products</u>	<u>Application</u>	<u>Sample picture</u>	<u>Models and specifications</u>
<p>(i) Standard hip joint prosthesis products</p>			<p>There are 4 types in total and each type is composed of femoral stem, acetabulum cup (or bipolar head) and femoral head. Product set can be made up by any of such components with different models and specifications.</p>
<ul style="list-style-type: none"> • cemented total hip joint prosthesis products 	<p>used for the treatment of femoral head (cervical) fractures, femoral bone necrosis of malunion, osteoarthritis and acetabular dysplasia</p>		<p>acetabulum cup: 1 model with length ranging from 38mm to 72mm (each 2mm represents one specification) femoral head: 1 model with 20 specifications femoral stem: 6 models in total with 7 to 12 specifications for each model</p>
<ul style="list-style-type: none"> • total hip joint prosthesis products 	<p>same as above</p>		<p>acetabulum cup: 12 models in total with 17 specifications for each model femoral head: 1 model with 20 specifications femoral stem: 8 models in total with 7 to 10 specifications for each model</p>

<u>Products</u>	<u>Application</u>	<u>Sample picture</u>	<u>Models and specifications</u>
<ul style="list-style-type: none"> cemented hemi hip joint prosthesis products 	same as above		<p>bipolar head: 1 model with length ranging from 38mm to 72mm (each 1mm represents one specification)</p> <p>femoral head: 1 model with 20 specifications</p> <p>femoral stem: 6 models in total with 7 to 12 specifications for each model</p>
<ul style="list-style-type: none"> hemi joint prosthesis products 	same as above		<p>bipolar head: 1 model with length ranging from 38mm to 72mm (each 1mm represents one specification)</p> <p>femoral head: 1 model with 20 specifications</p> <p>femoral stem: 8 models in total with 7 to 10 specifications for each model</p>
<p>(ii) Standard knee joints prosthesis products</p>	rheumatoid arthritis, osteoarthritis and knee joint stiffness		<p>There are 3 models in total and each model is composed of femoral condyle, tibial insert and tibia plateau. Product set can be made up by any of such components with different models and specifications.</p> <p>femoral condyle: 10 specifications in total</p> <p>tibial insert: 10 specifications in total with 9 sub-specifications, with thickness ranging from 9mm to 25mm (each 2mm represents one sub-specification)</p> <p>tibia plateau: 10 specifications in total</p>

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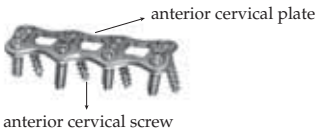
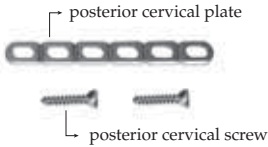
<u>Products</u>	<u>Application</u>	<u>Sample picture</u>	<u>Specifications</u>
(ii) Custom knee joint prosthesis products	used for the treatment of tumors around knee joint, comminuted fracture and bone defect caused by other reasons	 <p style="text-align: center;">femoral condyle tibial platform</p>	
(iii) Custom shoulder joint prosthesis products	used for the treatment of tumors around and fractures of the shoulder joint as well as joint injuries or bone defects caused by other reasons	 <p style="text-align: center;">humeral head upper humerus intramedullary stem</p>	
(iv) Custom elbow joint prosthesis products	used for the treatment of tumors around and fractures of the elbow joint as well as joint injuries or bone defects caused by other reasons	 <p style="text-align: center;">lower humerus upper ulna</p>	

The differences between the standard joint prosthesis products and the custom joint prosthesis products are as follows:

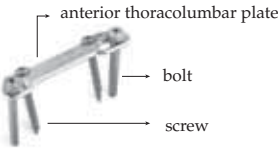
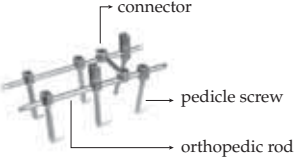
	Standard joint prosthesis products	Custom joint prosthesis products
Application	Osteoarthritis, rheumatoid arthritis, avascular necrosis of and traumatic arthritis etc.	Proximal femoral tumours, intertrochanteric comminuted fracture and other reasons applicable for the use of custom joint prostheses
Product structure	Simple structure and standardised	Complicated structure and tailor-made
Product function	With joint recovery function, generally not suitable for replacing large bone defect	With joint recovery function, suitable for replacing bone defect

(c) Spinal products

Our spinal products comprise a full product portfolio of spinal fixation systems, including fixation systems in anterior and posterior cervical, thoracic, and lumbar vertebrae. There are four types of spinal products, namely anterior cervical fixation system, posterior cervical fixation system, CS anterior spinal fixation device (include fixation system in thoracic and lumbar vertebrae) and CF posterior spinal fixation device (include fixation system in thoracic and lumbar vertebrae). They are applicable to degenerative diseases, vertebral column diseases, deformity, fracture and back pain caused by other pathology reasons.

<u>Products</u>	<u>Application</u>	<u>Sample picture</u>	<u>Specifications</u>
Spinal products			
Each of the following products has a particular specification, and the specifications of the components of such product are as follows, while such components can be freely combined to form a set.			
(i) Anterior cervical fixation system	spine degeneration disease and vertebral column diseases, deformity, fracture and back pain caused by other pathology reasons		<p>anterior cervical plate: with length ranging from 20mm to 114mm (each 2mm represents one specification), with 5 types of holes</p> <p>anterior cervical screw: with length ranging from 5mm to 96mm (each 1mm represents one specification) and with diameter ranging from 2mm to 7mm (each 0.5mm represents one specification)</p>
(ii) Posterior cervical fixation system	same as above		<p>posterior cervical plate: with length ranging from 15mm to 125mm (each 1mm represents one specification)</p> <p>posterior cervical screw: with length ranging from 5mm to 96 mm (each 1mm represents one specification) and with diameter ranging from 2mm to 7mm (each 0.5mm represents one specification)</p>

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<u>Products</u>	<u>Application</u>	<u>Sample picture</u>	<u>Specifications</u>
(iii) CS anterior spinal fixation device (include fixation system in thoracic and lumbar vertebrae)	same as above		<p>anterior thoracolumbar plate: with length ranging from 25mm to 160mm (each 5mm represents one specification)</p> <p>bolt and screw: with length ranging from 20mm to 96mm (each 5mm represents one specification) and with diameter ranging from 4mm to 8mm (each 0.5mm represents one specification)</p>
(iv) CF posterior spinal fixation device (include fixation system in thoracic and lumbar vertebrae)	same as above		<p>connector: with length ranging from 35mm to 150mm (each 5mm represents one specification) and with two diameter specifications (5.5mm and 6mm)</p> <p>pedicle screw: with length ranging from 18mm to 120mm (each 1mm represents one specification) and with diameter ranging from 3mm to 10.5mm (each 0.5mm represents one specification)</p> <p>orthopedic rod: with length ranging from 20mm to 560mm (each 1mm represents one specification) and with two diameter specifications (5.5mm and 6mm)</p>

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Patents owned by us and applied on our products

The below illustrates some of the patents owned by our Group and applied on our products which are material to the business of our Group as at the Latest Practicable Date:

Product name	Composition and characteristics	Application	Name of patents	Expiry date of patents
Hip joint prosthesis products – microslot system	It is composed of femoral stem, femoral head, acetabulum cup and bipolar head and is a surgical implant used as a substitute for the hip joints. This hip joint prosthesis is easy to install with stable fixation. It can effectively prevent the dislocation of hip joints and will not affect the normal movement of hip joints.	Rheumatoid arthritis, osteoarthritis, the dysplasia of hip joints and other hip joint diseases	Hip joint prostheses	20 October 2019
			Vertical groove stem of the hip joint	20 October 2019
			Cemented acetabular cup	20 October 2019
			Cementless cup	22 June 2020
			Slide hammer	11 January 2031
			Metal impactor for cementless cup	16 September 2029
			Femoral stem broach handle	16 September 2029
Medical broach	1 April 2030			
New axial knee joint prosthesis products	It is composed of femoral condyle, tibial tray, femoral universal stem, tibial universal stem, reinforcement sleeve and universal extension. It can better aid the flexion and internal and external rotation of the knee joint. With better stability, this prosthesis is biologically-based and can fully meet the requirements of patients' movement, enabling the patients to regain their ability to walk and move.	Applicable to the tumors around knee joints, serious comminuted fracture and the bone defects caused by repeated joint revisions	New axial knee joint prostheses	1 July 2029
Surface knee joint prosthesis products	It is composed of femoral condyle, tibial tray, tibial insert and patella. It is a surgical implant as a substitute for knee joints and is mainly used in the joint replacement surgeries of knee joints in medical institutes.	Applicable to rheumatoid arthritis, osteoarthritis and knee joint stiffness	Femoral sizing guide	28 November 2022
			Tibial plateau impactor	28 November 2022
			Canal drill guide	28 November 2022
			4 in 1 cutting block	28 November 2022
				28 November 2022

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Product name	Composition and characteristics	Application	Name of patents	Expiry date of patents
Posterior spinal fixation system	Classified into CF-I, the CF-II and CF-III series of spinal fixation systems.	Mainly applicable to the fixation of the thorax and lumbar vertebrae, the thorax, and the sacrum.	Implantable self-locking connector	11 January 2031
	The CF-I series is composed of U-design screws and connecting plates.		Self-locking connector	20 July 2019
			Vertebral column screw & rod connector	31 August 2029
			Self-locking screw nuts	20 July 2029
	The CF-II series is composed of CFII rods, U-design screws and connecting plates.			
	The CF-III series is composed of screws and connecting plates, etc.			
	It is applicable to the internal fixation of the vertebral column. With strong stability, the product is easy to operate and can reduce the risks of surgery. It is also durable due to the fact that it is made of titanium alloy with a high level of fatigue strength.			

For further details, please refer to the paragraph headed “Statutory and General Information — 4. Further Information About Our Business — B. Our intellectual property rights” in Appendix VII to this prospectus.

PRODUCTION

Currently, we have two production sites, the Tongzhou First Production Base and the Tongzhou Second Production Base, which are both located at the southern district of Beijing Tongzhou Economic Development Zone with a gross floor area of approximately 4,370 sq.m. and 6,457.36 sq.m. respectively. We focus on the production and research and development of joint prosthesis products and spinal products at our current production sites. For further information of the title defect of the Tongzhou First Production Base, please refer to the section headed “Business — Land and Properties” in this prospectus.

In January 2011, we acquired the Tongzhou Second Production Base and the land on which it is erected adjacent to our current production site, Tongzhou First Production Base. The plant and the facilities have a total gross floor area of 6,457.36 sq.m., which would be used as our second production base. Renovation of the Tongzhou Second Production Base and relocation from the Tongzhou First Production Base to the Tongzhou Second Production Base have been completed, whereas most of our production facilities have been moved from our Tongzhou First Production Base to our Tongzhou Second Production Base. We have commenced trial production at our Tongzhou Second Production Base in January 2015 and we carried out production at these two production sites since then. Please also refer to the section headed “Business — Business Strategies

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and Future Plans — Expansion of our production facilities and strategic relocation — Strategic relocation to our Tongzhou Second Production Base” for further details.

Our production plants are equipped with machineries and equipment used in our production process owned by us, including vertical lathes, three-coordinate measuring machine, CNC machining center, CNC graving machine, CNC slow wire-cutting machinery and cutters, lathes, milling machine. We endeavour to keep ourselves abreast of technological advances in our production facilities and regular monitor and upgrade production technology, equipment and processes. To our Directors’ best knowledge, subject to the introduction of more advanced models or technology, generally, the life span of our production machineries and equipment is around 10 years and is expected to have a longer life span if they are properly maintained. As at the Latest Practicable Date, most of our machineries and equipment have been in operation for around four years, and based on our regular inspection and maintenance, our machineries and equipment were in good conditions. We did not experience any material or prolonged interruptions to our production process due to machinery or equipment failure during the Track Record Period.

The following table sets forth the maximum annual production capacity, actual production volume and utilisation rates of our production facilities during the Track Record Period:

	For the year ended 31 December						For the nine months ended 30 September					
	2011			2012			2013			2014		
	Maximum annual production capacity ⁽¹⁾ (sets)	Actual production volume ⁽²⁾ (sets)	Utilisation rate ⁽³⁾ (%)	Maximum annual production capacity ⁽¹⁾ (sets)	Actual production volume ⁽²⁾ (sets)	Utilisation rate ⁽³⁾ (%)	Maximum annual production capacity ⁽¹⁾ (sets)	Actual production volume ⁽²⁾ (sets)	Utilisation rate ⁽³⁾ (%)	Maximum annual production capacity ⁽¹⁾ (sets)	Actual production volume ⁽²⁾ (sets)	Utilisation rate ⁽³⁾ (%)
Standard joint prosthesis products	19,700	15,400	78.2	33,200	28,400	85.5	34,700	32,300	93.1	37,100	36,700	98.9
Custom joint prosthesis products	2,400	1,900	79.2	2,300	2,000	87.0	3,600	3,300	91.7	2,600	2,500	96.2
Spinal product ⁽⁴⁾	11,400	8,900	78.1	12,500	10,700	85.6	9,700	9,000	92.8	9,500	9,400	98.9

Notes:

- (1) The table above is for illustration purposes only. Our production capacity for each of the three years ended 31 December 2013 is calculated on the basis of 300 days per year and eight working hours per day, and our production capacity for the nine months ended 30 September 2014 is calculated on the basis of 25 days per month and eight working hours per day. As our standard prosthesis products and spinal products are produced in the form of parts which are subsequently assembled by the hospitals, their maximum annual production capacity is estimated based on the maximum production capacity of their core components, namely femoral stem, femoral condyle and screws of our standard hip joint prosthesis products, standard knee prosthesis products and spinal products respectively, with reference of the maximum annual production capacity of their main machineries and equipment, i.e. CNC lathe machine and CNC mill machine. Since we used these machineries and equipment to produce our products, the calculation of maximum annual production capacity has also taken into account the proportionate working hours attributable to each product.

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- (2) This represents the actual production volume of the core components of our products, namely femoral stem, femoral condyle and screws of our standard hip joint prosthesis products, standard knee prosthesis products and spinal products respectively.
- (3) The utilisation rate of our production facilities for each product represents the percentage of the production volume to its maximum annual production capacity during the same period.
- (4) As compared to 2012, our maximum annual production capacity and production volume for spinal products in 2013 decreased because we allocated part of the production capacity for the production of spinal products to produce standard and custom joint prosthesis products in response to the market demand in 2013.
- (5) In the event that we need to increase our production capacity in response to higher market demand of our products in the near future, we would make swift adjustment to the work schedule of our production staff at the Tongzhou First Production Base and the Tongzhou Second Production Base. For example, by increasing the number of shifts or number of working hours per shift which we expect could increase our production capacity by about 10%.

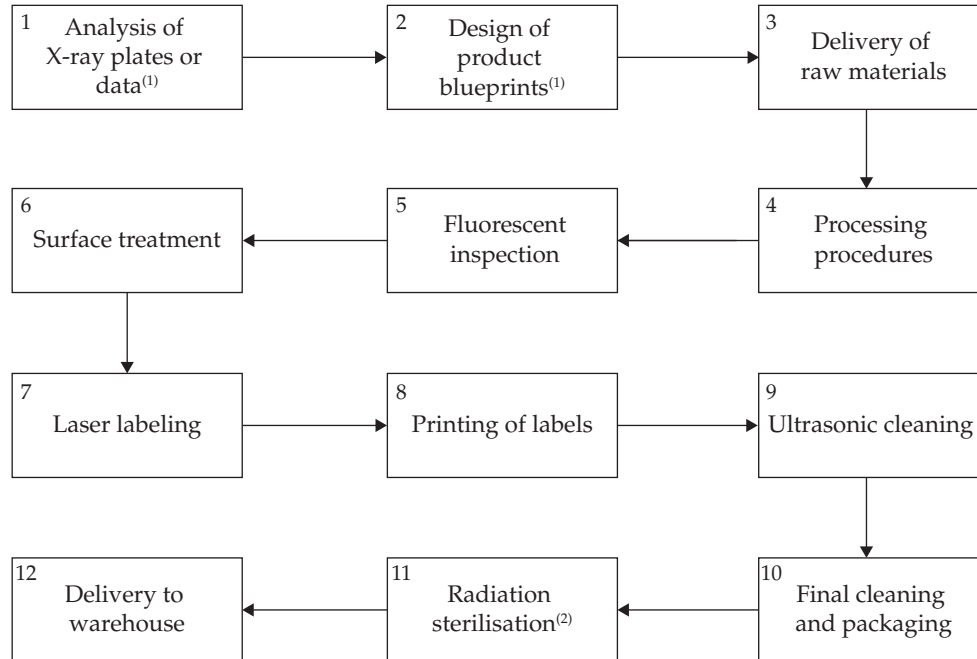
During the Track Record Period, our utilisation rates increased steadily from slightly below 80% in 2011 to over 90% for the nine months ended 30 September 2014. To alleviate the production capacity constraint and meet the anticipated increasing market demand, we have acquired the Daxing New Production Base as our new production plant and plan to increase our production capacity to satisfy increasing demand of our products. For details, please refer to the section headed “Business — Business Strategies and Future Plans — Expansion of our production facilities and strategic relocation — Expansion plan and increase of production capacity” in this prospectus.

The adjustment of work schedule at the Tongzhou First Production Base and the Tongzhou Second Production Base is only an interim and contingent measure to increase our production capacity for the short term. Other than the adjustment of work schedule to expand our flexibility to take on potential increase of orders in the long run before the commencement of operation of the Daxing New Production Base in October 2017, depending on the extent of increase in the then market demand, we intend to expand production capacity of the Tongzhou First Production Base and Tongzhou Second Production Base by purchasing additional machineries, including vertical lathes, three-coordinate measuring machine, CNC machining center, CNC graving machine, CNC slow wire-cutting machinery and cutters, lathes, milling machine. As the machineries can be used for the production of more than one kind of products, we will purchase new machineries depending on the actual increase in market demand of all its products to achieve the most cost-effective purchase plan. According to our experience, it would take approximately 3 months from purchasing new machineries to commencing of mass production and we believe that these measures could provide a way to increase our production capacity for the short term.

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Production process

The production processes for our different products are similar and the flow chart below illustrates the general and major production processes of our products:



Notes:

- (1) The processes of analysing X-ray plates or data and design of product blueprint are only applicable to the production of custom joint prosthesis products.
- (2) The process of radiation sterilisation is only applicable to the production of standard joint prosthesis products.

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The key production processes of each of our products are as follows:

Production processes	Custom joint prosthesis products	Standard joint prosthesis products	Spinal products
1. Analysis of X-ray plates or relevant data	Initially inspect and analyse the X-ray plates or relevant data of the patients provided by hospitals or distributors	n/a	n/a
2. Design of product blueprint	Design the product blueprint in accordance with the specific conditions reflected in the patients' X-ray plates	n/a	n/a
3. Delivery of raw materials	Purchase the raw materials of custom joint prostheses from suppliers, inspect the titanium alloy blank of stem, cup and femoral heads, titanium alloy billets and medical-grade ultra-high molecular weight polyethylene materials purchased, and put them into storage after meeting the standards	Purchase the raw materials of hip or knee joint prostheses from suppliers, inspect the casted or forged alloy blank of stem, cup and femoral head, and medical-grade ultra-high molecular weight polyethylene materials purchased, and put them into storage after meeting the standards	Purchase the raw materials of screws and plates from suppliers such as pure titanium, titanium alloy and stainless steel

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Production processes	Custom joint prosthesis products	Standard joint prosthesis products	Spinal products
4. Processing procedures	The precision processing of custom joint prostheses through CNC lathe machine, CNC milling machine, CNC machining center according to the blueprints. This production process is a critical procedure and the production time is approximately 1-5 hours depending on different products	The precision processing of the hip joint and knee joint prostheses through CNC lathe machine, CNC milling machine, CNC machining center according to the blueprints. As the cups, femoral heads and mortars of the hip joint prostheses all have stereo sphere while the parts of the knee joint prostheses all have irregular shapes, it requires highly accurate angles, radian and smoothness and each part has to fully match with each other. This production process is a critical procedure which requires approximately 1.5 hours to complete	The preliminary and precision processing of sheets and billets through CNC cutters machine, CNC lathe machine, CNC milling machine, CNC grinding machine, CNC machining center according to the drawing. This production process is a critical procedure which requires approximately 2 hours to complete
5. Fluorescent inspection	Use portable fluorescent flaw detectors to detect any microcracks in the metal parts	Same as custom joint prosthesis products	Same as custom joint prosthesis products
6. Surface treatment	Treatment of the surface of the product in accordance with the requirement on the blueprint	Same as custom joint prosthesis products	Same as custom joint prosthesis products
7. Laser labeling	Engrave product serial numbers and markings.	Same as custom joint prosthesis products	Same as custom joint prosthesis products

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Production processes	Custom joint prosthesis products	Standard joint prosthesis products	Spinal products
8. Printing of labels	Print product labels	Same as custom joint prosthesis products	Same as custom joint prosthesis products
9. Ultrasonic cleaning	Rough clean the products	Same as custom joint prosthesis products	Same as custom joint prosthesis products
10. Final cleaning and packaging	Clean and package the products under class 100,000 clean room condition	Same as custom joint prosthesis products	Same as custom joint prosthesis products
11. Radiation sterilisation	n/a	Sterilise the packaged products through radiation sterilisation	n/a
12. Delivery to warehouse	Scan the barcodes, record in the recording system, and delivery to warehouse	Same as custom joint prosthesis products	Same as custom joint prosthesis products

SUBCONTRACTING

During the Track Record Period, in light of the complicated steps and high technical requirement of product sterilisation and surface treatment where our Company do not possess requisite equipment to conduct these procedures, we subcontracted these procedures to our subcontractors. Our major subcontractors conducted the procedures of radiation sterilisation and surface treatment respectively. As at the Latest Practicable Date, we have four major subcontractors for conducting these procedures. During the Track Record Period, we have maintained long-term business relationship with our major subcontractors for at least three years.

On the other hand, since the amount of work of punching holes on intramedullary nails and the quenching of the surface of devices are small while the cost of purchasing relevant equipments is relatively high, in order to be more cost-effective, we also outsourced such services to third-party subcontractors.

We have adopted measures to manage the cost of subcontracting, including keeping a list of our preferred subcontractors, which are regularly monitored and updated in order to maintain a long-term business relationship with them and obtain the subcontracting services at reasonable prices. We adhered to strict standards in selecting subcontractors and we usually select our subcontractors taking into account factors such as their qualifications, production capacity, and industry experience.

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We have entered into a technical service contract with a subcontractor to perform sterilisation, the principal terms are as follow:

- *Term* — The technical service contract has a term of one year and can be renewed after its expiry.
- *Technical services provided by the subcontractor* — Subcontractor will conduct analysis to propose the details of sterilisation process such as the radiation dosage to be used for our consideration and they shall provide radiation sterilisation services according to such agreed proposal.
- *Compliance with relevant quality standards* — Subcontractor shall strictly comply with ISO11137:2006 standard (Sterilization of health care products — Radiation (健康相關產品的滅菌—輻射)), the radiation dosage and packaging requirements agreed between the parties and JJG1018-90 (*Standard Methods on the Use of Bichrome (silver) Dose in the Measurement of γ -ray Absorption Dose* (使用重鉻酸鉀(銀)劑量計測量射綠水吸收劑量標準方法)) to provide the above sterilisation services.
- *Responsibilities of subcontractor* — During the period when our products are under the custody of the subcontractor, the subcontractor shall assume full responsibilities for the package appearance, quantity and safety of our products and shall be responsible for providing appropriate storage environment.
- *Basis for the determination of subcontracting fees* — The subcontractor will charge us based on the amount of our products sterilised.
- *Termination provisions* — Parties may terminate the contract upon the occurrence of force majeure events set forth in the contract.

We have entered into a technical service contract with a subcontractor to perform surface treatment, the principal terms are as follow:

- *Term* — The technical service contract has a term of one year.
- *Technical services provided by the subcontractor* — The subcontractor shall adopt vacuum plasma spraying technology to perform surface treatment to our joint prostheses.
- *Compliance with relevant quality provisions* — The subcontractor shall report to us the surface treatment performed to our products which shall conform to the latest national requirement in China.
- *Responsibilities of subcontractor* — The subcontractor shall ensure the surface treatment performed could meet our technical requirements.
- *Basis for the determination of subcontracting fees* — The subcontractor will charge us based on the actual number of joint prosthesis products which have undergone surface treatment.

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In accordance with the relevant laws, we are liable to our customer for the obligations of subcontractors. We conduct regular inspections on the works of the subcontractor to ensure they are in compliance with the relevant laws and regulations.

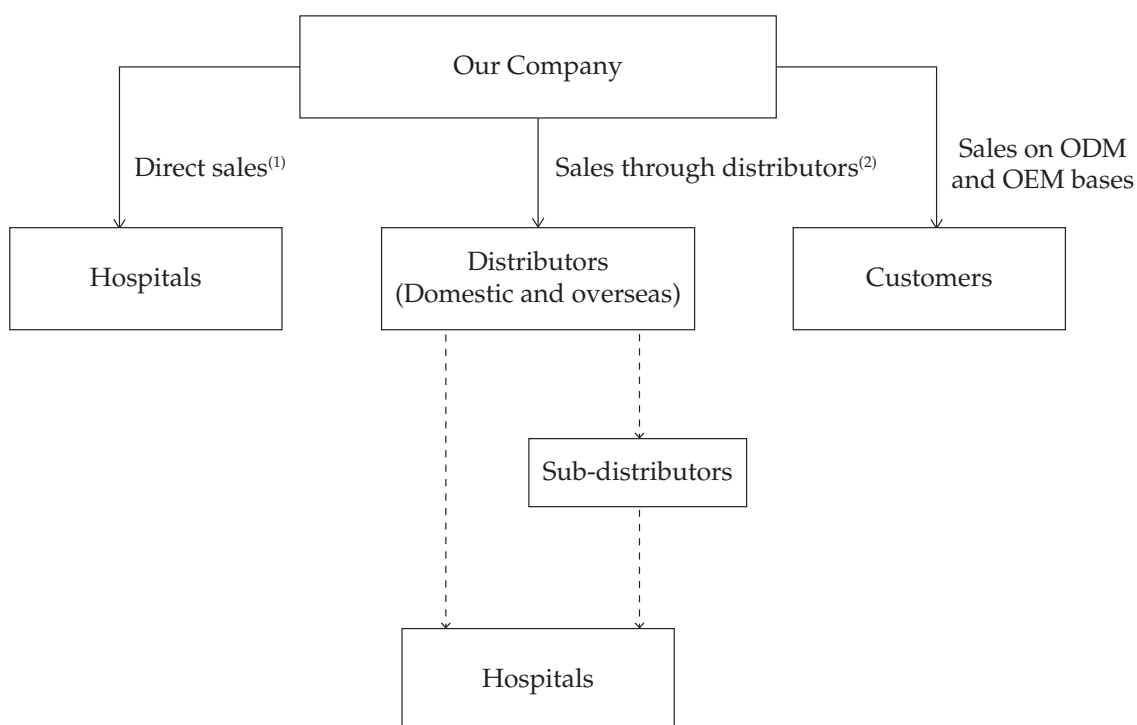
For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our purchases from our top subcontractor accounted for approximately 2.0%, 1.7%, 4.2% and 12.5% of our total cost of sales respectively. During the same periods, our purchases from all our four major subcontractors accounted for approximately 3.5%, 3.6%, 5.5% and 13.9% of our total cost of sales respectively.

During the Track Record Period and as of the Latest Practicable Date, all of our subcontractors were Independent Third Parties.

SALES, DISTRIBUTION NETWORK AND MARKETING

Sales model

The table below illustrates our sales model as of the Latest Practicable Date.



Notes:

1. Our direct sales to hospitals include sales of custom joint prosthesis products only.
2. Our sales through distributors include sales of joint prosthesis products and spinal products.

China is our core market. We also export our products under the brand name of “春立 Chunli” and on ODM and OEM bases. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our revenue was largely derived from the

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domestic market, represented approximately 96.0%, 89.5%, 87.9% and 85.7% of our total revenue respectively, whereas the remaining revenue was derived from overseas market, represented approximately 4.0%, 10.5%, 12.1% and 14.3% of our total revenue respectively.

Consistent with market practice in China, we sell our products primarily to third-party distributors in both China and overseas, while the remaining are sold to hospitals in China directly or overseas customers on ODM and OEM bases.

Most of our products are on the Medical Device Procurement List and we or our distributors shall win in the tender in order to sell our products on the Medical Device Procurement List to the hospitals. If a distributor, participates and wins the tender organized by the relevant government authorities government bureaus, we would have to sell our products to the hospital through this particular distributor without the right to choose another distributor or sell directly to the hospital. If we participate and win the tender, we have the right to select the distributors to sell our products to the hospitals. Therefore, we also participate in the tender conducted by government bureaus primarily to maintain our right to select distributors when selling our products to hospitals or to sell directly to the hospitals.

The table below sets out the details of our revenue and the percentages of the revenue by each sales channel to our total revenues for the three years ended 31 December 2013 and the nine months ended 30 September 2014:

	For the year ended 31 December						For the nine months ended 30 September 2014	
	2011		2012		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
China								
Distributors	70,575	88.0	81,373	83.0	88,085	79.7	69,727	76.3
Hospitals	5,727	7.1	6,426	6.5	9,112	8.2	8,569	9.4
Others ^(Note)	759	0.9	-	-	-	-	-	-
	<u>77,061</u>	<u>96.0</u>	<u>87,799</u>	<u>89.5</u>	<u>97,197</u>	<u>87.9</u>	<u>78,296</u>	<u>85.7</u>
Overseas								
Distributors	543	0.7	2,186	2.2	3,665	3.3	2,376	2.6
ODM and OEM customers	2,656	3.3	8,110	8.3	9,684	8.8	10,674	11.7
	<u>3,199</u>	<u>4.0</u>	<u>10,296</u>	<u>10.5</u>	<u>13,349</u>	<u>12.1</u>	<u>13,050</u>	<u>14.3</u>
Total	<u>80,260</u>	<u>100.0</u>	<u>98,095</u>	<u>100.0</u>	<u>110,546</u>	<u>100.0</u>	<u>91,346</u>	<u>100.0</u>

Note: Others represent logistics services which we have not engaged in since 2012.

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For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our total revenue from our top five customers were approximately RMB18.6 million, RMB19.9 million, RMB22.7 million and RMB21.6 million, represented approximately 23.2%, 20.3%, 20.5% and 23.7% of our total revenue respectively. During the same periods, our revenue from the top customer was approximately RMB5.0 million, RMB5.1 million, RMB6.0 million and RMB5.2 million, represented approximately 6.2%, 5.2%, 5.4% and 5.7% of our total revenue. During the Track Record Period, we have maintained stable business relationships with our top customers and the average length of the business relationship with our top five customers was about five years.

To the best knowledge of our Directors, other than Gaoyang Materials which is deemed to be a connected person of the Company under the Listing Rules, none of our Directors or their associates holding more than 5% of our issued share capital or the existing Shareholders has any interests in any of our top five customers.

As patients usually have joint replacement surgeries and spinal internal fixation surgeries during seasons with cooler temperature to avoid unnecessary infection after surgeries, there are relatively fewer surgeries in summer, resulting in minor seasonal fluctuation in the industry in terms of production and sales. In addition, the production and sales of our Company will decrease during the lunar new year period.

Sales through distributors

Our distributors engage in the distribution of medical devices. The end customers of orthopedic medical devices are hospitals which cover a wide geographical area. Coupled with the specialised nature of the orthopedic devices industry, it is a common practice in our industry to sell products to hospitals through a network of distributors who possess high level of technical knowledge who will then on-sell them directly to hospitals or sub-distributors for ultimate sales to hospitals. We believe that the reason that our distributors engage sub-distributors is mainly because they intend to supplement or expand their sales network to those areas that are not yet covered by their own sales. To the best of our knowledge, the sub-distributors engaged by our distributors are Independent Third Parties. We do not enter into any contract with the sub-distributors engaged by our distributors. In general, we rely on our distributors to monitor and control their sales practice. To the best of our knowledge, in order to maintain a good relationship with us, our distributors would prohibit the sub-distributors that they engage from selling our products beyond the territories designated by us. In order to monitor and manage the activities of the sub-distributors, we will now start to include a term to the new distribution agreements to be entered into by us or the renewed distribution agreement which requires our distributors to prohibit their sub-distributors from selling our products outside of their authorised territories.

As distributors are more accessible to hospitals due to their geographical proximity and can make timely communication with hospitals, they are able to provide more timely and comprehensive technical services and support to hospitals than we can. Through the cooperation with distributors, we continuously take the advantage of their sales network and geographical advantages to locate potential customers, which has strengthened and expanded our marketing ability and the market shares of our products.

We sell our products to our domestic and overseas distributors under the brand “春立 Chunli”, who would obtain full ownership of our products once they have purchased our products and then subsequently sell such products to the hospitals in the territories authorised by us.

Selection of distributors

We mainly select our distributors through the following three channels (1) seeking potential distributors who are interested to cooperate with us in the market by our sales staff; (2) meeting potential distributors at the booths in medical devices exhibitions or academic conferences; (3) referral or recommendation by our distributors or customers. We generally select and assess our potential distributors prior to engaging them and assess them continuously on a regular basis. Our selection and assessment process is as follows: (1) our potential distributors and distributors are required to demonstrate that they have the necessary qualifications and licences to distribute our products within the authorised territories; (2) we will conduct review of the historical financial performance of potential distributors; (3) we will conduct background search on potential distributors prior to engagement; and (4) we will conduct regular assessment on our distributors through physical inspection, assessment on their financial performance and investigation as to, among other things, any record on breach of law and regulations. We believe the above measures are effective to minimize our exposure to any bribery, corrupt practices or other improper conduct that could harm our reputation and business.

Management of our distributors

We authorise our distributors to distribute our products within the authorised designated territories to avoid cannibalization among themselves. Furthermore, our distributors are not allowed to re-allocate inventories or obsolete products among themselves without our prior approval. We closely monitor inventories of our distributors, and our sales staff would review their monthly inventory levels and would conduct regular inspections on our distributors to collect information about their inventory level and sales volume of our products and to ensure that our products are distributed by our distributors within the designed territories, monitor the number of distributors in any given area and keep track of any potential cannibalization or competition among our distributors. Through these inspections, we seek to ensure that our distributors comply with the terms and conditions of the distribution agreements. If we discover any non-compliance, we will inform the relevant distributor and request it to cease the non-compliance within a time period. Our distributors are also liable for breaches of the relevant distribution agreements and are required to pay us liquidated damages for the relevant breaches. We are entitled to terminate if our distributors breach certain provision stipulated in the agreements. We keep track of any potential cannibalization or competition among our distributors. Our distributors are typically required to make purchase orders based on their sales capabilities.

We provide training sessions on product knowledge to our distributors. We also arrange sales staff to assist our distributors with their sales and marketing efforts. We believe this would help to nurture mutually beneficial and long-term relationships between our distributors and us. These procedures are designed to ensure that our sales to our distributors reflect genuine market demand rather than accumulation of inventory at distributors level.

Distributors would obtain the ownership of our products when the products are sold to them. Hospitals notify the distributors in the territory when a surgery is required and the distributors would deliver the required products to them. Hospitals will settle with the distributors based on the actual purchase of products. Distributors will maintain their inventories at a reasonable level based on the area of the sales territory, number of hospitals within the sale territory and the number of expected surgeries. To fully utilise the benefit of the distribution network, each hospital generally obtains our products from one authorised distributor while each distributor may be authorised to sell to more than one hospital. We do not allow our distributors to sell outside the designated distribution territories.

Domestic distributors

As at the Latest Practicable Date, we had approximately 447 domestic distributors covering numerous hospitals in all provinces, municipalities and autonomous regions in China. Pursuant to the distribution agreements entered into with us, our distributors are not allowed to distribute our products outside their designated territories without our authorisation or consent. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our revenue derived from sales to domestic distributors accounted for approximately 88.0%, 83.0%, 79.7% and 76.3% of our total revenue respectively.

In order to provide our domestic distributors a better understanding of our products, we regularly provide training courses to our domestic distributors to enhance their knowledge of our products in various areas, such as product knowledge, and marketing.

Principal terms of distribution agreements with domestic distributors

We have entered into distribution agreements with our domestic distributors, which include the following principal terms with legal binding effect:

- Term — Distribution agreements have a term of one year to three years and can be renewed 15 days prior to its expiry.
- Designated distribution territories — Distribution agreements would specify the designated distribution territories for each of our distributors. We do not permit our distributors to sell our products outside their designated distribution territories.
- Pricing policies — We sell products to distributors at a nationwide standard price. Distributors are allowed to determine their selling price to hospitals at their discretion with reference to the market conditions and regional bidding prices.
- Our responsibilities — We are responsible to (1) ensure that we have obtained legal and valid registration certificates for the products to be distributed by the distributors; (2) provide products to distributors that have passed the

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quality inspection; (3) provide distributors with promotion materials of relevant products and consultation as well as possible assistance and support for the promotion of our products; and (4) allow distributors to conduct promotion activities within the distribution territories.

- Distributors' responsibilities — Distributors are responsible to (1) conduct sales activities through their sales network and settle trade balances with their customers independently at their own risks; (2) establish a dedicated sales team and the expenses for products promotion and marketing activities shall be borne by distributors; (3) maintain all the sales records and product quality warranty certificates permanently; and (4) strictly comply with the *Regulations on the Supervision and Management of Medical Devices* (醫療器械監督管理條例), the *Advertisements Law of the PRC* (中華人民共和國廣告法) and relevant PRC laws and regulations.
- Delivery — We are responsible for arranging delivery of products to the locations designated by our distributors.
- Product return and exchange — If our products are defective and fail to meet the quality standards, distributors may request for products exchange within the contractual period. The transportation fee arising from the product exchange shall be borne by us. For details, please refer to the section headed "Business — Sales, Distribution Network and Marketing — Customer services — Return and exchange of products" in this prospectus.
- Rebate terms — We adopt rebate scheme for distributors whose sales of certain products in the authorised territory reach a particular target or particular percentage of sales target and these rebates may be given in the form of rebates-in-kind. These policies may vary with different distributors.
- Sales target — We set an annual sales target for distributors but they are not obliged to fulfill any minimum purchase commitment.
- Payment and credit terms — Distributors are required to settle all payments under the purchase orders within 210 days after the orders are placed.
- Termination of agreements — We are entitled to terminate the distribution agreement if the relevant distributor failed to make payment to us. We forbid our distributors to distribute our products or conduct business in the capacity as our distributors after termination of the distribution agreements.

Our distributors usually place orders based on their expected demand. Our distribution agreements require our domestic distributors to maintain all the sales records on a permanent basis in accordance with the Measures for the Supervision and Administration of Medical Devices Operation 《醫療器械經營監督管理辦法》. Although our distributors are not obliged to provide us their sales and inventory reports under our distribution agreements, we require our sales representatives to conduct regular on-site inspections every quarter, telephone interviews every month on our distributors to collect

information regarding their sales performance and inventory level, the market demand of our products and the feedbacks on our products etc. Further, we also convene annual meetings with all our distributors to facilitate our communication on such information. Through all these means of communication with our distributors, we are able to assess their sales performance and inventory level to ensure that our distributors maintain their sales volume of our products to hospitals and not to accumulate excessive inventories and to provide any necessary support to the distributors if needed. If we notice that our distributors' sales volume drops significantly, we will inquire into the situation and may suggest our distributors to initiate marketing and promotional events as necessary, or we may replace those under performed distributors with other distributors of the same region based on the result of our assessment.

We normally grant to our distributors a credit period within 210 days for settling all payments and we require distributors to pay around 30% to 100% of part payment after placing orders with us depending on their credit history, historical sales performance, estimated future purchases, relationship history with us, business scale, whether they are able to provide security. We believe that our settlement terms and policy comply with common market practices.

Overseas distributors

We sell our products to overseas market through overseas distributors under the brand name of “春立 Chunli”. Our overseas distributors cover several countries in the world, including Korea, Turkey and Egypt. Similar to our domestic distributors, we have adopted a set of standard terms in our distribution agreements for certain overseas distributors. We enter into distribution agreement or memorandum with other overseas distributors with terms negotiated with them on a case by case basis. The terms vary depending on different factors, for instance length of our relationship with the distributors, quantity of orders and potential business opportunities with such distributors. We usually require overseas distributors to pay deposits to us after placing orders and we would deliver our products after receiving full payment from distributors. Our distribution agreements usually do not require our overseas distributors to provide monthly sales and inventory reports to us because only a small amount of our revenue was derived from the overseas distributors and the overseas distributors are required to make full payment to us before the delivery of our products. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our total revenue from the overseas distributors represented approximately 0.7%, 2.2%, 3.3% and 2.6% of our total revenue respectively.

We have entered into distribution agreements with our overseas distributors, which include the following principal terms with legal binding effect:

- Term — Distribution agreements have a term of one year to five years.
- Designated distribution territories — Distribution agreements would specify the designated distribution territory for each of our distributors. We do not permit our distributors to sell our products outside their designated distribution territories.

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- Pricing policies — We sell products to overseas distributors according to the price stated in the agreements. We usually require our overseas distributors to pay to us in U.S. dollars. In some distribution agreements, we are entitled to adjust the price of our products if they fail to meet the annual minimum purchase commitment or if the foreign exchange rate fluctuates significantly.
- Our responsibilities — We are responsible for ensuring the products sold to overseas distributors are safe and of satisfactory quality. Overseas distributors have the rights to request for product returns in case of product defects.
- Overseas distributors' responsibilities — Overseas distributors shall sell our products to purchasers in their designated distribution territories through their own sales network and they are obliged to order from us and meet the agreed annual minimum purchase commitment.
- Product return and exchange — If our products are defective and fail to meet the quality standards, distributors may request for product exchange pursuant to the distribution agreements during the contractual period. The transportation fee arising from the product exchange will be borne by us. For details, please refer to sections headed "Business — Sales, Distribution Network and Marketing — Customer services — Return and exchange of products" in this prospectus.
- Minimum purchase commitment — Most of the distribution agreements have specified the annual minimum purchase commitment and we are entitled to terminate the distribution agreements or adjust the price of our products if they fail to meet the commitments.
- Payment and credit terms — The overseas distributors shall pay deposits to us after placing orders pursuant to the instalments specified in the agreements and the payments shall be fully settled before we deliver the products.
- Termination of agreements — If overseas distributors violate the agreements and fail to rectify the breach within a certain specified period, we are entitled to terminate the distribution agreements.

During the Track Record Period, we had recorded growth in our revenue derived from overseas sales. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our revenue derived from sales to overseas distributors (excluding sales on ODM and OEM bases) were approximately RMB0.5 million, RMB2.2 million, RMB3.7 million and RMB2.4 million, represented for approximately 17.0%, 21.2%, 27.5% and 18.2% of our total revenue from overseas sales, respectively.

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Our relationship with domestic and overseas distributors

During the Track Record Period, we did not experience any material breach of the contract terms by our distributors or any significant dispute with our distributors. We have established business relationship with most of our major distributors for not less than five years. Our distributors usually make their payment by way of bank transfers. All our distributors except Gaoyang Materials are Independent Third Parties. For details of the Company's relationship with Gaoyang Materials, please refer to the section headed "Connected Transactions" in this prospectus.

The table below sets out the changes in the number of our domestic and overseas distributors for the three years ended 31 December 2013 and the nine months ended 30 September 2014.

	For the year ended 31 December			For the nine months ended 30 September
	2011	2012	2013	2014
Domestic market				
Distributors at the beginning of the year	299	318	337	377
Addition of new distributors ⁽¹⁾	79	86	87	77
Termination of distributors				
(i) Failure to meet our assessment ⁽³⁾	53	52	43	27
(ii) Cessation of business ⁽⁴⁾	7	15	4	13
	<u>318</u>	<u>337</u>	<u>377</u>	<u>414</u>
Distributors at the end of the year/period				
Overseas market				
Distributors at the beginning of the year	4	4	21	21
Addition of new distributors ⁽¹⁾	4	18	8	6
Termination of distributors				
(i) Failure to meet our assessment ⁽³⁾	4	1	7	0
(ii) Cessation of business ⁽⁴⁾	0	0	1	0
	<u>4</u>	<u>21⁽³⁾</u>	<u>21</u>	<u>27</u>
Distributors at the end of the year/period				

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	For the year ended 31 December			For the nine months ended 30 September 2014
	2011	2012	2013	2014
Total				
Distributors at the beginning of the year	303	322	358	398
Addition of new distributors ⁽¹⁾	83	104	95	83
Termination of distributors				
(i) Failure to meet our assessment ⁽³⁾	57	53	50	27
(ii) Cessation of business ⁽⁴⁾	7	15	5	13
	<u>322</u>	<u>358</u>	<u>398</u>	<u>441</u>
Distributors at the end of the year/period	<u>322</u>	<u>358</u>	<u>398</u>	<u>441</u>

Notes:

- (1) New distributors were appointed mainly due to business expansion.
- (2) The number of new overseas distributors appointed for the year ended 31 December 2012 increased significantly because we actively expanded our distribution network overseas and engaged 18 new distributors overseas.
- (3) We conduct assessment of our distributors on a regular basis based on their sales performance. Based on the result of our assessment, we would replace those underperformed distributors with other distributors of the same region. Also, some distributors failed our assessment because of their failure to win the tender for the supply of our target hospitals.
- (4) Some of the distributors ceased their business because they failed to renew the necessary licenses, permits and certificates or they changed their principal business.

ODM and OEM models

We sell our products to overseas customers on ODM and OEM bases in some overseas markets where we have not obtained license to conduct sales under our own brand. Most of our revenue from overseas were derived from sales to ODM and OEM customers. Through sales on ODM and OEM bases, we aim to strengthen our understanding of and accumulate experience of these markets, while laying the foundation for registration of products under our own brand in those regions in the future. Since 2009, we have exported our products to our ODM and OEM customers, who may on-sell our products under their own brands or other brands to their local customers. We enter into long-term sales agreements in the range of one to five years with our ODM and OEM customers or accept purchase orders from them without entering into long-term sales agreement. The purchase orders usually set out the principal terms, such as the quantity, price and delivery arrangement. Our ODM and OEM customers usually make their payments by way of bank transfers.

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For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our total revenue of our products to ODM and OEM customers accounted for approximately 83.0%, 78.8%, 72.5% and 81.8% of our total overseas revenue respectively. We usually secure ODM and OEM orders through customers' referral and participation in international exhibitions. We have maintained relationship with our major ODM and OEM customers for over four years. All our ODM and OEM customers are Independent Third Parties.

We have entered into sales agreements with our ODM and OEM customers, which include the following principal terms with legal binding effect:

- Term — Sales agreements have a term of one year to five years.
- Sales territories — Customers are allocated to sell our products in the territories stipulated in the agreement.
- Pricing policies — We sell products to ODM and OEM customers according to the prices stated in the agreement. Save for certain ODM and OEM customers, we may adjust the prices of our products if they fail to meet the annual minimum purchase commitments.
- Our responsibilities — We are responsible for ensuring that the products sold to ODM and OEM customers are safe and of satisfactory quality.
- Responsibility of customers — Our ODM and OEM customers are responsible for any cost for the registration of the products in the relevant territories.
- Product exchange and return — If our products are damaged during the course of delivery, ODM and OEM customers may request for exchange of products according to the sales agreements. If our products are not of satisfactory quality, ODM and OEM customers may request for exchange of products within the period as specified in the agreements.
- Minimum purchase commitment — Most of the sales agreements have specified purchase order commitments and require compensation for our losses if they fail to meet the commitment.
- Payment and credit terms — ODM and OEM customers shall make a prepayment to us when placing orders pursuant to the instalments specified in the agreements and shall make full payments upon delivery of our products.
- After-sale service — We provide training relating to our products to our ODM and OEM customers.
- Termination of agreements — If any party breaches the agreement, the party must compensate for the losses caused to the other party.

Direct sales to hospitals

In addition to the sales in domestic and overseas markets through distributors, we also sell our custom joint prosthesis products to hospitals. Our direct-sale hospitals generally do not enter into standard sales contracts with us and instead place purchase orders for purchases. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our total direct sales to hospitals in China were approximately RMB5.7 million, RMB6.4 million, RMB9.1 million and RMB8.6 million respectively, accounting for approximately 7.1%, 6.5%, 8.2% and 9.4% of our total revenue respectively. We have maintained over 10 years of business relationship with some of the direct-sale hospitals. All our direct-sale hospitals customers are Independent Third Parties. For details of the pricing of our custom joint prosthesis products sold to hospitals directly, please refer to the section headed “Business — Sales, Distribution Network and Marketing — Pricing” in this prospectus. We adopt the same product exchange and return policy for our sales to direct-sale hospitals customers as our distributors. However, in practice, since the products sold to hospitals directly are custom joint prosthesis products which are custom made, it is less likely that our direct-sale hospitals customers would need to return and exchange the custom joint prosthesis products with us. There has been no products returned and exchanged from the direct-sale hospitals during the Track Record Period. As a common practice, we grant our direct-sale hospitals a credit period ranging from three to 12 months. We are responsible for arranging delivery of products to the direct-sale hospitals. The title of our products passes to the direct-sale hospitals upon their receipt of the products, and we are responsible for any loss, damage or spoilage in transit. Hospitals usually make their payments by way of bank transfers.

Marketing

We promote and sell our products through our own sales and marketing team and the network of independent distributors. Our marketing team consists of over 90 sales personnel, most of whom have over three years of experience in the medical industry. They are divided into domestic and overseas sales teams according to the regions where the products are sold. The domestic sales team consists of joint prostheses products sales team and spinal products sales team, which are both managed by sales team managers with over five years of experience in the medical industry together with the sales personnel in their teams. The well-trained marketing team focuses on communicating with doctors, ensuring that doctors receive instructions and training on the usage of our products. Such communication mainly includes regular visits to orthopedists and surgeons, demonstration of our products to doctors and organising related meetings, seminars and other activities. Although patients are the ultimate users of our products, it is a common practice that the procurement decisions are made by doctors and the procurement departments of hospitals as doctors generally provide suggestions to patients regarding the types of products to be used. We believe that as doctors understand and frequently use our products, it is more likely that they would recommend our products which would ultimately improve the sales performance of our products. Apart from enhancing our reputation and broadening the market acceptance of our products, communication with doctors will ensure that our Company will receive feedback and keep abreast of market trends, which is a valuable guidance for the research and development projects of our Company.

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Our marketing activities mainly target large and medium scale hospitals in all provinces, municipalities and autonomous regions in China, especially Class III hospitals which are able to carry out more interventional operations compared to hospitals of relatively smaller scale. In the meantime, our Company has been reinforcing its marketing efforts towards Class II and Class I hospitals through promotions carried out by distributors with an established strong relationship with mid to small scale hospitals.

For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our marketing expenses on activities in relation to advertising expenses and sale rebate were approximately RMB6.8 million, RMB8.0 million, RMB7.6 million and RMB8.2 million respectively, accounting for approximately 8.5%, 8.1%, 6.9% and 8.9% of our revenue during the Track Record Period respectively.

To strengthen our marketing support and promotion of our products in certain rapidly developing regions, we intend to allocate RMB12.5 million of the proceeds of the Global Offering to establish seven sales and marketing centers with our sale representative teams stationed therein in the PRC. We believe that such establishment would allow us to develop and strengthen relationships with our customers in those regions, apart from the sales and marketing center which will be constructed in our Daxing New Production Base. Details of the location, service coverage and estimated costs of the other six sales and marketing centers are as follows:

Location	Service coverage	Estimated costs of establishment ^(note) (RMB million)	Year of establishment
Shanghai	Shandong Province, Jiangsu, Anhui, Zhejiang Province, Fujian Province, Shanghai	0.8	2015/16
Guangzhou	Guangdong Province, Guangxi, Hainan Province	0.8	2015/16
Zhengzhou	Hunan Province, Hubei Province, Henan Province, Jiang Xi Province	0.8	2015/16
Xi'an	Ningxia Province, Xinjiang, Qinghai Province, Shanxi Province, Gansu Province	0.8	2015/16
Chengdu	Sichuan Province, Yunnan Province, Xizang, Chongqing	0.8	2015/16
Shenyang	Liaoning Province, Jilin Province, Heilongjiang Province	0.8	2015/16

Note: These sales and marketing centers are expected to be set up at newly leased premises. The estimated costs include rental payment (for the first 12 months) for the new premises, cost of furniture and equipment, premises refurbishment and hiring of sale representatives.

Customer services

Adverse events traceability system

Our marketing department is responsible for customer service, handling customer complaints and inquiries. We have established a management system for adverse events based on the Administrative Measures for the Monitoring and Reassessment of Adverse Events of Medical Devices (for Trial Implementation) (Guo Shi Yao Jian Xie [2008] No. 766) (醫療器械不良事件監測和再評價管理辦法(試行)(國食藥監械[2008]766號)) and Guidance on the Monitoring of Adverse Events of Medical Devices (for Trial Implementation) (醫療器械不良事件監測工作指南(試行)) released by the relevant regulatory authorities. Each regional sales manager monitors adverse events relating to our medical devices and also collects product safety information to proactively re-assess the quality of our products. If we receive any complaints about our products, the marketing department would forward the complaints to our quality control department for further investigation. If the quality control department confirms that the defect constitutes a material adverse event according to the rules and regulations released by the relevant regulatory authorities, we would report the case to the relevant regulatory authorities. Besides, we submit an annual summary report in respect of adverse events relating to our medical devices.

During the Track Record Period and as of the Latest Practicable Date, we did not receive any material complaints and our products had not been subject to any material recalls, litigation or claims due to product liability, and no administrative penalty was imposed on us due to product quality issues.

Return and exchange of products

During the term of the distribution agreements, our distributors generally are not entitled to return unsold products. However, in order to protect our Company and avoid the distributors to continue to sell our products after they ceased to be our distributors, although it is not our obligations under the distribution agreements, we may accept return and refund of unsold products from them if a distributor cease to be our distributor provided that the products are in resaleable condition. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, the amount of products returned was approximately RMB1.4 million, RMB2.4 million, RMB1.7 million and RMB2.9 million respectively, accounting for approximately 1.7%, 2.4%, 1.5% and 3.2% of our revenue respectively. In normal circumstances, we are able to resell the returned products to other distributors at our normal selling price. The return of products had not brought any material adverse impact to our financial performance during the Track Record Period. We have not made any provision for sales returned during the Track Record Period.

We allow the distributors to exchange our products with us under the following situations:

- *Mismatch of the products purchased with the patients' needs within the authorised territory of the distributors:* Orthopedic implants are available in various types, sizes and specifications and specific orthopedic implants shall be applied to the patients depending on their clinical needs. Since the distributors would place order with us according to their expected demand of the type, size or specification of the products (instead of actual demand of the same) of the hospitals within their designated territories, they would ask us to exchange other products with them if the products that they purchased are less in demand than other products offered by us to match the specific needs of hospitals and patients within their territories. We allow the distributors to exchange products with us without any time limitation provided that the products are in resaleable condition. We generally allow each distributor to exchange a maximum of 15% of its purchase amount each year and would charge the distributors a repackaging and resterilisation fee on the exchanged products on an as needed basis. However, the Directors understand that our distributors are of different scales of sales level and our distributors may encounter different difficulties in developing new market. To promote our new products and develop new markets, we would allow our distributors to negotiate with us to exchange products beyond the 15% limit provided that the overall percentage of the amount of product exchange of our distributors that year and the overall results of our operation would not be materially affected by the excess product exchange. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, there were 18, 19, 20 and 15 distributors, respectively, with annual purchase amounts equal or exceeding RMB0.2 million that had reached over the 15% limit on product exchanges. We had adopted the same control measures as set out below on these distributors, for instance, these distributors were required to notify us in writing to request for exchange of products and to provide us with the details and reasons of the exchanged product. We had also inspected and examined the products before we gave our written consent to these distributors for the product exchange.

For distributors with annual purchase amount less than RMB0.2 million, due to the very small amount of annual purchase and the relatively high product price of our products, the 15% limit on product exchange would be easily reached by these distributors. However, to assist the development of these smaller distributors and considering the costs required to locate replacement distributors, our Company allowed some of these distributors to exchange products beyond the 15% limit. The Directors consider the impact of the product exchange by these distributors with annual purchase amount less than RMB0.2 million are immaterial as their total purchase amount is minimal.

For the three years ended 31 December 2013 and the nine months ended 30 September 2014, the amount of products exchanged due to the reason of

mismatch of the products purchased with the patients' needs within the authorised territory of the distributors was approximately RMB6.4 million, RMB8.4 million, RMB10.1 million and RMB10.9 million, accounting for approximately 8.0%, 8.6%, 9.1% and 12.0% of our revenue respectively. The Directors are of the view that the overall amounts of products exchanged as a percentage of our revenue are relatively low and the impact to the Company is minimal.

- *Expiration of validity of sterilisation of products:* In order to avoid distributors to sell our products which the validity of sterilisation have been expired, we would allow them to exchange products with us without any time limitation provided that the products are in resaleable condition and would charge the distributors a repackaging and reesterilisation fee on the exchanged products on an as needed basis. For the three years ended 31 December 2013 and the nine months ended 30 September 2014, the amount of products exchanged due to this reason was approximately RMB0.2 million, RMB0.2 million, RMB0.3 million and RMB0.1 million respectively, accounting for approximately 0.2%, 0.2%, 0.3% and 0.1% of our revenue respectively.
- *Defective product:* According to the terms of the distribution agreements, we are obliged to exchange any defective products within 15 days after delivery. The liability of product defect is borne by us solely. Our suppliers shall be held responsible for our economic loss due to product defects. Furthermore, as a common practice, we usually do not provide, other than that related to product quality, any warranties for our products and we had not done so during the Track Record Period. There was no product exchange due to quality defects during the Track Record Period and up to the Latest Practicable Date.

Except the exchange of defective goods which did not occur during the Track Record Period, we would only accept exchange of products which are in resaleable conditions and would charge the distributors a repackaging and reesterilisation fee on the exchanged products on an as needed basis. Distributors who request for exchange of products must notify us in writing and provide us with the details of the exchanged products, such as the quantities, specifications and types of exchanged products and the reason for the product exchange. We shall inspect and examine the exchanged products to ensure that they fall within one of the three situations: (1) mismatch of the products purchased with the patients' needs within the authorized territory of the distributors; (2) expiration of validity of sterilization of products; or (3) defective products as allowed by us and they are in a resaleable condition as any exchanged products that are not in a resaleable condition, except the exchange of defective goods, are not eligible for exchange. Further, the distributors shall obtain our written consent before the products can be exchanged. Delivery cost for exchange is generally borne by distributors except for the exchange due to product defect. In normal circumstances, except for the exchange due to product defect, we are able to resell the exchanged products to other distributors at our normal selling price. As such, our Directors consider that our exchange policy is beneficial to both the distributors and the Group and it had not brought any material adverse impact to our financial position during the Track Record Period. There was no material changes to the reasons of products exchange during the Track Record Period.

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In response to the needs of the overseas market so as to further our business development, we adjusted the taper ratio (which is the ratio of difference between the top and bottom diameter of a taper to the height of taper) of all our hip joint prosthesis products in 2010 from 1:20 to 1:10. Taper ratio of 1:10 is commonly adopted in the overseas market and is also expected to be the future trend in the domestic market. The adjustment also supports the development of our ceramic hip joint prosthesis products. As such, we have set a limitation period for exchange of our products bearing the previous taper ratio and informed all the distributors that they were allowed for product exchange of our products bearing the new taper ratio by the end of 2012 provided that products were in resaleable condition. Since 2013, we no longer allowed our distributors to exchange products due to our adjustment in taper ratio. During the three years ended 31 December 2013 and for the nine months ended 30 September 2014, the amount of products exchanged due to our adjustment in taper ratio was approximately RMB1.7 million, RMB3.6 million, RMB0 and RMB0, accounting for approximately 2.1%, 3.7%, 0% and 0% of our revenue respectively. We were able to resell the exchanged products bearing the old taper ratio to other distributors at our normal selling prices. Taper ratio conversion is a one-off event as the adjustment has made our hip joint prosthesis products cater for the demand of overseas market and allowed us to expand our business and improved our sales in the overseas market.

For the three years ended 31 December 2013 and the nine months ended 30 September 2014, the amount of products exchanged from distributors was approximately RMB8.3 million, RMB12.2 million, RMB10.4 million and RMB11.0 million respectively, accounting for approximately 10.3%, 12.4%, 9.4% and 12.0% of the revenue of our Company.

According to the best of industry knowledge and experience of our Directors, our Group's return and exchange policies and rates of return/exchange are in line with industry norm.

Pricing

Tendering Price

Most of our products are on the Medical Device Procurement List and we or our distributors shall participate in the tender to sell our products on the Medical Device Procurement List to the hospitals and medical institutions within the region. We are not subject to any price control on the sale of our products in the PRC. The price of orthopedical medical devices which are on the Medical Device Procurement List is affected by the tender processes. The successful bidder shall sell such products to the hospitals and medical institutions within the region at the price offered in the bidding document ("Tendering Price"). For details of the tendering process, please refer to the section headed "Regulatory Overview — Pricing and Tender Process" in this prospectus.

Pricing of our products (other than custom joint prosthesis products) sold to domestic distributors

We have set a nationwide standard price for the sale of our products (other than custom joint prosthesis products) to our distributors to avoid creating unfairness among our domestic distributors. In determining our nationwide standard price, we would take into account our market position, market demand, competitiveness of our products and the prevailing Tendering Price.

Pricing of our custom joint prosthesis products sold to domestic distributors

As custom joint prosthesis is custom made, its production time and cost is longer and higher than standard prosthesis products. Therefore, the price of our custom joint prosthesis products is generally higher than that of our standard joint prosthesis products. In determining the price for such products sold to domestic distributors, we take into account the actual costs of production, the market price of similar products in the overseas market, the Tendering Price of similar products, the price expected by the general public and the market competitiveness of such products.

Pricing of our custom joint prosthesis products sold to hospitals directly

Our custom joint prosthesis products are not on the Medical Device Procurement List in the respective provinces in relation to our direct sales to hospitals. In determining the selling price of our products for direct sales to hospitals, we take into account the actual costs of production, the market price of similar products in the overseas market, the price expected by the general public and market competitiveness of such products.

Pricing of our products sold overseas

We adopt cost-plus basis in the pricing of our products. In addition, in determining our product price sold overseas, we consider factors such as the market competitiveness of the relevant products in overseas market, the expected sales volume and our relationship with the overseas customers.

Historical price fluctuation and future price trend

Our major products did not experience any significant price fluctuation during the Track Record Period. We do not anticipate any significant price fluctuation of any of our major products in the future.

RAW MATERIALS AND SUPPLIERS

Our principal raw materials include titanium alloy, forged titanium alloy, casted Co-Cr-Mo alloy and medical-grade ultra-high molecular weight polyethylene materials. We procure all our principal raw materials from suppliers in China. We have maintained stable relationships with many of our key suppliers. The length of our relationship with our top five suppliers during the Track Record Period ranges from five to ten years.

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We generally maintain three months of inventories of raw materials for the purpose of production. In addition, to avoid undue reliance on any single raw materials suppliers, we generally retain at least two or more suppliers for each type of principal raw materials. We did not experience any significant shortage of supply of raw materials during the Track Record Period and the prices of our principal raw materials were relatively stable. If we experience substantial increase in the prices of our principal raw materials, we would renegotiate the prices with our suppliers and distributors in order to maintain our profit margin. We are generally able to pass on increase in costs of raw materials of our products to our customers. We currently do not conduct or plan to conduct any hedging activities for managing the price fluctuation of raw materials.

The following table illustrates the sensitivity analysis of the estimated increase/decrease of our gross profit margin to generate percentage changes to the prices of our raw materials, with all other variables held constant:

	For the year ended 31 December				30 September
	2011	2012	2013	2014	
	%	%	%	%	
Percentage change in gross profit with raw materials price increase/decrease by:					For the nine months ended
-15	1.4	1.7	1.9	1.7	
-10	1.0	1.1	1.3	1.1	
-5	0.5	0.6	0.6	0.6	
+5	-0.5	-0.6	-0.6	-0.6	
+10	-1.0	-1.1	-1.3	-1.1	
+15	-1.4	-1.7	-1.9	-1.7	

During the Track Record Period, the changes in raw material price would have minimal effect on the gross profit, with all other variables held constant.

For the three years ended 31 December 2013 and for nine months ended 30 September 2014, the number of suppliers of our principal raw materials were 17, 17, 21 and 23, respectively.

Major terms of the supply agreements entered into with our key raw materials suppliers

We have entered into supply agreements with our suppliers, which include the following principal terms with legally binding effect:

- *Term* — one year to two years.
- *Price determination provisions* — the supply agreements specify that the price shall be agreed by both parties based on the market price.
- *Renewal and termination provisions* — the supply agreements specify that if any party notifies the other party of the termination of the agreements three months prior to the expiry date of the agreements, the agreements shall terminate upon expiry. Otherwise, the agreements shall be renewed automatically.
- *Product liabilities* — the raw materials supplied by the suppliers to us shall comply with the quality stipulated in the relevant agreements, failing which we will be entitled to demand return of the defected items. The suppliers shall be held responsible for the economic loss incurred by us or shall resolve the relevant disputes through negotiation.
- *Penalty provisions on non-compliance* — the supply agreements specify that if one party suffers losses due to the breach of agreement by the other party, the defaulting party shall be responsible for compensating the non-defaulting party.

We usually enter into annual supply agreements with our suppliers and place orders in accordance with the agreements from time to time. Prior to accepting the delivery of raw materials, we would prudently inspect all raw materials to ensure that they meet our standards. Our major suppliers usually offer us a credit period ranging from 0 to 180 days. Our suppliers usually accept payment by bank transfer. In addition, we were not contractually committed to any minimum purchase quantity during the Track Record Period.

Our procurement of raw materials comprises four stages: preparation of purchasing plans, assessment of suppliers, inspection of raw materials and recording of the origin of raw materials:

(a) *Preparation of purchasing plans*

Our procurement department determines the minimum level of inventory for raw materials in accordance with the sales contracts, purchase orders and our production targets. The procurement department prepares the purchasing plan with reference to the minimum level of raw materials inventory. The plan specifies the type, specification, purchasing amount and delivery date of raw materials. Upon approval by the manager of the procurement department, the procurement staff will purchase from qualified suppliers.

(b) Assessment of suppliers

Our procurement department selects enterprises as our potential suppliers based on their corresponding qualifications, quality of their equipment and relevant production experiences having taken into account the characteristics or nature of the relevant raw materials. Based on our actual demands for raw materials, the procurement department together with the production management department, the quality control department and other departments will carry out a comprehensive assessment on the potential suppliers in terms of various criteria including their scale of business, production capacity, product quality and reliability in selecting appropriate suppliers. We shall enter into supply agreements with those appropriate suppliers and place orders in accordance with the agreements from time to time. Each of our suppliers is subject to our annual evaluation of quality and prices of the raw materials supplied.

(c) Inspecting of raw materials

The raw materials purchased are generally inspected when they are delivered to our factory by the quality control department in accordance with the inspection requirements for each product. Meanwhile, the qualification certificates of the raw materials, the material list and other contents of relevant reports in respect of the raw materials are also checked against the technical standards of the relevant inspection requirements and our quality control standards. If necessary, we will appoint external inspection agencies to re-inspect the materials. After the confirmation of relevant reports or re-inspection, we will maintain records in relation to inspection of relevant raw materials. Raw materials that pass the inspection will be arranged for storage and raw materials which failed to meet the criteria will be labelled and distinguished and notice will be served to the suppliers for returns. During the Track Record Period, we did not experience any significant problems with the quality of raw materials provided by our suppliers.

(d) Recording the origin of raw materials

The tracing of the origin of raw materials is a key component of the quality control of our Company. The batch numbers of raw materials used are recorded on the production record sheet based on the delivery note when the raw materials are put into production. We could refer to the batch number of raw materials to trace the processes of procurement, inspection, storage, delivery of raw materials.

For the three years ended 31 December 2013 and the nine months ended 30 September 2014, the total purchases from our top five suppliers were approximately RMB4.1 million, RMB10.7 million, RMB12.2 million and RMB11.4 million respectively, representing approximately 56.5%, 60.3%, 62.1% and 59.6% of our total purchases respectively. During the same periods, our purchases from the top supplier were approximately RMB1.2 million, RMB5.0 million, RMB5.3 million and RMB3.7 million, accounting for approximately 16.4%, 28.0%, 27.1% and 19.5% of our total purchases respectively. During the Track Record Period, we had no material disputes with our suppliers.

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To the knowledge of our Directors, none of our Directors or their associates holding more than 5% of our issued share capital nor any of our existing Shareholders have any interest in any of the top five suppliers during the Track Record Period. None of our suppliers are our major customers and vice versa.

INVENTORY

Our inventories are composed of raw materials, work-in-progress and finished goods. In general, we maintain sufficient inventory of raw materials, work-in-progress and finished goods and their inventory levels vary according to the orders of our distributors, sales and production progress. We generally maintain three months of inventories of raw materials mainly for the following reasons: (i) we require high standard of quality for raw materials and it takes relatively long time to inspect the quality of the inventory before they are accepted for production; (ii) we intend to order large quantities of raw materials from suppliers so that we could purchase at lower prices; and (iii) we would purchase more raw materials when they are at lower price to reduce our costs. Most of our inventories are stored at our Tongzhou First Production Base and Tongzhou Second Production Base.

Although we are not required in China to provide warranty for the quality of our products, the sterilisation applied on our products is effective for five years. We could sterilise the products again and re-package after the expiry date. We adopt the first-in first-out principle to sell our products in order to minimise the risks of excessive inventories. During the Track Record Period, we did not experience any significant shortage of inventories. As at 31 December 2011, 2012 and 2013 and 30 September 2014, the value of inventory of our finished goods was approximately RMB9.6 million, RMB10.8 million, RMB10.0 million and RMB13.8 million respectively.

Inventory provision

Inventories are measured at the lower of cost and net realisable value. Provision for decline in value of inventories is made based on the excess of cost of inventory over its net realisable value on an item-by-item basis. For inventories directly for sale, net realisable value is measured based on the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale and relevant taxes. For inventories that need processing, net realisable value is measured based on the estimated selling price of finished goods in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. At the balance sheet date, for an item of inventories where a portion of inventories is subject to contractual price while the remainder is not, their net realisable values are determined separately and compared with their corresponding costs respectively to recognise the amount of provision for decline in value of inventories, or reversal of the provision.

Since our products are mainly made of titanium alloy, forged titanium alloy, casted Co-Cr-Mo alloy and medical-grade ultra-high molecular weight polyethylene which do not deteriorate, our inventories can be reserved for subsequent use.

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We have not made any inventory provision, including for the goods subject to exchange, during the Track Record Period and up to the Latest Practicable Date. Except for the exchange of defective goods which did not occur during the Track Record Period, we would only accept exchange of products which are in resaleable conditions and would charge the distributors a repackaging and reesterilisation fee on the exchanged products on an as needed basis. In normal circumstances, except for the exchange due to product defect, we are able to resell the exchanged products to other distributors at our normal selling price. As such, the Directors consider that the risk of impairment of inventories, including the goods subject to exchange, is minimal.

The inventory provision procedure involves collaboration of various internal departments. Our general manager, chief financial officer and other relevant department manager review and evaluate the information related to inventories submitted by warehouse and financial personnel. Their estimates on the comparison between the cost of inventory and net realisable value and expected usability form the basis of our inventory provision scheme. Our chief financial officer and other relevant department manager would review and approve the proposed inventory provision scheme before it is implemented.

QUALITY CONTROL

Product quality is vital to our business since our products have direct contact with the human body and any potential quality defect may cause pain and suffering to patients. Our joint prosthesis products and spinal products are categorised as Class III and Class I implantable medical devices and the drug administrative departments at different levels in China has implemented strict regulatory systems on enterprises producing these products to control the product quality. As such, we have set up a quality control system in accordance with relevant laws and regulations in China. We have established and implement strict quality control on the purchasing of raw materials, production, storage and delivery of finished goods to ensure the product quality.

Quality control standards

Quality certification in China

Our operation is in compliance with the requirements of and has obtained ISO9001 and ISO13485 certifications. This represents an international consensus on good management practices, for the quality management system and environment management system in our product facilities. At the same time, we continue to improve and enhance our quality control system through regular management and internal review. Our current products have passed the inspection of the GMP for Medical Devices conducted by BFDA in January 2012 and June 2012 respectively and had obtained the “Notice on the Inspection Results of the Good Manufacturing Practice for Medical Devices” (醫療器械生產品質管制規範檢查結果通知書).

International quality certification

With the gradual acceptance of our products in overseas markets, we passed the DNV (Det Norske Veritas) certification, one of the world’s leading classification societies,

for CE Class IIb spinal fixation products and CE III hip and knee joint prostheses in 2009, showing that our products have met a series of guidelines in terms of safety, hygiene, environmental protection and consumer protection. Our products have also passed the assessment of the GMP organised by the national drug inspection authority in Korea in 2010 and 2013 respectively and obtained the certificate of GMP. In order to further expand our overseas markets, we are preparing the application for registration of our products in Brazil and the United States.

Quality control measures

As at the Latest Practicable Date, our quality control department had 25 employees and some of them had over five years of experience in the medical devices industry. Our quality control department is responsible for formulating and implementing systematic quality control policies and procedures integrated into our manufacturing processes to maximise the overall quality consistency of our products. In addition, they are also responsible for carrying out sample checks and inspections to identify quality defects and blemishes. The employees of the quality control department are required to be familiar with the relevant national standards, applicable GMP standards and provisions of laws and regulations in respect of our orthopedic medical device products.

Our quality control management department conducts regular measurement and calibration control on the instruments used for inspection during the production process to ensure that the product monitoring process is compliant with relevant requirements and accurate and the instruments are used effectively. We monitor the use and management of the production equipment by setting up a filing system for equipments and conducting regular verification to ensure their stable operation. We have also implemented relevant operation and maintenance regulations for our equipment in accordance with the GMP for medical devices.

We regularly hold management review each year and conduct selective examination on the operations of each department as to whether their quality control systems are operating effectively. We analyse, identify and rectify any problems discovered and implement preventive measures to ensure continuing improvements. Quality control measures are undertaken at various stages of our production process, namely, prior to the commencement of production, during the production process and after the product is finished.

Inspection of raw materials

Our quality control staff will inspect our raw materials and their qualification certificates and other relevant reports upon delivery in accordance with the relevant inspection requirements and our quality control standards for each product. If necessary, we will appoint external inspection agencies to re-inspect the materials. We will maintain records in relation to inspection of relevant raw materials. Raw materials which failed to meet the criteria will be labelled and distinguished and notice will be served to the suppliers for returns. For further details, please refer to the section headed "Business — Raw Materials and Suppliers — Major terms of the supply agreements entered into with our key raw materials suppliers — (c) Inspecting of raw materials" in this prospectus.

Manufacturing

During each production process, our quality control inspector would inspect each process in accordance with our quality control standards and conditions and record the inspection results. Each stage of our production process is closely monitored by our quality control team who conducts inspection on our semi-finished products at various stages of our production process. Our quality control team is responsible for ensuring that (i) our production procedures, including the use of raw materials, follow our quality control policies, (ii) our products are consistent in size, weight and appearance, (iii) there is no contamination in our products, and (iv) our products meet our quality and hygiene standards and the standards set by the PRC Government. Only those products which pass our quality checks can proceed to the next stage of production.

In addition, we adopt strict hygiene and safety standards at our production plants. We have implemented guidelines as to how to maintain clean environment during the production processes to avoid bacterial contamination to our products.

Finished products quality control

Each finished product that failed to meet our quality standards would be re-processed and undergo the same procedure of inspecting and testing. Once the products meet our quality standard, the staff from our production management department would conduct packaging and sterilisation of the products which would then be delivered to the inspectors from our quality control department for final inspection before arranging for storage.

Further, we have established a management system for adverse events based on the relevant guidelines of the regulatory authorities in the PRC. Each regional sales manager monitors adverse events relating to our medical devices and collects product safety information to proactively re-assess the quality of our products. If we receive any complaints about our products, the marketing department would forward the complaints to our quality control department for further investigation with a view to improving and resolving any deficiency promptly so as to enhance customer satisfaction. Please refer to the section headed “Business — Sales, Distribution Network and Marketing — Customer services — Adverse events traceability system” in this prospectus for further details.

During the Track Record Period and as of the Latest Practicable Date, we did not receive any material complaints to and our products had not been subject to any material claims, litigation or investigation due to product liability.

To better serve our customers and collect market information in a timely manner, we plan to establish seven marketing service centers in Beijing, Shanghai, Guangzhou, Zhengzhou, Xian, Chengdu and Shenyang with our sale representative teams stationed therein to answer queries from our customers or consumers and receive and resolve their complaints. For details, please refer to the section headed “Business — Sales, Distribution Networking and Marketing — Marketing” in this prospectus.

PRODUCTION SAFETY

We view safety production management as our highest priority and have formulated a series of guidelines and systems on production safety. We provide both regular and ad hoc operation training and inspection on production safety, fire hazard and occupational safety to procure our staff to strictly follow our relevant safety guidelines with respect to the production operation. This aims to eliminate and prevent any potential dangers and harmful elements to ensure production safety. We distribute protection equipments in accordance with guidelines in a timely manner and regularly conduct physical examination for staff to ensure the safety and health of employees.

During the Track Record Period, we never received any administrative penalties as a result of the violation of laws and regulations in terms of production safety nor did we had any work safety related accidents or complaints which had materially and adversely affected our operations.

AWARDS AND RECOGNITION

The following table sets out a summary of the major awards and recognition we have received:

Certification:

Year	Names of certificates	Issuing agencies
2012	“Notice on the Inspection Results of the Good Manufacturing Practice for Medical Devices” (醫療器械生產質量管理規範檢查結果通知書)	BFDA
2011	Certificate of medical devices quality system (ISO13485)	Beijing Hua Guang Certification of Medical Devices Co., Ltd. (北京國醫械華光認證有限公司)
2011	Certificate of medical devices quality system (ISO9001)	Beijing Hua Guang Certification of Medical Devices Co., Ltd. (北京國醫械華光認證有限公司)

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Awards:

Year	Names of awards	Issuing agencies
2013	Model enterprise for quality management and control of medical devices 醫療器械質量管理示範企業	Leadership Group of Millions Project for Pharmaceutical Safety projects in Beijing Municipality (北京市藥品安全百千萬工程建設領導小組)
2011	Zhongguancun high and new technology enterprise (中關村高新技術企業)	Zhongguancun Science Park Management Committee (中關村科技園區管理委員會)
2010	Golden safety enterprise with safe and standard production (安全生產標準化金安企業)	People's Government of Tongzhou District, Beijing (北京市通州區人民政府)
2006	Satisfying unit (brand) by consumers in quality, trustworthiness and services (質量誠信服務消費者滿意單位品牌)	China Foundation of Consumer Protection (中國保護消費者基金會)
2005	Member unit with quality and trustworthiness (質量誠信消費者(用戶)信得過單位)	Chinese Association for Promotion of Quality and Integrity (中國質量誠信促進會)

COMPETITION

According to the CFDA, the medical device market in China is a highly segmented marketplace with approximately 15,000 licensed medical device manufacturers in China as of the end of 2012. However, the orthopedic implant market is relatively concentrated, with around 100 manufacturers as of the end of 2013. The barriers to enter into this industry primarily include policies, production technologies, talents, marketing efforts and brand recognition. We are one of the leading domestic enterprises in the joint prosthesis industry in China. In terms of domestic sales revenue in 2013, we ranked second among all domestic enterprises and eighth among all enterprises (including foreign enterprises) in the joint prosthesis industry according to the Euromonitor Report.

According to the China Medical Pharmaceutical Material Association (中國醫藥物資協會), the revenue of medical devices market in China was approximately RMB200 billion in 2013, representing approximately 14.0% of the total market size of medical and pharmaceutical market in China. In 2013, the revenue of orthopedic implants market in China was approximately RMB11.8 billion, representing approximately 5.9% of the total revenue of the medical devices market in the PRC. The rapid development of medical devices industry is attributable to several factors such as aging population, continuous increase in income and enlarged medical insurance coverage.

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Suppliers in China's orthopedic medical devices market can be categorised into MNCs and domestic companies. Currently, most of the orthopedic medical devices made by the domestic companies are mid to low-end products while the market of high-end products is largely dominated by MNCs. In addition to expanding the sales of high-end products in China, renowned MNCs are further expanding their market share through mergers and acquisitions and establishment of factories in China. These initiatives have enhanced the development of orthopedic medical devices industry in China.

The production of joint prostheses products and spinal products requires high level of technologies. MNCs have an advantage in the PRC market due to their advanced technological level. However, it is believed that domestic enterprises, while continue to develop their technology, will be able to gain a larger market share under the support of the economic growth in China, social improvement, medical reform, increasing health awareness and favourable policies in the medical sector.

According to the Euromonitor Report, in the joint prosthesis market in China, our major competitors are MNCs such as DePuy Orthopaedics, Inc./DePuy France SAS, Zimmer Holdings, Inc., Waldmar Link GmbH & Co. KG, Smith & Nephew Plc, Stryker Corporation, Biomet, Inc., and domestic enterprises such as Beijing AKEC Medical Co., Ltd. (北京愛康宜誠醫療器材股份有限公司), which represent the top seven in terms of market share in the joint prosthesis market of China in 2013.

We believe that we are able to maintain our products' competitiveness by leveraging on our leading position in the joint prosthesis market among domestic manufacturers.

We are also of the view that a diversified product portfolio, high product quality and an extensive distribution network are critical to the continuing success of our business. We are committed to maintaining our competitiveness by launching new products in a timely manner.

RESEARCH AND DEVELOPMENT

General information

We are dedicated in research and development. We pay strong attention to any latest development in technologies and products in the international joint prosthesis market and conduct regular research and analysis. Our commitment enables us to develop and launch new products from time to time which is crucial to our growth. The research and development teams ensure our products to remain innovative. We usually spend three to four years for each of our research and development projects. As of the Latest Practicable Date, our research and development team consisted of 40 members and most of whom have a high school diploma or higher degree and around five years of experience in medical device industry. Our PRC Legal Advisers have confirmed that any intellectual property rights associated with the technological achievements developed by our employees in the course of employment with our Company or by using our Company's materials and technologies during their employment shall be owned by us. In the meantime, our employment contracts require our research staff to maintain confidentiality for any information in relation to our research and development. For the

three years ended 31 December 2013 and the nine months ended 30 September 2014, our research and development expenses including relevant labour expenses, material expenses, technical expenses and other expenses were approximately RMB4.8 million, RMB4.9 million, RMB4.8 million and RMB6.5 million respectively. We estimate that we will allocate not less than 6% of our revenue in research and development in each of the next three years and our research and development expenses are expected to be approximately RMB7.8 million, RMB9.0 million and RMB10.3 million respectively for the years ended 31 December 2014, 2015 and 2016. For details of our research and development expenses, please refer to section headed “Financial Information — Critical Accounting Policies and Estimates — Intangible assets and development expenditures” in this prospectus.

We are a state-level high and new technology enterprise (國家級高新技術企業) and we have strong research and development capabilities. As a reflection of the efforts of the research and development team, we have been able to continuously develop and launch new products and register new patents. Since 2003, we have commercially launched about 70 medical device products. In recognition of our research and development efforts, as of the Latest Practicable Date, we possessed a total of 23 registered patents, of which nine are invention patents and 14 are utility patents. In addition, we have obtained grants sponsored by Beijing Science and Technology Committee (北京科學技術委員會) in for around RMB9 million over the past three years, for our research and development programs including “Beijing high-tech achievement capitalization program (北京市高新技術成果轉化項目)”, “Clinical studies on arc PEEK interbody fusion cage program (弧形PEEK椎間融合器的臨床研究)” and “Ceramic hip joint prosthesis products industrialization program (陶瓷球頭對陶瓷髖關節假體產業化項目)”. We have also been recognized as “Outstanding scientific and technological enterprises in Tongzhou District (通州區優秀科技企業)” by Beijing Tongzhou Science and Technology Committee (北京市通州區科技領導小組) and “Zhongguancun high and new technology enterprise (中關村高新技術企業)” by Zhongguancun Science Park Management Committee (中關村科技園區管理委員會). We believe that the continuous collaborations with external market practitioners including hospitals and professionals, will enable us to gain valuable know-how and further strengthen our research and development capabilities. We also intend to strengthen our research and development capabilities, in particular by recruiting more research personnel who specialize in orthopedic medical device industry and increasing the collaboration with leading surgeons and university research centres, to develop new products and improve on our existing products.

We plan to establish a new product research and development center with testing capability at national level at our Daxing New Production Base. For details of the new research and development center, please refer to section headed “Business — Business Strategies and Future Plans — Expansion plan of our production facilities and strategic relocation — Strengthen the innovation ability and increase the research and development resources” in this prospectus.

Our approaches and processes

Our product development process is quality-focused and market-oriented. We seek to conduct research and development effectively and efficiently to achieve optimal results. Through close communication with other market practitioners including hospitals and professionals in the industry in China from time to time in order to gather first-hand market information about our products and consumer needs, we are able to proactively develop and launch quality products.

We have implemented internal procedures to manage and monitor the use of funds in relation to our research and development activities. Based on the market analysis, our research and development team formulate preliminary project plans, which includes detailed schedules and budgets for the project for new product launches to our management team. Our management team reviews preliminary project proposals and our research and development team will formulate a finalised plan for each approved project after taking into account suggestions by our management team. Any increase in the original budget must be reviewed and approved by our management team before the relevant project can proceed further.

Research and development projects

We divide our research and development projects into 3 categories, namely large-scale development of new products (category I), modification and development of our existing products (category II) and small-scale development of advanced customised joint prosthesis products (category III). We ensure the safety and effectiveness of our products through various research and development processes such as product planning, product designing, review of design, product verification and examination.

Category I projects are self-initiated and based on our annual research and development plans to develop new products according to the industry trend and our strategic objectives. Category II projects are based on feedback from customers collected by the marketing department to develop products as a result of the modification of our existing products. Category III projects are based on the specific needs of a particular customer to develop advanced customised joint prosthesis products which are tailor-made.

Our research and development results

New signature products

We have been focusing on the research and development of new products. We have been launching new products in response to prevailing market demand, patients' needs and clinical feedbacks. As at the Latest Practicable Date, we possessed 14 medical device registration certificates covering four types of main joint (namely, shoulder, elbow, hip and knee joints) and spinal products, as well as 23 registered patents. Our signature

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products, apart from the series of products as mentioned under the section headed “Business — Our Products Portfolio and Application — Patents owned by us and applied on our products” in this prospectus are shown as below:

Product	Key features
1. Cemented stem BC (Hip joint prostheses)	It avoids adding pressure on the femoral bone which may cause osteoporosis and lead to proximal femoral fracture and strengthen the fusion of the prosthesis and medullary cavity
2. Microslot 140 Stem (Hip joint prostheses)	It applies bio-implant technology and automatically fuses with the medullary cavity after implantation. The highly polished and flatten design has substantially enhances the mobility of the prostheses
3. 50 Total Acetabular Cup (Hip joint prostheses)	It allows the cup to better fit with osteson through press-fitting effects and offers a strong anti-rotation function.
4. CS spinal fixation device	This fixation device adopts solo screw nut locking which makes the installation easier.

Product improvement

In order to enhance our product quality and to achieve better clinical results, we modify our products based on the latest clinical feedbacks. Some of our product improvement projects are shown as below:

Improvement project	Objectives
1. Hip joint prosthesis products	To improve the quality of the products which increases the stability when combining the cup with the acetabulum and minimises the risk of dislocation of the hip joint after surgery whilst preventing the prosthesis from loosening and reducing the time for surgery.
2. Spinal products	To improve the quality of the products to minimise the abrasion during implantation, reduce the time for surgery as well as eliminate the risk of broken bone nails while preventing the screws from loosening due to the original structure and enhancing the quality of surgery.

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Improvement project

Objectives

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| 3. | Knee joint prosthesis products | To allow more accurate placement of prostheses and bone replacements during the surgery and reduce the time for surgery. |
| 4. | Custom joints prosthesis products | To facilitate the recovery of the patient's joint functions after the surgery to minimise the risk of post surgery joint dislocation. |

On-going research and development project

As at the Latest Practicable Date, we have six research and development projects in progress which mainly focus on Class III medical devices. Details of these research and development projects are set out below:

No.	Name	Product characteristics	Current status	Expected product launch date
1	Ceramic hip joint prosthesis products	Developing of acetabular cup and femoral stem for assembling with the ceramic femoral head and lining purchased from a major ceramics manufacturer in respect of hip joint prosthesis products. The usage of this material can reduce the abrasion of the prosthesis, also it reduces the repair rate and extends the life expectancy of the prosthesis	Product registration	2015
2	Interbody fusion cage using PEEK material	PEEK material is characterised by its modulus of elasticity, which is similar to human skeleton. It enhances the biocompatibility of the product with the human skeleton and achieve a better healing effect.	Clinical trial	2016
3	Spinal titanium cage fixation system	The porous design of this product can better fuse the vertebra with the products to achieve the purpose of orthopedic implanation. This product is available in different diametres and end cap angles and can thus satisfy the needs of more patients and the product line of spinal products will be expanded.	Trial testing	2017

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No.	Name	Product characteristics	Current status	Expected product launch date
4	Vertebral extension sacculus catheter	<p>Vertebral extension sacculus catheter is used in minimally invasive surgeries. It allows shorter time for surgery, quicker effect and can mitigate the pain of the patients immediately. Patients will be able to walk the day after the surgery is performed. This product is used to erect the collapsed vertebra by filling bone cement into the cavity between the vertebrae. It is mainly applied to osteoporosis for the elderlies. We hope to enhance our competitiveness among enterprises by developing this new product.</p>	Trial testing	2017
5	Trabecular hip joint prosthesis products	<p>Characterised by its numerous porous design, trabecular series approximates the elastic modulus of cancellous bones and subchondral bone. It offers high stability in the early stage after the joint replacement surgeries of total hip joint. Better bone density and pressure transmission will also be achieved.</p> <p>Trabecular series also enriches our product portfolio and allows us to satisfy clinical needs.</p>	Trial testing	2018
6	Vertebral fixation system	<p>Our artificial vertebra is adjustable and has multiple versions for different vertebral heights to match the needs of patients with different vertebral heights. End cap module is wide and big and can effectively prevent the vertebrae from collapsing and maintain the stability. The application of adaptability of products is wide. We intend to continuously develop this product to satisfy the needs of all patients with spinal disease.</p>	Trial testing	2018

Research and development of hip joint prosthesis products

In response to the needs of the overseas market so as to further our business development, we adjusted all the taper ratio of hip joint prosthesis products, one of our main products, in 2010 from 1:20 to 1:10. Taper ratio of 1:10 is commonly adopted in the overseas market and is also expected to be the future trend in the domestic market.

The adjustment supports the development of our ceramic hip joint prosthesis products. Further, it allows us to expand our business and improves our sales in the overseas markets.

Development of ceramic hip joint prosthesis products

We are also developing a new product, namely ceramic hip joint prosthesis products. Due to the nature of ceramic materials, ceramic hip joint prosthesis have high abrasion and compressive resistance, stiffness and are chemically inert. Over the years, orthopedic patients in China have been using imported enterprise ceramic joint prosthesis products, which are relatively more expensive. We believe that the development of this product will be the future trend in the joint prosthesis market in the PRC.

We obtain certain components of ceramic hip joint prosthesis, namely ceramic femoral heads and lining, from a globally renowned ceramics manufacturer (“**Ceramics Manufacturer**”), an Independent Third Party. The usage of ceramic materials requires high level of mechanical precision in arranging the component and in particular, the control in assembling the ceramic liner and acetabular cup is technically difficult to manage and require extreme precision. To this end, we have established a specialised technical team and with the assistance of self-designed technical tools such as fixtures, high-precision and automated manufacturing devices and professional examination devices, and we have overcome such technical challenge.

We have entered into a supply agreement with the Ceramics Manufacturer, which includes the following principal terms with legally binding effect:

- *Price* — the price shall be agreed by both parties based on the market price.
- *Term* — commencing from 25 March 2014 until the agreement is legally terminated by the parties.
- *Termination* — the agreement can be terminated by either party with a six months’ notice.
- *Compliance with relevant quality standard* — the raw materials supplied by the Ceramics Manufacturer to us shall comply with the quality stipulated in the agreement.

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- *Responsibilities of the Ceramics Manufacturer* — the Ceramics Manufacturer shall be responsible for monitoring their suppliers and subcontractors and maintaining their product certification. The Ceramics Manufacturer shall allow us to carry out a quality audit once a year in ensuring they meet our standard.

We would place orders in accordance with the supply agreement from time to time. Prior to accepting the delivery of components from the Ceramics Manufacturer, we would inspect the components to ensure that they meet our standards. The Ceramics Manufacturer offers us a credit period of 7 days. In addition, we were not subject to any minimum purchase commitment from the Ceramics Manufacturer during the Track Record Period.

To ensure our ceramic hip joint prosthesis products comply with the international quality standard, the Ceramics Manufacturer will assist us to conduct a series of examinations including size examination and mechanical performance examination on the end products manufactured by us. As such, our ceramic hip joint prosthesis products nowadays has reached the standard of other similar products in the overseas market.

As the market for ceramic prosthesis products in China is dominated by products produced by foreign companies, if we successfully launch our ceramic hip joint prosthesis products into the market, we believe that we will be able to provide similar products in the domestic market at a lower price. Currently, we are applying for registration of our products. The production process of our ceramic hip joint prosthesis products has passed the GMP quality system certification for medical devices and our ceramic hip joint prosthesis products are expected to launch to the market in 2015 after we obtain the medical device registration certificate. At that time, we will purchase ceramic femoral heads and linings from the Ceramics Manufacturer, as the supplier, and sell a complete set of hip joint prosthesis products under our brand. Although the facilities required for the development and commercialization of ceramic prosthesis products in phase II of Daxing New Production Base are only expected to come into operation in around October 2019, our current machinery and equipment at the current production site are capable of producing certain amount of ceramic prosthesis products. As the market for ceramic prosthesis products in China is still dominated by imported products, we are of the view that our ceramic prosthesis products may need some time to receive market acceptance and attain marketability. Therefore, we plan to carry out small scale production at the initial phase of launching our ceramic prosthesis products and we believe that the current production capacity of our current production site is capable of absorbing the market demand for our ceramic prosthesis products in the near future. In the event that we need to increase our production capacity in response to higher market demand for our ceramic prosthesis products in the near future, we could make swift adjustment to the work schedule of our production staff at our current production site, such as extending the working hours of labour or increasing the number of shifts and increase the production capacity by purchasing additional machineries in order to cope with the increasing demand of our ceramic prosthesis products before commencement of our operation of phase II of the Daxing New Production Base which is currently expected to be in around 2019. We will commence mass production of ceramic prosthesis products after the

facilities for the development and commercialisation of ceramic prosthesis products at the Daxing New Production Base has commenced operation in around October 2019.

Save for the payments in relation to the purchase of ceramic femoral heads and linings from the Ceramics Manufacturer. We own the intellectual rights in respect of the hip joint prosthesis products sold under our brand. Other than the price for ceramic femoral heads and linings, the Ceramics Manufacturer is not entitled to any further payment in respect of the sales of the products.

As there are alternative ceramic manufacturers in the joint prosthesis market, we believe that we will be able to find an alternative supplier for replacement in the event that our supply agreement with the Ceramics Manufacturer is terminated.

Chinese skeleton database (中國國民骨骼數據庫)

Since 2010, we have been cooperating with several hospitals, including Peking University People's Hospital (北京大學人民醫院) and Peking Union Medical College Hospital (北京協和醫院), in the Chinese Skeleton Frame Drawing Project (中國人骨骼測繪項目) to collect the basic skeletal data on the skeleton surrounding the hip and knee joint of Chinese and established a database for such data. In product research and development, domestic manufacturers tend to make reference to the skeletal features of Caucasians as there are limited samples of the Chinese skeletal frame. The Chinese skeleton parameters tend to be quite variable compared to those of the Caucasians. As such, joint prosthesis products and spinal products made based on the skeletal features of Caucasians cannot perfectly fit Chinese, and thus it is impossible to reach best healing results. We analyse these data and they are being used for the development of our joint prosthesis and spinal products that are suitable for Asian which may reduce the pain suffered by patients and provide them with a better healing results.

According to the agreements we signed with six hospitals, our Company is generally required to bear all the expenses arising from the collection of data, and the hospitals shall provide our Company with the skeleton data surrounding the hip joint and knee joint of the test subjects according to the research proposal provided by us. The hospitals have the rights to publish articles or papers using the data collected, provided that we shall be specified as the sponsor of the project. Our PRC Legal Advisers have confirmed that, we have the right to use the data provided by these hospitals for the research and development of our products and we are the owner of the intellectual rights of the products developed with reference to such data. The data collected is for our analysis and product research and development purposes only and we do not receive any other profits or income in these projects.

INTELLECTUAL PROPERTY

Our intellectual properties are crucial to us as we rely on consumers' recognition of our brand and products. We believe that in order to maintain our competitiveness in the market, we must develop and protect the intellectual property rights of our technologies. We have established an intellectual property management team under our technology research and development department that devotes its efforts to protecting our

intellectual property. We rely primarily on intellectual property laws and contractual arrangements with our employees, business partners and other parties to protect our intellectual property rights. We require our employees to enter into agreements requiring them to maintain strict confidentiality of all information relating to our production methods, business, trade secrets, distributors, hospitals, doctors and end-users during and after their employment with us. Our employees are required to acknowledge and recognise that all inventions, trade secrets, copyrights, developments and other processes, whether or not protected by patents or copy rights, produced by them during their employment are our properties.

While we actively take steps to protect our proprietary rights, such measures may not be adequate to prevent the infringement or misappropriation of our intellectual properties. Infringement or misappropriation of our intellectual properties could materially harm our business.

As of the Latest Practicable Date, the intellectual property rights that are material to our business included seven trademarks registered with China's Trademark Office, including our trademark of “春立 Chunli” regarding the brands we use in our products, 23 patents registered in China, including nine invention patents and 14 utility patents and one domain www.clzd.com. In addition, we have registered our trademark of “春立 Chunli” in Hong Kong. Further, we have also applied for seven invention patents in China which are pending registration. The effective period for our invention patents and utility patents are 20 years and 10 years from the date of application, respectively. For details, please see paragraph headed “Statutory and General Information — 4. Further Information About Our Business — B. Our intellectual property rights” in Appendix VII to this prospectus.

According to the Trademark Law of the PRC, those who file the trademark first will have the priority trademark rights. In other words, whoever files an application for registration of a trademark first will take priority over all other later applicants. The use of unregistered marks (except for “well known” trademarks) is generally not a ground for legal action in China. We may not be able to successfully defend or claim any legal rights in the trademark for which an application has been made but for which the Trademark Office has not issued a registration certificate.

As at the Latest Practicable Date, we were not aware of any proceedings concerning, or any material claims or infringements of, any intellectual property rights that may be threatened or pending, in which we may be involved.

PRODUCT CERTIFICATES, PERMITS, AND APPROVAL

The medical devices industry in China is highly regulated. Enterprises engaged in the production and operation of medical devices in the PRC are required to obtain requisite certificates, permits, and approvals from the relevant government authorities. Please refer to the section headed “Regulatory Overview” in this prospectus for the certificates, permits and approvals required for our operations. Our PRC Legal Advisers have confirmed that we have obtained all necessary licenses, permits and approvals for our business operations in the PRC and such licenses, permits and approvals are valid and

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remain in effect as at the Latest Practicable Date. During the Track Record Period, we did not experience any material difficulty in renewing the business licenses and production certificates of our business and products and our PRC Legal Advisers have confirmed that, as of the Latest Practicable Date, they are not aware of any legal impediment for us in renewing such licenses and certificates when they expire. As of the Latest Practicable Date, we obtained necessary medical device registration certificate for 14 products from either CFDA or BFDA. For details of the licenses required for our operations, including Medical Devices Manufacturer License (醫療器械生產企業許可證), Medical Devices Distributing Enterprises License (醫療器械經營企業許可證) and Medical Devices Registration Certificate (醫療器械產品註冊證書), please see paragraph headed “Statutory and General Information — 4. Further Information About Our Business — C. Permits and registration certificates required for our production and operation” in Appendix VII to this prospectus.

Our hip joint prosthesis products and knee joint prosthesis products for export have received the CE certification recognition, which certifies that the products comply with the requirements of the European Union medical device Directive (歐盟醫療器械指令) in aspects such as safety, hygiene, environmental protection and consumers protection. In addition, our products passed the assessment of the GMP organised by the national drug inspection authority in Korea and obtained the certificate of GMP, which enhances the development of our business overseas. Meanwhile, we are preparing to submit application to countries for product registration including Brazil and the United States.

INSURANCE

We maintained product liability insurance for our products sold in China during the Track Record Period. Our current product liability insurance policies cover up to RMB0.5 million per incident per policy year. During the Track Record Period, as we have focused on expanding our business in the domestic market, we did not identify or maintain any product liability insurance for products sold to overseas regions.

We have also maintained third-party liability insurance related to vehicle and insurance under Social Insurance Law of the PRC (中華人民共和國社會保險法). Save for the insurances mentioned above, we did not maintain any insurance policies for business interruption or any third-party liability insurances to cover claims for personal injuries, property or environmental damages occurred in our properties or related to our business operations.

During the Track Record Period, we did not submit any material insurance claims. Our Directors believe that the coverage of the insurances obtained by us is adequate and is consistent with the market practice in China for business and operations similar to us.

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

MEDICAL INSURANCE

The Notice of Opinion on the Diagnosis and Treatment Management, Scope and Payment Standards of Medical Service Facilities Covered by the National Urban Employees Basic Medical Insurance Scheme (Lao She Bu Fa [1999] No. 22) (關於印發城鎮職工基本醫療保險診療專案管理、醫療服務設施範圍和支付標準意見的通知) (勞社部發[1999]22號) prescribes the coverage of diagnosis and treatment where part of the fees is paid through the basic medical insurance scheme. The basic medical insurance scheme shall cover “artificial organs and materials implanted within human body, including pacemakers, joint prosthesis, intraocular lens, intravascular stents”. Our joint prosthesis products and spinal products are categorised as medical materials by the basic medical insurance scheme where part of their fees payable by the patients are covered by the medical insurance. The labour protection administration department of each district shall prescribe their own specific ratio of the fees paid by the patients. The medical coverage of the basic medical insurance scheme for our joint prosthesis products and spinal products for most of the districts in China range from around 70% to 90% of the total price of our products.

EMPLOYEES

As of the Latest Practicable Date, the Group had 366 employees. None of them was hired through employment agencies. The following table shows the breakdown of our employees as of the Latest Practicable Date by duties.

Duty	Number of staff	Percentage
Management	5	1.4%
Production	174	47.5%
Quality and monitoring	25	6.8%
Research and development	40	10.9%
Sales and marketing	91	24.9%
General and administration ^(note)	31	8.5%
Total:	366	100%

Note: General and administration includes financial and office staff.

For the three years ended 31 December 2013 and the nine months ended 30 September 2014, the total salary and related cost paid to our employees were approximately RMB12.5 million, RMB17.3 million, RMB21.4 million and RMB18.2 million respectively. All employees of our Company are stationed in Beijing apart from the sales and marketing personnel.

Our Company recruits the employees with reference to their educational background, relevant experience of similar positions and professional qualifications.

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In compliance with the related labour laws of the PRC, our Company has entered into individual employment contracts with employees, which cover matters such as salaries, bonus, employee benefits, contract term, duties, location of workplace, working hours, leave policies, labour protection, confidentiality, non-competition and grounds for termination, etc. These employment contracts usually have a term of two years to three years. In order to avoid disclosure of the core technology, the labour contracts that we enter with relevant research and development staff include confidentiality terms which strictly set out the rights and obligations of a technician including non-competition requirements after termination of employment. In addition, our Company has provided various medical benefits and insurances, and has joined various employees' welfare plans according to applicable laws and regulations. Our PRC Legal Advisers have confirmed that, our Company has complied with the laws and regulations related to labour and social securities, other than the compliance incidents disclosed in the "Legal proceedings and compliance" below.

We invest in continuing education and training programmes to our employees on a regular basis to enhance their skills and knowledge in various areas, including sales and marketing, product knowledge, production safety and quality management. We also provide induction programs and team-building training. These training programs are either delivered internally or by external trainers.

We believe that our working environment, support and benefit provided to our employees have contributed to maintaining good relationships with our employees. None of our employees has negotiated with us on the employment terms through labour union or in a way of collective bargaining. As at the Latest Practicable Date, we did not experience any strikes or any material labour dispute that has or may have material and adverse effects on our business operations.

Since August 2012, we have established our labour union, which is responsible for instructing our employees to correctly handle the labour relation with our Company and is responsible for the supervision and coordination of the relevant relations. The labour union is also committed to protecting the legal rights of the employees. According to the laws and regulations of the labour unions in the PRC, we are required to make contributions to the union annually with no less than 2.0% of the total salary of all employees. Our Directors confirm that the contribution we made to the labour union during the Track Record Period complied with the laws and regulations related to labour union. All of our employees may join the labour union and become its members upon the applications by the employees voluntarily and the approval of the Labour Union Basics Committee (工會基層委員會).

LAND AND PROPERTIES

Leased Properties

(1) *Tongzhou First Production Base*

One of our current production facilities, Tongzhou First Production Base, is located at No. 17, Xinmi Road, southern district of Tongzhou Economic Development Zone (中國

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北京市通州經濟開發區南區鑫覓路17號), Beijing, the PRC, with a gross floor area of approximately 4,370 sq.m. According to Shi Gui Fa [2005] No.322 (市規發【2005】322號文) issued by Beijing Municipal Commission of Urban Planning (北京市規劃委員會), the piece of land where our Tongzhou First Production Base is erected on is planned for industrial use. The land use right of the Tongzhou First Production Base is formerly belongs to the Southern District Management Committee and subsequently owned by the Huoxian Town Cooperative Economic Association since 16 January 2015. On 18 March 2008 and 26 September 2008, our Company has entered into two lease agreements with Beijing Jin San Jiao Investment Management Company (北京市金三角投資管理有限公司) (the “**Lessor**”), which was authorised by the Southern District Management Committee and is an Independent Third Party, pursuant to which the land including the plant and all ancillary facilities were leased to us. On 30 April 2013, the parties agreed to renew the lease until 30 April 2018.

Our Tongzhou First Production Base is erected on a piece of collectively-owned construction land (集體建設用地). According to its land ownership certificate (Jing Tong Ji You (2012) No.00301), our Tongzhou First Production Base is collectively owned by the villagers of the Daliushu Village (大柳樹村農民集體), and the Daliushu Villagers’ Committee (大柳樹村村民委員會) (the “**Committee**”) exercises the land ownership on their behalf. According to the Law of Organization of Villagers’ Committee (村民委員會組織法), the villagers’ committee is a self-regulated organization established by the villagers (村民自治性組織). The Daliushu Village representatives’ meeting (大柳樹村民代表大會), which is formed by representatives on behalf of all the villagers, shall be held to discuss the matters need to be resolved in the meeting and the Committee is responsible for convening the villagers’ representative meeting. Upon the approval at the villagers’ representative meeting, the Committee shall have the authority to deal with the transfer of the land use right which is collectively owned by the villagers in accordance with the applicable laws.

On 1 March 2003, the Committee entered into a transfer of land use right agreement (the “**Agreement**”) with the Tongzhou Jin San Jiao Development Zone Management Committee (the predecessor of Southern District Management Committee). Our PRC legal advisers are of the view that the transfer is in compliance with the Law of Organization of Villagers’ Committee, given that the Committee had obtained the approval at the meeting of the Daliushu Village representatives (大柳樹村民代表大會) for the transfer of its land use right and is responsible for the management of the land of Tongzhou First Production Base. The Agreement stated that Tongzhou Jin San Jiao Development Zone Management Committee owns the land use right of the Tongzhou First Production Base and has the right to further transfer (or lease) the land use right of the Tongzhou First Production Base without the approval of the Committee which is further confirmed by the confirmation issued by the Committee on 8 December 2014. Subsequently in December 2010, the Tongzhou Jin San Jiao Development Zone Management Committee changed its name to Southern District Management Committee. Therefore, Southern District Management Committee has then become the owner of the land use right of Tongzhou First Production Base.

On 16 January 2015, due to the change of duties of the Southern District Management Committee and the need to reorganizing the assets of the local government of Huoxian Town of Tongzhou District (通州區瀾縣鎮政府) (“**Huoxian Town Local Government**”), under the approval of Huoxian Town Local Government, the Southern District Management Committee transferred its land use right of the Tongzhou First Production Base and the buildings constructed thereon to the Huoxian Town Cooperative Economic Association(瀾縣鎮合作經濟聯合社), which has therefore become the owner of the land use right of the Tongzhou First Production Base and the buildings constructed thereon. The Huoxian Town Cooperative Economic Association is managed by the Huoxian Town Local Government. Under the written notice issued and confirmed by the Huoxian Town Local Government, the Southern District Management Committee, Huoxian Town Cooperative Economic Association and the Lessor to the Company on 30 January 2015 (the “**Notice**”), as the Tongzhou First Production Base is located inside the southern district of Beijing Tongzhou Economic Development Zone, for the convenience of management, under the approval of the Huoxian Town Local Government, the Huoxian Town Cooperative Economic Association has fully authorized the Southern District Management Committee to exercise its rights on the operation and management over the land aforementioned and the buildings constructed thereon, including but not limited to the occupation, use, operation and management as well as the lease of the land.

As of the Latest Practicable Date, the collectively-owned construction land use right certificate and building ownership certificates in respect to the land and buildings have not been obtained by the Huoxian Town Cooperative Economic Association (the “**Title Defect**”).

Pursuant to article 43 of the Land Administrative Law of the PRC (《中國土地管理法》) (2004 Revision), any entity and individual who wishes to use the land for construction shall apply for the use of state-owned lands (國有土地) in accordance with the laws. Collectively-owned construction lands (集體建設用地) can only be used for the construction of township enterprises, houses for villagers, public facilities of townships (towns) or public welfare. Pursuant to the Decision of the PRC Government on Major Issues Concerning the Comprehensively Deepening Reform (《中共中央關於全面深化改革若干重大問題的決定》), which was promulgated on 12 November 2013 and the Opinions relating to the Comprehensively Deepening Reform of the Rural Areas for Accelerating the Modernization of Agriculture (《關於全面深化改革農村改革推進農業現代化的意見》) which was jointly issued by the Government and the State Council on 19 January 2014, the PRC Government and the State Council implemented a system for operational collectively-owned construction lands (集體建設用地) that allows the same way of trading, promotion and with equal rights and values of state-owned lands (國有土地) and the selling, leasing, acquisition of interests of such lands are permitted, subject to the compliance with the planning and restrictions on land use. The PRC Government and the State Council has requested the applicable laws and regulations to be amended by the relevant authorities. Before the completion of the amendment of the Land Administrative Law of the PRC (《中國土地管理法》), the construction of the plant in the Tongzhou First Production Base on the collectively-owned construction land (集體建設土地) by the Southern District Management Committee did not comply with the requirements of article 43 of the Land Administrative Law of the PRC (《中國土地管理法》).

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As far as the Title Defect is concerned, we have obtained a written confirmation from Huoxian Town Local Government, the Southern District Management Committee and the Lessor on 12 June 2014 (“**1st Written Confirmation**”). In the 1st Written Confirmation, the aforesaid parties confirmed that, (i) the southern district of Beijing Tongzhou Economic Development Zone is under the management of the Southern District Management Committee, which in turn is managed by the Huoxian Town Local Government; (ii) the Lessor is legally authorised by the Southern District Management Committee to manage and lease the leased properties to our Company; (iii) there is no title dispute in relation to the leased properties; and (iv) the leased site is located within the southern district of Beijing Tongzhou Economic Development Zone and currently is not listed in any demolition plan. In addition, the Lessor has given an undertaking to us that in the event of early termination of the lease agreement due to title disputes or government’s demolition plan, they shall give us 12-months prior notice otherwise they shall indemnify us all our losses. The Lessor is an indirect subsidiary of Huoxian Town Local Government, with a registered and paid capital of RMB10.0 million. As such, we are of the view that the Lessor has the financial capability to indemnify us all our losses in the event of early termination of the lease agreement due to title disputes. As such, our Directors believe that the risk of relocation is low. In addition, our Controlling Shareholders have undertaken to compensate us for all the losses that our Company would incur as a result of the Title Defect relating to the leased property during the lease term. The Controlling Shareholders own a property in the PRC. Our PRC Legal Advisers has inspected the title document in respect of the property owned by the Controlling Shareholders and confirmed that the Controlling Shareholders are the legal owners of the property. As such, Our PRC Legal Advisers are of the view that the Controlling Shareholders have the financial capability to honor the indemnity given to us.

On 6 November 2014, we have obtained another written confirmation (“**2nd Written Confirmation**”) from Huoxian Town Local Government, Southern District Management Committee and the Lessor, confirming that (i) the necessary land use right certificates in relation to the Tongzhou First Production Base are under application; (ii) the Tongzhou First Production Base is not listed on any demolition plan; and (iii) we will not be required to relocate from the Tongzhou First Production Base before our operation at the Tongzhou Second Production Base is in compliance with the statutory conditions.

Our PRC Legal Advisers enquired with the Beijing Municipal Bureau of State Land and Resources Bureau of Tongzhou (北京市國土資源局通州分局) in August 2014 (the “**1st Interview**”). According to the 1st Interview, the land use right of the Tongzhou First Production Base is formerly owned by the Southern District Management Committee, and we are the lessee of the same.

Our PRC Legal Advisers further enquired with the Beijing Municipal Bureau of State Land and Resources Bureau of Tongzhou (北京市國土資源局通州分局) in February 2015 (the “**2nd Interview**”). According to the 2nd Interview, Huoxian Town Cooperative Economic Association is currently in the process of applying for the land use right certificate of Tongzhou First Production Base. The application for the registration of the land use right and entitlement (確權登記申請) in respect of the said land use right has been reviewed and approved by the Beijing Municipal Bureau of State Land and Resources Bureau of Tongzhou (北京市國土資源局通州分局), after acquiring the approval of the

People's Government of Tongzhou District, the land use right certificate will be obtained. It is expected that it may need around two months to obtain the land use right certificate. Upon obtaining the land use right certificate, the Huoxian Town Cooperative Economic Association will apply for the building ownership certificate in accordance with the laws. Our PRC Legal Advisers advised that the interviewee is a competent person to provide the aforesaid information to them. Our PRC Legal Advisers are of the view that there will be no legal impediment for Huoxian Town Cooperative Economic Association to acquire the land use right certificate for Tongzhou First Production Base after acquiring the approval of the People's Government of Tongzhou District.

Based on the 1st Written Confirmation, the 2nd Written Confirmation, the Notice, the 1st Interview and the 2nd Interview with the Beijing Municipal Bureau of State Land and Resources Bureau of Tongzhou (北京市國土資源局通州分局), our PRC Legal Advisers advised that (a) the Huoxian Town Cooperative Economic Association is the owner of the land use right of the Tongzhou First Production Base and the buildings constructed thereon; (b) despite the fact that the Huoxian Town Cooperative Economic Association did not obtain the collectively-owned construction land use right certificate and building ownership certificate, the Huoxian Town Cooperative Economic Association is a competent authority to legally authorize the Southern District Management Committee to exercise its rights on the operation and management over the Tongzhou First Production Base and the buildings constructed thereon, including but not limited to the occupation, use, operation and management as well as the lease of the land. And the Southern District Management Committee is also a competent authority to legally authorize the Lessor to lease the property to us; (c) since the Huoxian Town Cooperative Economic Association did not obtain the collectively-owned construction land use right certificate and building ownership certificate, the lease has legal defect; (d) other than the fact that the owner of the land use right of the Tongzhou First Production Base has changed, the lease agreement entered into between the Lessor and us on 30 April 2013 remains valid and effective. The lease did not contravene the mandatory provisions of laws and regulations of the PRC and still legally binding on both parties; (e) the owner shall bear the legal liability in respect to the construction of the plant on collectively-owned construction lands (集體建設用地). As we are merely the lessee for the leased site and the occupied land, we are not exposed to any legal liability; (f) the Huoxian Town Local Government, Southern District Management Committee and the Lessor are the competent authorities to issue the 1st Written Confirmation and the 2nd Written Confirmation; (g) other than the fact that the owner of the land use right of the Tongzhou First Production Base has changed, the 1st Written Confirmation and the 2nd Written Confirmation remains valid and are legally binding on Huoxian Town Local Government, the Southern District Management Committee and the Lessor; and (h) the Huoxian Town Local Government, the Southern District Management Committee, the Huoxian Town Cooperative Economic Association and the Lessor are the competent authorities to issue the Notice and the Notice is legally binding on all parties.

We consider that the Title Defect is primarily due to the default on the part of the Huoxian Town Cooperative Economic Association who is responsible for securing the necessary ownership certificates and we are not liable for any potential liabilities in respect of the Title Defect. As at the Latest Practicable Date, our Directors were not aware of any factors which would cause material difference in our rental payments if the leased

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property did not have any defective titles. In addition, our Directors confirmed that they are not aware of any potential risk to the safety of the leased property with defective titles, and the safety conditions of the Tongzhou First Production Base are not negatively impacted by the Title Defect.

As mentioned in the section headed “Business — Business Strategies and Future Plans — Expansion of our production facilities and strategic relocation — Strategic relocation to our Tongzhou Second Production Base” in this prospectus, we have acquired the Tongzhou Second Production Base and relocation from the Tongzhou First Production Base to the Tongzhou Second Production Base have been completed, in which we have moved most of our production facilities from our Tongzhou First Production Base to Tongzhou Second Production Base. Therefore, in the event that the lease is terminated, we could proceed to use the Tongzhou Second Production Base as a replacement production site.

Our Directors are of the view that in the event that we are forced to relocate from the Tongzhou First Production Base, the relocation of our remaining production facilities in the Tongzhou First Production Base to the Tongzhou Second Production Base can be completed within three days and implemented in phases and outside of office hours or during weekends, the potential relocation of our remaining production facilities to Tongzhou Second Production Base would not bring any disruption to our production or business. In the event that we shall relocate, our Directors estimate that the loss of revenue due to such relocation would be less than approximately RMB0.1 million. Such estimated amount is calculated based on the assumption that we can relocate our remaining production facilities from Tongzhou First Production Base to Tongzhou Second Production Base in around three days. Given that we have sufficient product inventory for standard joint prosthesis products and spinal products for at least two months, the suspension of Tongzhou First Production Base for three days would only affect the revenue of our conventional custom knee joint prosthesis products and conventional custom shoulder joint prosthesis products as such products are made to order. Given the monthly average revenue derived from conventional custom knee joint prosthesis products and conventional custom shoulder joint prosthesis products for the nine months ended 30 September 2014 was approximately RMB1.0 million, we estimate that the three-day loss of such revenue would be approximately RMB0.1 million. In addition, we estimate other relocation expenses including transportation and labour costs would be less than approximately RMB0.1 million.

The Directors are of the view that Tongzhou First Production Base is crucial to our operation. Nonetheless, in light of (i) the 1st Written Confirmation, the 2nd Written Confirmation, the Notice and undertaking given by the Lessor, (ii) indemnity from the Controlling Shareholders and (iii) the relocation plan to our Tongzhou Second Production Base, our Directors are of the view, and the Sole Sponsor concurs, that any loss due to the potential risk of relocation, should it materialize, would not cause any material adverse effect on our business or financial position or results of operations.

(2) Hanjian Danyang Building (韓建丹陽大廈)

We have leased an office situated at Room No. 2005, 2007 and 2009, 20th floor, Hanjian Danyang Building (韓建丹陽大廈) (formerly known as Shenghong Building (盛鴻大廈)) on No. 98, East Third Ring Road South, Chaoyang District, Beijing, the PRC from an Independent Third Party as our office. The gross floor area is 535 sq.m. with a lease term until 19 March 2016.

Our PRC Legal Advisers are of the view that the lessors of the properties above, both Independent Third Parties, have the right to lease out the above properties. The leases are legal and valid, and are legally binding on both parties. The lease registrations for the leases relating to those properties have not been completed. However such registration procedure is not a prerequisite for the property lease agreements to be legally enforceable. Therefore the non-registration does not affect the effectiveness of the property lease contracts. Our PRC advisers are of the view that the failure to complete the registration of leases would not constitute a material legal risk to our operation and production.

Owned Properties

(1) Tongzhou Second Production Base

In January 2011, we acquired the Tongzhou Second Production Base and the land on which it is erected adjacent to our other current production site, Tongzhou First Production Base. The plant and the facilities have a total gross floor area of approximately 6,457.36 sq.m.. We have obtained the land use right certificate for the said land as well as the building ownership certificate. Renovation of the Tongzhou Second Production Base and relocation from the Tongzhou First Production Base to the Tongzhou Second Production Base have been completed, whereas most of our production facilities have been moved from our Tongzhou First Production Base to our Tongzhou Second Production Base. We have commenced trial production at our Tongzhou Second Production Base in January 2015 and we carried out production at these two production sites since then. For reasons of our acquisition of the Tongzhou Second Production Base, please refer to the section headed “Business — Business Strategies and Future Plans — Expansion of our production facilities and strategic relocation — Strategic relocation of our Tongzhou Second Production Base.”

(2) Daxing New Production Base

In September 2012, we acquired the land use right of the land located in the Daxing Biomedicine Industrial Base of the Zhongguancun Science Park in Beijing, the PRC. We are in the process of building a new production plant and facilities in the Daxing New Production Base. It has a site area of approximately 44,930.32 sq.m. and an expected total gross floor area of approximately 48,000 sq.m. We expect that the development will be carried out in two phases. Phase I of the development mainly involves the construction of the first production plant and acquisition of equipment for the expansion of production capacity of standard joint prosthesis products and spinal products, the development and commercialisation of advanced customised joint prosthesis products and the construction of a research and development center, and a marketing services center. Phase II of the development mainly includes the construction of the second production plant and

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acquisition of equipment for the development and commercialisation of ceramic hip joint prosthesis products and further expansion of production capacity of standard joint prosthesis products. Apart from being used as our production site, the Daxing New Production Base will also serve as our headquarters, sales center and research and development center.

We have obtained the land use right certificate, the permits and licenses associated with environment protection, the construction project planning permit and the construction land planning permit in relation to the Daxing New Production Base. We are in the process of applying for other permits and licenses for the implementation of our expansion plan when necessary. Such permits and licenses are primarily associated with construction. It is expected that upon completion of the construction, pending the obtaining of the final inspection approval from the relevant local environmental authority and final inspection approval on completion of construction, we will submit our application for building ownership certificate and production permits in respect of our Daxing New Production Base after which we can commence formal production. Our PRC Legal Advisers have confirmed that there should be no material legal impediment for us to obtain the construction permit, the building ownership certificate and approvals and permits associated with production.

Please refer to the section headed “Business — Business Strategies and Future Plans — Expansion of our production facilities and strategic relocation — Expansion plans and increase of production capacity” in this prospectus for more details related to our expansion plans.

Apart from the properties stated above, the Group does not own any other land or properties.

Our PRC Legal Advisers are of the view that, as of the Latest Practicable Date, other than disclosed above, our Group has obtained all land use right certificates and building ownership certificates for our land and properties in the PRC.

Construction in progress

As at the Latest Practicable Date, we owned one production base which is under construction, the Daxing New Production Base located at Daxing Biomedicine Industrial Base of the Zhongguancun Science Park in Beijing, the PRC. Please refer to the section headed “Business — Business Strategies and Future Plans — Expansion of our production facilities and strategic relocation” in this prospectus.

As of the Latest Practicable Date, as we have no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectus from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

CORPORATE SOCIAL RESPONSIBILITY

As a responsible corporate enterprise, we embrace responsibility to our communities and are committed to promote public interest. We have set up a project called “Chunli Sunshine Project” (春立陽光計劃) jointly with China Charity Federation (中國慈善總會) to provide joint prosthesis products and other supports to patients who need joint replacement surgeries. Under the “Chunli Sunshine Project”, our Company will donate products of up to RMB5 million for 5 years from 31 August 2009 to 31 August 2014 to the project and China Charity Federation will provide assistance to the patients in poverty. As of the Latest Practicable Date, we have donated our products for performing 116 joint replacement surgeries to the patients in poverty in designated hospitals throughout the nation under this project.

ANTI-BRIBERY COMPLIANCE

For the three years ended 31 December 2013 and the nine months ended 30 September 2014, our sales to domestic and overseas distributors accounted for approximately 88.7%, 85.2%, 83.0% and 78.9% of our total revenue respectively. The interaction between us and hospitals was mainly for the purpose of exchanging and sharing experience on surgeries with top-classed medical experts in China through regular training courses and participation in seminars. In addition, we also collect feedbacks from them on our products. In view of the interaction between us and hospitals, we have taken numerous measures to prevent briberies or kickbacks by our staff or distributors. These measures include organising internal training courses held by external experts, implementing internal policies, as well as imposing the standard anti-bribery provisions in our employee manual.

We have implemented internal control measures to prevent our distributors from engaging in corruption, bribery, or other improper conduct. For instance, we have established strict distributor selection policies, including assessment and review of distributors’ qualifications by our management and conducting background check on potential distributors. For details, please refer to the section headed “Business — Sales, Distribution Network and Marketing — Sales through distributors — Selection of distributors” in this prospectus. According to our PRC Legal Advisers, the relevant PRC anti-bribery laws and regulations prohibit our distributors from engaging in bribery conduct and the distributors shall be liable for all the losses incurred from any breach of such laws and regulations and we shall not be liable for their breaches. We have designated officer responsible for monitoring the corruption, bribery or other improper conduct of our staffs. Such officer shall report to the Board upon discovery of any corruption case or misconduct. According to our internal policies, if we receive reports or become aware of any misconducts or suspicious behaviours of our employees or distributors, we will conduct an investigation and report to the regulatory authority where appropriate. In order to monitor the corruption, bribery or other improper conduct of our distributors, we now start to include a term to the new distribution agreements to be entered into by us or the renewed distribution agreement which requires our distributors to comply with all the relevant PRC anti-bribery laws and regulations and the distributors shall be liable for all the losses, incurred from any breach of such laws and regulations.

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It is common practice in the medical industry to adopt rebate policies to distributors in order to facilitate the sales of products. To motivate and retain our domestic distributors, we offer rebates at the end of each year based on an accrual basis and distribute the rebates to our domestic distributors in the following year, mainly through rebates in kind or cash rebates. For rebates in kind, we supply products to our domestic distributors for free. As to cash rebates, our domestic distributors may use the cash to purchase products from us if they so wish.

Pursuant to article 8 of the Anti Unfair Competition Act of the PRC (中華人民共和國反不正當競爭法), “secret commission or rebates to other entities or individuals without normal accounting records shall be construed as an act of bribery”. Any rebates in kind or in cash that we offer to our distributors shall be subject to the specific terms of the contracts and corresponding accounting treatments shall be made. We do not offer secret commissions or rebates to our distributors and do not commit any commercial bribery. In addition, according to the relevant laws and regulations for instance the Contract Law (合同法) and the Rules of Civil Law (民法通則) of the PRC, there is no prohibition against the behaviour of distributing rebates in kind or cash rebates to distributors during sale process.

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

ENVIRONMENTAL MATTERS

Environmental Responsibilities and Costs

Our business is subject to state and local environmental laws. Under the State Environmental Protection Law, State Environmental Protection Bureau (中華人民共和國環保部) sets the environmental standards for China, while the regional environmental protection bureau may impose more stringent requirements for its local environmental protection. The relevant PRC Laws require any entity operating a facility that discharges pollutants or other hazards to implement environmental protection measures into its operations and to establish an environmental protection responsibility system. Such system must have effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials. New construction, expansion or reconstruction projects and other installations that directly or indirectly discharge pollutants to the environment are subject to relevant environmental regulations. Entities undertaking such projects must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment to the authorities for review. The facilities to prevent and control pollutants are required to be designed, constructed, and operated, concurrent with the operation of the construction project.

We are an innovative technology enterprise with emphasis on advanced technology, low energy consumption and low pollution. A limited amount of solid waste, cutting fluid and industrial wastewater will be discharged during our processing and production processes. We adopt certain procedures to treat those wastes. The industrial wastewater will be channelled to aqueduct at the production site. The cutting fluid will be collected

regularly by professional environmental companies. Solid wastes mainly consist of metal shavings and consumer waste. Metal shavings are collected by a third party waste collection company for free, while consumer waste will be collected and separated for sanitation department to handle on a regular basis.

For the three years ended 31 December 2013 and the nine months ended 30 September 2014, the costs associated with complying with environmental obligations were about RMB3,000, RMB3,000, RMB6,000 and RMB86,315 respectively. We expect our annual cost of compliance with applicable PRC environmental laws, regulations and policies will not experience significant change from that of Track Record Period for the two years ending 31 December 2014 and 2015.

We have complied with all the applicable environmental laws and regulations in all material aspects. In addition, we are advised by our PRC Legal Advisers that, as at the Latest Practicable Date, there was no claim, administrative penalty or other kind of legal proceedings in respect of environmental protection and safety against us, except that we are pending for the final inspector approval from the environmental protection of commission of the relevant local authority in respect of the Daxing New Production Base and the Tongzhou Second Production Base. In order to ensure our compliance with the environmental standards and requirements for the Daxing New Production Base, our Company has assessed the environmental impact of the project and obtained the license associated with environmental protection from local environmental department.

Save for the disclosure made in this prospectus, according to the compliance confirmation issued by the related environmental protection authority in the PRC, as at the Latest Practicable Date, we complied with all the applicable environmental laws and regulations in the PRC in all material aspects and we obtained all the environmental permits and approvals required for our production plants.

LEGAL PROCEEDINGS AND COMPLIANCE

General

Our Directors confirm that we were not subject to any claims or litigation concerning the quality of our products during the Track Record Period. As at the Latest Practicable Date, we were not involved in any material litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material adverse effect on our business, financial condition or results of operations.

As advised by our PRC Legal Advisers, save as disclosed in the above paragraphs and below, as at the Latest Practicable Date, the Group had complied with relevant laws and regulations in the PRC in all materials respects and obtained all necessary permits, licenses and approvals from the relevant regulatory authorities which are material for the Group's operation in the PRC and all of them are in force. We have not experienced any refusal of the renewal application of our business license and other licenses necessary for our operations.

Compliance incidents

During the Track Record Period, our Group had inadvertently breached certain PRC laws and regulations. The following table summarises our Group's compliance incidents during the Track Record Period and up to the Latest Practicable Date and our remedial measures:

Non-compliance incidents	Reasons for non-compliances/ non-compliances	Relevant laws and regulations and maximum fine/penalty that may be imposed by the relevant authorities in PRC	Rectification actions and impact on our Group	Enhanced internal control measures
<p>The number of employees we made contribution for housing pension fund and social insurance were fewer than the number required by the relevant laws and regulations such as the Regulations on the Management of Housing Provident Fund (住房公積金管理條例) and the Social Insurance Law (社會保險法). We estimate that the outstanding contributions for housing pension fund and social insurance during the Track Record Period amounted to approximately RMB407,000.</p>	<p>During the relevant period, contributions for housing pension fund and social insurance were handled by our human resources department and our staff at the human resources department did not have a comprehensive understanding of the legal requirements in relation to social insurance and housing pension fund.</p> <p>During the relevant period, the Director involved in such non-compliance was Mr. Shi, one of our executive Directors.</p>	<p>According to the Social Insurance Law of the PRC (社會保險法), we are required to participate in the social insurance contribution plans organised by the relevant local government departments in Beijing. We are required to make full contributions to the social insurance premium for our employees, including pension insurance, medical insurance, unemployment insurance, work injury insurance and maternity insurance (if applicable). Entities who violate the relevant laws will be subject to a daily fine of 0.05% of the unpaid amount and a penalty amounting to one to three times of the outstanding contributions.</p>	<p>We have made full contributions to the housing pension fund and social insurance as from early April 2014.</p> <p>We received confirmation from the Human Resources and Social Insurance Bureau in the Tongzhou District of Beijing (北京市通州區人力資源和社會保障局) confirming that they were not aware of any violation by us on any labour protection laws, regulations and rules during the Track Record Period, nor have any record associated with the administrative penalty or punishment imposed by the administrative authority. We have also received confirmation from the Tongzhou Management Department under Beijing Housing Pension Fund Administration (北京住房公積金管理中心通州管理部) confirming that they were not aware of any violation by us on the laws, regulations and rules in relation to housing pension fund.</p>	<p>Since 1 April 2014, we have assigned the head of the human resources department, Ms Wang Jing (王晶), to review the social insurance and housing pension fund reports and contributions. Ms Wang Jing has about two years of experience in human resources management. She understands the matters in relation to the insufficient contributions for social insurance and housing pension fund and has attended the training in relation to the PRC social insurance and housing pension fund laws and regulations organised by our in-house legal advisers in April 2014. We will arrange Ms Wang Jing to receive regular training from our PRC Legal Advisers so as to keep her abreast of the latest information.</p>
<p>We are also required to file our registration with the competent housing pension fund administration in accordance with the Regulations on Management of Housing Provident Fund (住房公積金管理條例) and make contributions to the housing pension fund for our employees. Employers who violate the relevant laws will be subject to a fine of no more than RMB50,000.</p>	<p>We are also required to file our registration with the competent housing pension fund administration in accordance with the Regulations on Management of Housing Provident Fund (住房公積金管理條例) and make contributions to the housing pension fund for our employees. Employers who violate the relevant laws will be subject to a fine of no more than RMB50,000.</p>	<p>As confirmed by our PRC Legal Advisers, the Tongzhou Management Department under Beijing Housing Pension Fund Administration and the Human Resources and Social Insurance Bureau in the Tongzhou District of Beijing (北京住房公積金管理中心通州管理部 and 北京市通州區人力資源和社會保障局) have the authority and they are competent to issue the confirmations and such confirmations are not exposed to potential risks of termination or revocation by higher authorities.</p>	<p>As confirmed by our PRC Legal Advisers, the Tongzhou Management Department under Beijing Housing Pension Fund Administration and the Human Resources and Social Insurance Bureau in the Tongzhou District of Beijing (北京住房公積金管理中心通州管理部 and 北京市通州區人力資源和社會保障局) have the authority and they are competent to issue the confirmations and such confirmations are not exposed to potential risks of termination or revocation by higher authorities.</p>	<p>As confirmed by our PRC Legal Advisers, the Tongzhou Management Department under Beijing Housing Pension Fund Administration and the Human Resources and Social Insurance Bureau in the Tongzhou District of Beijing (北京住房公積金管理中心通州管理部 and 北京市通州區人力資源和社會保障局) have the authority and they are competent to issue the confirmations and such confirmations are not exposed to potential risks of termination or revocation by higher authorities.</p>

Relevant laws and regulations and maximum fine/penalty that may be imposed by the relevant authorities in PRC

Reasons for non-compliances/ persons responsible for non-compliances

Non-compliance incidents

Rectification actions and impact on our Group

Enhanced internal control measures

Although confirmed by competent authority that they are not aware of our non-compliances in relation to social insurance and housing pension fund and that we have complied with the relevant social insurance and housing pension fund regulations since early April 2014, as of the Latest Practicable Date, we had not been demanded by the relevant government authorities to pay any outstanding housing pension fund and social insurance contributions or any penalties, however, for prudence sake, the Group has made a full provision for the outstanding payments (RMB407,000) during the relevant period.

Our human resources team, together with the financial team, will conduct an annual review in respect of our compliance with the relevant laws and regulations. Our human resources team is required to report to our general manager and the chairman of the Board regarding our regulatory compliance with the laws and recommend improvement measures if necessary.

Save for the above, the Controlling Shareholders have undertaken to make contributions to social insurance and housing pension fund for our employees in full pursuant to the relevant laws, regulations and rules and other regulatory documents, and indemnify our Group for any penalties arising therefrom or any loss suffered by our Company and they shall waive their rights to claim against our Company voluntarily. Our PRC Legal Advisers have confirmed that the above undertakings made by Mr. Shi and Ms. Yue are legal and valid and are legally binding.

On the basis of (1) the relevant confirmation issued by the competent authority; and (2) the interview conducted with the personnel from the said competent authority where the competent authority does not accept repayment of the outstanding contributions, our PRC Legal Advisers are of the view that we have complied with the PRC laws and regulations in relation to social insurance and housing pension fund in all material aspects during the Track Record Period and as at the Latest Practicable Date. In addition, the amount of outstanding social insurance and housing pension fund contributions during the Track Record Period was not significant and thus would not constitute any material non-compliance.

Based on the foregoing, we are of the view that the non-compliance incidents are not material non-compliances and do not have any material effect on the operation and financial condition of our Group.

<p>Non-compliance incidents</p> <p>During the Track Record Period and as at the Latest Practicable Date, we have entered into lease agreements in respect of our Tongzhou First Production Base with Beijing Jin San Jiao Investment Management Company (北京市金三角投资管理有限公司) (the “Lessor”), and the Huoxian Town Cooperative Economic Association did not obtain the collectively-owned construction land use right certificate and building ownership certificate in respect of the land and the buildings (the “Title Defect”).</p> <p>Furthermore, such lease agreement has not been registered in accordance with the applicable PRC laws. Our Group has devoted considerable effort to arrange for the registration of the lease agreements. However, we are unable to register the lease agreements without the Lessor’s assistance and despite our repeated requests, the Lessor has still failed to register or file the leases.</p> <p>For details of the leased property and title defect, please refer to the section headed “Business – Land and Properties” in this prospectus.</p>	<p>Reasons for non-compliances/ persons responsible for non-compliances</p> <p>The leased property is erected on a piece of collectively-owned construction land (集體建設用地).</p> <p>As at the Latest Practicable Date, no collectively-owned construction land use right certificate and building ownership certificate has been obtained by the Huoxian Town Cooperative Economic Association in respect of the land and the buildings.</p> <p>Due to the incooperation of the Southern District Management Committee, we were unable to register the lease.</p> <p>During the relevant period, the Director involved in such non-compliance was Mr. Shi, one of our executive Directors</p>	<p>Relevant laws and regulations and maximum fine/penalty that may be imposed by the relevant authorities in PRC</p> <p>As far as the Title Defect is concerned, we received a written confirmation (“1st Written Confirmation”) from the local government of Huoxian Town of Tongzhou District, the Southern District Management Committee and the Lessor on 12 June 2014 confirming that (1) there is no title dispute regarding the leased properties, (2) the leased property is currently not listed in any demolition plan and (3) the Lessor has given an undertaking to us that if the lease is terminated due to the Title Defect or government’s demolition plan, they shall give us 12-months prior notice otherwise they shall indemnify us all our loss. On 6 November 2014, we have obtained another written confirmation (“2nd Written Confirmation”) from Huoxian Town Local Government, Southern District Management Committee and the Lessor, confirming that (i) the necessary land use right certificates in relation to the Tongzhou First Production Base are under application; (ii) the Tongzhou First Production Base is not listed on any demolition plan; and (iii) we will not be required to relocate from the Tongzhou First Production Base before our operation at the Tongzhou Second Production Base is in compliance with the statutory conditions.</p> <p>For the non-registration of lease, our PRC Legal Advisers advised that the relevant authority is entitled to impose a maximum fine of RMB10,000 to the parties of the lease.</p>
<p>Rectification actions and impact on our Group</p> <p>We have acquired another production site, namely the Tongzhou Second Production Base which has commenced operation after relocation in January 2015. In the event that the lease is terminated due to the Title Defect, we could proceed to use the Tongzhou Second Production Base as a replacement production site.</p> <p>Our PRC Legal Advisers have advised us that (1) the failure to register the lease and the absence of the relevant land certificates will not affect the effectiveness thereof and the lease is still legal binding on the parties, (2) we are merely the lessee for the leased site and the occupied land, we are not exposed to any legal liability in respect of the Title Defect; and (3) the parties issuing the 1st Written Confirmation and the 2nd Written Confirmation are competent to issue the same and is legally binding on both the Southern District Management Committee and the Lessor.</p> <p>In addition, our Controlling Shareholders have undertaken to compensate us for all the losses that our Company would incur as a result of the Title Defect during the lease term.</p> <p>As such, our Directors believe that even if we are required to relocate, the impact on our financial position is not material. Please refer to the section headed “Business – Land and Properties” in this prospectus.</p>	<p>Enhanced internal control measures</p> <p>To prevent similar incidents from happening again in future, our Directors, including our Audit Committee, will ensure that the Lessor has obtained all the relevant title documents and the lease agreements would be duly registered in accordance with the applicable PRC laws.</p>	

Views of our Directors and the Sole Sponsor

Our Directors are of the view that the non-compliance incidents in relation to housing pension fund and social insurance were inadvertent oversight and the non-compliance incidents in relation to the Tongzhou First Production Base were due to failure to take steps on the part of the lessor, where such cases did not involve any element of deception or dishonesty. Based on the above, having considered the view of the internal control adviser, our Directors are of the view that our Company has taken reasonable steps to establish internal control system and procedures to enhance the internal control environment at both working and monitoring level to avoid any future non-compliance with the relevant laws and regulations, and therefore, our Directors are of the view, and the Sole Sponsor concurs that the enhanced internal control measures adopted by our Group are adequate and effective in significantly reducing the risk of future non-compliance with legal and regulatory requirements. In addition, the Directors, including the independent non-executive Directors, are satisfied and the Sole Sponsor concurs that the above non-compliance incidents do not involve any dishonesty on the part of our Directors or cast any doubt on their integrity or competence and would not affect the suitability of our Directors under Rules 3.08, 3.09 and 8.15 of the Listing Rules and the suitability for listing of our Company under Rule 8.04 of the Listing Rules notwithstanding the non-compliances based on the following grounds:

- (i) the occurrence of the non-compliance incidents in relation to the title defect and the non-registration of the lease in relation to the Tongzhou First Production Base were beyond the control of our Company;
- (ii) the occurrence of the non-compliance incidents in relation to contribution to housing pension fund and social insurance was solely due to prior inadvertence or unfamiliarity with relevant rules and regulations without any dishonest or deceptive intent of any Directors;
- (iii) the Directors responded in a timely manner to rectify the non-compliances once they were aware of such incidents;
- (iv) the Directors have been attentive and vigilant to any issues which may cause non-compliance and have adopted measures to prevent the abovementioned non-compliance from recurring and the internal control adviser considers that the measures are appropriate and effective;
- (v) since the implementation of the internal control measures and up to the Latest Practicable Date, the Directors confirmed that, other than the non-registration of the lease in relation to the Tongzhou First Production Base which failure to register was due to the incooperation of the lessor, the Group did not violate any laws, rules and regulations; and
- (vi) each of the Directors is aware of the requirements and obligations as a director of a listing issuer pursuant to the Listing Rules and have undertaken to observe and comply with all the relevant rules and regulations.

Risk management policies and procedures

We have adopted risk management policies as part of our internal control measures. Our Board is responsible to supervise the implementation of these risk management policies in order to achieve the following targets: (i) ensure the risk can be controlled under acceptance level; (ii) ensure the formulation of financial statements based on reliable and accurate information; (iii) ensure compliance with relevant laws and regulations; (iv) ensure the full implementation of other internal operations manuals; and (v) ensure the formulation of effective risk management plans.

Our risk management policies targets to cover various major aspects, namely, market risk, financial risk, operational risk and business risk. To manage these risks, our policies comprises the following major steps in our risk management procedure:

- information collection;
- risk assessment;
- formulation of risk management strategies;
- implementation of risk management measures; and
- review and improvement of risk management measures.

Our management has identified several major risks in relation to our business operations. For example, we placed heavy reliance on our senior management. For details, please refer to the section headed “Risk Factors — Risks Relating to Our Business and Industry” in this prospectus. Our Directors are of the view that through the adoption of standardised risk management policies and procedures, we can identify, assess and mitigate the risks more effectively.

On-going measures to implement the risk management policies

To ensure the continuous implementation of our risk management policies and procedures, we have also adopted various on-going measures set out as follows:

- we have provided training to our Directors and senior management in respect of the risk management policies and the Board shall continuously review and monitor the implementation of the risk management policies;
- we have conducted detailed risk assessment analysis in 2014 and will continue this exercise from time to time; and
- we have included risk management policies into our corporate governance and internal control measures.

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Corporate Governance

We have adopted or will adopt the following corporate governance and internal control measures to enhance the internal control systems, ensure compliance with applicable laws and regulations:

- we have implemented several new internal compliance guidelines, including a comprehensive anti-bribery policy, with the assistance of Independent Third Party professional advisers, to enhance our internal compliance system and monitor the routine business. We will continue to engage third party professional advisers if required and work with our internal audit and legal teams to conduct regular review to ensure that all registrations, licenses, permits and approvals are valid and that the renewals of such documents are made in a timely manner;
- we have appointed three independent non-executive Directors out of a total of seven Directors on our Board and a majority of the members of our audit committee, nomination committee and remuneration committee are independent non-executive Directors. We believe that the independent element in the Board and the committees can enhance our corporate governance;
- we have established an audit committee prior to Listing, which will establish formal arrangements to review financial reporting and internal control principles in accounting and financial matters to ensure compliance with the Listing Rules and all relevant laws and regulations, including, in the case of any future lease arrangements, to ensure that all the relevant title documents and the lease agreements have been obtained and will be duly registered. For details of the personnel of the audit committee, please refer to the section headed “Directors, Supervisors and Senior Management” in this prospectus;
- subject to recommendation from our audit committee, we will appoint external internal control advisor to perform periodic review of our internal control system to evaluate the effectiveness and formulate plans and recommendations for improvement of our internal control policies and procedures;
- we have appointed China Everbright Capital as our compliance adviser to provide advice to our Directors and management team regarding matters relating to the Listing Rules;
- each of our Directors of our Group has a training session conducted by our Hong Kong legal adviser regarding the responsibilities and duties of Directors; and
- we have implemented internal control measure to prevent the occurrence of bribery or kick-back activities during the procurement and distribution process. For details, please refer to the section headed “Business — Anti-Bribery Compliance” in this prospectus.

Investment and treasury policies and internal controls

To enhance the effectiveness of our internal control and risk management procedures and to identify and manage the risks which we may be exposed to in handling financial investment transactions, we authorized our senior management to oversee our investment activities and treasury plans. Further details of their biographies are set out in the section headed “Directors, Supervisors and Senior Management — Board of Directors” in this prospectus.

We have in place the following investment and treasury policies and internal control measures as extracted from our “External Investment and Management Policies and Procedures” to control the associate risks.

- Management structure: We adopt a three-layer management structure comprising the Board, the senior management and the department which proposes the potential investment and treasury plan (“**investment and treasury related department**”) with a clear delineation of responsibilities:
 - Investment and treasury related department: Responsible for preparation the investment and treasury plans.
 - Senior Management: Responsible for preparing feasibility analysis for the investment and treasury plans and overseeing the investments; conducting review regularly of the investments and reporting to the Board; setting out the long-term and short-term investment goals; reviewing and updating the investment and treasury management policies.
 - Board: Responsible for the reviewing and approving senior management’s reports and approving amendments to our investment and treasury management policy.
- Investment and treasury plan evaluation: The senior management shall reject or approve a proposed plan prepared by related department considering the following:
 - Scale of resources required by the potential investment and treasury plans;
 - Proximity of the target to the existing business;
 - The return rate of the potential investment and treasury plans; and
 - The financial resources and other financing alternatives available at the relevant time.

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- Checks and balances mechanism: To prevent unauthorized investment or treasury plans, our investment and treasury policies provides that:
 - all investment or treasury plan payments or transfers must be reviewed by our chief financial officer, and approved and signed by our chairman of the Board;
 - no payments or transfers of assets are permitted before obtaining the relevant approval authority’s consent and entering into contracts with the investment targets;
 - all changes to investment or treasury plans must be applied by the senior management and approved by the Board; and
 - the finance department would record and update all our investment activities and treasury plans. It will conduct monthly checks on its accounting records against the investment projects or treasury plans’ ledgers to ensure accuracy and fairness of the records.
- Reporting mechanism: The senior management shall submit feasibility analysis for all investment and treasury plans to the Board’s executive meeting for approval. If all approvals are obtained, the plans shall be handled by the investment and treasury related department.
- Continued monitoring:
 - the senior management are responsible for the on-going monitoring of our investments and would report to the Board for any event that may affect our investments;
 - for investments in financial products, short-term time deposits or notice deposits, the senior management and finance department would prepare annual investment reports, which would set out, among other things, the updated value of investments, cash positions and cash-flow forecast;
 - after an investment or treasury plan is terminated, the senior management and related department would submit an evaluation report to the Board; and
 - internal audit department will audit the investment or treasury plan during the lifespan of the investment as well as the termination report.

BUSINESS

Views of our Directors and the Sole Sponsor

As set out in the sections headed “Business — Legal proceedings and Compliance — Compliance incidents” in this prospectus, our Group has laid down and implemented detailed internal control and corporate governance measures to monitor ongoing compliance with the relevant laws and regulations to prevent the occurrence of any non-compliance in the future. Our Directors believe that the corporate governance and internal control measures could effectively ensure a proper internal control system and maintain good corporate governance practices of our Group, and the additional work safety measures are adequate and effective. In view of the measures in place, our Directors are of the view, and the Sole Sponsor concurs, that these systems are sufficient and effective for our current operation environment to ensure ongoing compliance with the relevant laws and regulations applicable to our Group.

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

GENERAL

The management and affairs of our business are supervised by our Board, which consists of seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. Our Board of Supervisors currently consists of three members, including one employee Supervisor.

Save as disclosed in this section below, each of our Directors, Supervisors and members of our senior management has not been a director of any publicly listed company, the securities of which are listed on any securities market in Hong Kong or overseas, in the three years immediately preceding the date of this prospectus.

As at the Latest Practicable Date, none of our Directors has committed any breach, or been a subject of investigation for any breach or suspected breach, of any listing rules or relevant regulations.

The following table set forth the information concerning our Directors, Supervisors and senior management.

Name	Age	Date of joining our Group	Position	Date of appointment as Director/Supervisor/senior management	Roles and responsibilities
Mr. Shi Chunbao (史春寶) ^(note)	45	February 1998	Executive Director, chairman of the Board, general manager and sales and marketing director	September 2010	Responsible for providing strategic advice and guidance on the business and operations of our Group; chairman of the nomination committee and a member of the remuneration committee
Ms. Yue Shujun (岳術俊) ^(note)	43	February 1998	Executive Director and deputy general manager	September 2010	Responsible for the internal operations of our Group, including logistics, inventory and day-to-day management
Mr. Ding Gang (丁罡)	35	December 2010	Executive Director, deputy general manager and secretary of the Board	December 2010	Responsible for the capital management and operations and human resources management of our Group

Note: Mr. Shi and Ms. Yue are husband and wife.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Position	Date of appointment as Director/Supervisor/senior management	Roles and responsibilities
Mr. Lin Yiming (林一鳴)	46	September 2010	Non-executive Director	September 2010	Responsible for providing advice on the management and the strategic development of our Group
Ms. Xu Hong (徐泓)	60	September 2010	Independent non-executive Director	September 2010	Chairman of the audit committee, a member of the nomination committee and a member of the remuneration committee
Mr. Tong Xiaobo (佟小波)	55	September 2010	Independent non-executive Director	September 2010	Chairman of the remuneration committee and a member of the audit committee
Mr. Cheung Ying Kwan (張應坤)	54	the Listing Date	Independent non-executive Director	May 2014 ^(Note)	A member of the nomination committee
Mr. Qi Yi (祁毅)	61	October 2001	Chairman of the Board of Supervisors	September 2010	Responsible for supervising the Board, the senior management and the operation and management of our Company
Mr. Xie Fengbao (解鳳寶)	32	March 2001	Supervisor	September 2010	Responsible for supervising the management and operation of our Company
Ms. Zhang Lanlan (張蘭蘭)	26	January 2008	Employee Supervisor	September 2010	Responsible for supervising the compliance matters of our Company
Mr. Zhao Shijie (趙世傑)	32	August 2011	Deputy general manager and chief financial officer	August 2011	Responsible for the financial management of our Group
Mr. Liu Jinshan (劉金山)	36	September 2004	Deputy general manager	December 2010	Responsible for the daily operation of our production facilities and production lines and the factory

Note: Effective from the Listing Date

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

According to our Articles of Association, our Directors are elected for a term of three years, and are eligible for re-election and re-appointment upon expiry of their terms. Our independent non-executive Directors are elected for a term of three years, and are eligible for re-election and re-appointment upon expiry of their terms, but shall not exceed nine years. The terms of reference of the Board of Directors include, but not limited to, convening the general meetings, reporting on the performance of the Board of Directors at the general meeting, implementing the resolutions passed at the general meetings, formulating business plans and investment plans, preparing annual budget and final accounts, preparing proposals on profit distribution and increase or decrease in registered capital as well as performing the other authorities, functions and responsibilities granted by the Articles of Association.

Executive Directors

Mr. Shi Chunbao (史春寶), aged 45, is our executive Director, chairman of our Board, general manager and sales and marketing director. He is responsible for providing strategic advice and guidance on the business and operations of our Group. Mr. Shi became our Director on 17 September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Mr. Shi together with his wife, Ms. Yue, established Chunli Limited. Mr. Shi was appointed as the general manager and a director of Chunli Limited in February 1998. Mr. Shi has been the chairman of the Board and the general manager of our Company since September 2010, as well as the sales and marketing director of our Company since December 2010. Prior to the establishment of the Group, Mr. Shi worked as a technician for plasma spraying in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1991 to 1993, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the spraying of joint prosthesis products. He then worked as a sales representative at the sales department of the factory from 1993, and as the head of the sales department of the factory from 1995 to 1997, being responsible for the sales of joint prosthesis products. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience.

Mr. Shi obtained a diploma in economics and management from the Business School of Beijing (北京商學院) (now known as Beijing Technology and Business University (北京工商大學)) in July 1995 and a degree of master in Business Administration from Concordia University Wisconsin, USA in August 2010.

Ms. Yue Shujun (岳術俊), aged 43, is our executive Director and deputy general manager. She is responsible for the internal operations of our Group, including logistics, inventory and day-to-day management. Ms. Yue became our Director on 17 September 2010 and was redesignated as our executive Director on 16 April 2014. In February 1998, Ms. Yue together with her husband, Mr. Shi, established Chunli Limited. She held the position of administration manager of Chunli Limited from February 1998 to January 2001. Ms. Yue then held the position of manager of the sales and marketing department of Chunli Limited from February 2001 to October 2002, the manager of the finance department of Chunli Limited from November 2002 to August 2008, supervisor from

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

February 1998 to September 2010 of Chunli Limited. She has been the deputy general manager of our Company since September 2010. Prior to the establishment of the Group, Ms. Yue worked in Beijing Peace Joint Prosthesis Factory (北京市和平人工關節廠) from 1994 to 1997, the principal business activities of which covered the production and sales of implantable orthopedic medical devices, and was responsible for the sales of joint prosthesis products. She gained access to and possessed knowledge and experience in the medical device industry from her aforesaid previous working experience.

Ms. Yue completed a course of Advanced Study in Modern Economics and Management (現代經濟管理高級研修班) at the School of Continuing Education at Tsinghua University, Beijing (清華大學) in September 2006 and a course of Master Financial Manager (高級財務經理人課程) at the School of Economics and Management at Tsinghua University, Beijing in September 2009. Ms. Yue obtained a certificate for Senior International Finance Manager (高級國際財務管理師) jointly awarded by the China Association of Chief Financial Officers (中國總會計師協會) and International Financial Management Association (國際財務管理協會) in April 2009.

Mr. Ding Gang (丁罡), aged 35, is our executive Director, deputy general manager and secretary of the Board. He is responsible for the capital management and operations and human resources management of our Group. Mr. Ding was appointed as our Director on 22 December 2010 and has been our executive Director since 16 April 2014. Mr. Ding was the deputy general manager and the secretary of the Board of our Company since April 2011. Prior to joining our Group, Mr. Ding worked as an investment manager, senior investment manager and the head of the investment department of Xin'an Caifu (新安財富) from October 2005 to April 2010 the principal activity of which was investment management. Mr. Ding obtained a degree of bachelor in Safety Engineering (安全工程) from Capital University of Economics and Business, Beijing (首都經濟貿易大學) in January 2004. Mr. Ding is currently studying a master degree in business and administration for senior management personnel at Guanghua School of Management of Peking University, Beijing (北京大學).

Non-executive Director

Mr. Lin Yiming (林一鳴), aged 46, is our non-executive Director. He is responsible for providing advice on the management as well as the strategic development of our Group. Mr. Lin became our Director on 17 September 2010 and has been our non-executive Director since 16 April 2014. Prior to joining our Group, Mr. Lin held the position of chairman of Beijing Shidai Kewei Education Consulting Co., Ltd. (北京時代柯維教育諮詢有限公司) from August 2009 to August 2012, the principal activities of which are providing education, consulting and trainings, and was the dean of School of Tourism, the dean of School of Business and an assistant to the principal at Beijing Geely University (北京吉利學院) respectively from January 2010 to June 2014. Mr. Lin has been the executive principle of Beijing Geely University since June 2014. Mr. Lin obtained a degree of master in Business Administration from Concordia University — Wisconsin, USA in September 2011.

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Mr. Lin was a shareholder and legal representative of 海南科藝達酒店管理有限公司 (Hainan Keyida Hotel Management Co. Ltd.) (“Hainan Keyida”), 海南銘世酒店管理有限公司 (Hainan Mingshi Hotel Management Co. Ltd.) (“Hainan Mingshi”) and 海口遠鳴酒店管理有限公司 (Haikou Yuanming Hotel Management Co. Ltd.) (“Haikou Yuanming”), all of which were established in the PRC and their business licenses were revoked on 15 October 2001, 15 January 2004 and 2 November 1999 because they failed to take part in the annual inspection within the time period as stipulated by the relevant regulations.

The principal business activities of Hainan Keyida, Hainan Mingshi and Haikou Yuanming included the provision of hotel management services. Mr. Lin confirmed that none of the three companies were engaged in any competing business with the Group and that there were no claims against him in relation to their operations.

Independent Non-executive Directors

Ms. Xu Hong (徐泓), aged 60, became our Director on 17 September 2010 and was redesignated as our independent non-executive Director on 16 April 2014. Prior to joining our Group, Ms. Xu obtained the qualification as a Certified Public Accountant granted by the Chinese Institute of Certified Public Accountants in February 1999 and worked at Zhongsheng Certified Public Accountants Co., Ltd. (中盛會計師事務所有限公司) from 1999, the principal business activities of which are the provision of audit and consulting services. In May 2005, she obtained the qualification as a Certified Tax Agent from the Registered Taxation Administration Center of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區註冊稅務管理中心). Ms. Xu has been a teacher at the Department of Accounting at the School of Business at Renmin University of China (中國人民大學) since 1990 and then a professor at that university since 1999.

Ms. Xu obtained a degree of bachelor of Economics and a degree of master in Economics from Beijing College of Finance and Trade (北京財貿學院) and Beijing College of Economics (北京經濟學院) (now known as Capital University of Economics and Business (首都經濟貿易大學)) in July 1983 and November 1986, respectively. Ms. Xu completed a training course for independent directors of public companies jointly held by the CSRC and the School of Economics and Management of Tsinghua University (清華大學) in May 2002. As at the Latest Practicable Date, Ms. Xu is an independent Director of Chifeng Jilong Gold Mining Co., Ltd. (赤峰吉隆黃金礦業股份有限公司) (stock code: 600988) a company listed on the Shanghai Stock Exchange and mainly engaged in mining and processing gold for sale. She was also the independent Director of Hangzhou Zhongheng Electric Co., Ltd. (杭州中恒電氣股份有限公司) (stock code: 002364), a company listed on the Shenzhen Stock Exchange and mainly engaged in developing and producing electric appliances.

Ms. Xu was a shareholder and legal representative of 上海道治投資管理有限公司 (Shanghai Daozhi Investment Management Co. Ltd.) (“Shanghai Daozhi”) which was established in Shanghai, the PRC and its business license was revoked 24 February 2007. Since Ms. Xu was residing in Beijing at the material time and it was inconvenient and costly to manage a company in Shanghai, therefore she decided to cease its operation in 2007.

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The principal business activities of Shanghai Daozhi was investment management. Ms. Xu confirmed that it was not engaged in any competing business with the Group and that there were no claims against her in relation to its operation.

Mr. Tong Xiaobo (佟小波), aged 55, became our Director on 17 September 2010 and was redesignated as our independent non-executive Director on 16 April 2014. Prior to joining our Group, Mr. Tong worked as a quality supervisor at the Beijing Medical Devices Testing Center (北京醫療器械檢測中心) of CFDA (Center for Quality Supervision and Testing of Medical Devices (醫療器械產品質檢站)) from 1985 to 1991. Mr. Tong then worked as the chief officer of the research center of Beijing Institute of Medical Devices (北京醫療器械研究所研究室), an institute engaging in medical devices testing apparatus and equipment research and development from 1993 to 1998, responsible for the research of the testing technologies of medical devices. Mr. Tong has been the director and chief engineer of Beijing Fuluke Measuring Technology Research Institute (北京福祿克測量技術研究所), an institute engaging in testing medical devices and consulting, since 2000 and is currently its authorised representative, responsible for testing the standards of medical devices and consultations. Mr. Tong has been the chief engineer of Beijing Tefan Medical Devices Laboratory (北京特凡醫療器械實驗室), an institute engaging in medical devices research, development, testing and consulting since 2007 and is currently its authorised representative, responsible for the consultation of medical devices. He gained access to and possessed knowledge and experience in the medical device industry from his aforesaid previous working experience. Mr. Tong has been a shareholder of Beijing Tefan Medical Devices Laboratory since May 2004. Mr. Tong obtained a diploma in Electronics, the study mode of which was half-distance-and-half-in-class learning, from Beijing Open University in August 1985.

Mr. Cheung Ying Kwan (張應坤), aged 54, was appointed as our independent non-executive Director taking effect on the Listing Date. Mr. Cheung has over 21 years of experience in financial management. Mr. Cheung is currently the company secretary of China Metal Resources Utilisation Limited, a listed company on the Main Board of the Hong Kong Stock Exchange (stock code: 1636) mainly engaged in manufacturing and sales of copper and copper products. From March 2006 to August 2013, Mr. Cheung was the financial controller of Gushan Environmental Energy Limited, the American depository shares of which were listed on the New York Stock Exchange from December 2007 to October 2012. From April 2001 to March 2006, Mr. Cheung also served as the qualified accountant and company secretary of Goldigit Atom-tech Holdings Limited, and as the authorised representative of that company from December 2002 to March 2006. The company is now known as Jinchuan Group International Resources Co. Ltd., a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2362) which mainly engaged in the development and production of pesticides in the PRC. From November 2005 to May 2013, Mr. Cheung was an independent non-executive director of Auto Italia Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 0720) which mainly engaged in the import, marketing, distribution and after-sales services of high quality, branded products in Asia. Since June 2010, Mr. Cheung has been an independent non-executive director of Tian Shan Development (Holding) Limited, which is listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2118) and mainly engaged in property development.

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Mr. Cheung was admitted as a fellow member of the Association of Chartered Certified Accountants in November 2000 and an associate member of the Hong Kong Institute of Certified Public Accountants in April 1995. Mr. Cheung obtained a diploma in fabric manufacturing from the Hong Kong Polytechnic in September 1981.

Save as disclosed herein, to the best of the knowledge and belief of our Directors having made all reasonable enquiries, there are no other matters with respect to the appointments of our Directors and there is no information relating to our Directors which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

BOARD OF SUPERVISORS

Currently, our Board of Supervisors consists of three members. According to the Articles of Association, Supervisors are all elected by Shareholders, except for the employee Supervisor. They are elected for a term of three years, which are eligible for re-election and re-appointment upon expiry of their terms. The terms of reference of the Board of Supervisors include, but not limited to, reviewing and verifying the financial reports, business reports and profit distribution proposals prepared by the Board of Directors, and if in doubt, engaging certified public accountants and auditors to review the financial information of the Company; supervising the financial activities of the Company; monitoring the performance of the Directors and the senior management and whether they have violated the laws, regulations and the Articles of Association in performance of their duties; requiring the directors and senior management to correct their behaviours which are harmful to the interests of the Company; exercising the other authorities granted to them by the Articles of Association. We shall appoint External Supervisors and Independent Supervisors within 6 months after the completion of the offering and listing in accordance with the requirements under the Opinions on the Further Promotion of Standardized Operation and In-depth Reform of Overseas Listed Companies (《關於進一步促進境外上市公司規範運作和深化改革的意見》).

Mr. Qi Yi (祁毅), aged 61, is a Supervisor and the chairman of the Board of Supervisors. Mr. Qi was the head of the department of production of Chunli Limited from October 2001 to December 2004, responsible for production management and the head of the department of quality control of Chunli Limited from January 2005 to December 2007, responsible for the management of quality of our products. Mr. Qi has been the chief officer of the corporate management department of Chunli Limited since January 2008 until September 2010, responsible for the management of product standards. Mr. Qi has been a Supervisor of our Company since 17 September 2010, responsible for supervising the operation and management of our Company and the Board and the senior management. Mr. Qi obtained a diploma in Business Administration (企業管理), the study mode of which was half-distance-and-half-in-class learning, from Beijing Open University (北京廣播電視大學) in October 1991.

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Mr. Xie Fengbao (解鳳寶), aged 32, is a Supervisor of our Company. Mr. Xie was a designer in the technology department of our Company from March 2001 to March 2008, responsible for the enhancement of product design and blueprint drawings. Since August 2009, Mr. Xie has also been the chief officer of Chunli Limited's technology department, responsible for the overall operation of the Technology Department. Mr. Xie has been a Supervisor of our Company since 17 September 2010, responsible for supervising our Company's operation and management. Mr. Xie obtained a diploma in Machinery Manufacturing and Automation (機械製造與自動化) from a part-time continuing studies program held by Beijing University of Technology (北京工業大學).

Ms. Zhang Lanlan (張蘭蘭), aged 26, is the employees Supervisor of our Company. Ms. Zhang worked in Chunli Limited's finance department from January 2008 to September 2010 and has been working as the chief personnel officer (行政人事專員) of the department of administration of our Company since 2011. Ms. Zhang has been the employee Supervisor of our Company since 17 September 2010, responsible for supervising the compliance of our Company. Ms. Zhang graduated from Vocational Skills Education Center of Yi County (易縣職業技術教育中心), China, a secondary vocational school, majoring in microcomputer in June 2007.

Save as disclosed herein, to the best of the knowledge information and belief of our Directors after having made all reasonable enquiries, there are no other matters with respect to the appointments of our Supervisors and there is no information relating to our Supervisors which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Mr. Shi Chunbao (史春寶), is our executive Director, chairman of our Board, general manager and sales and marketing director. For further details, please see the subsection headed "Executive Directors" above.

Ms. Yue Shujun (岳術俊), is our executive Director and deputy general manager. For further details, please see the subsection headed "Executive Directors" above.

Mr. Ding Gang (丁罡), is our executive Director, deputy general manager and secretary of the Board. For further details, please see the subsection headed "Executive Directors" above.

Mr. Zhao Shijie (趙世傑), aged 32, is our deputy general manager and chief financial officer. Mr. Zhao is mainly responsible for the financial management of our Group. Mr. Zhao has been our deputy general manager and chief financial officer since August 2011.

Prior to joining the Group, Mr. Zhao was a project assistant and project manager at the Chongqing branch of Pan-China Certified Public Accountants LLP (天健會計師事務所) (previously known as Chongqing Pan-China Certified Public Accountants (重慶天健會計師事務所)), the principal businesses of which are the provision of audit, taxation and consulting services, from July 2006 to August 2011, responsible for the annual audit work of large-scale state-owned enterprises and listed companies. Mr. Zhao obtained a degree of bachelor in accounting from Chongqing University (重慶大學) in June 2006.

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Mr. Liu Jinshan (劉金山), aged 36, is our deputy general manager. Mr. Liu is mainly responsible for the daily operation of production lines and the factory.

Mr. Liu was the workshop director of Chunli Limited from September 2004 to November 2005 and responsible for the management of workshops. Mr. Liu served as the director of the department of production of Chunli Limited from December 2005 to November 2007 and was responsible for production management. Mr. Liu has been the factory manager of Chunli Limited from December 2007 to September 2012 and was responsible for the daily operation of our production and production facilities. Mr. Liu has been the deputy general manager of our Company since September 2010. Mr. Liu obtained a diploma in Business and Enterprise Management (工商企業管理專科學歷) from Beijing Economic and Technological College (北京經濟技術研修學院) in July 2002.

JOINT COMPANY SECRETARIES

Mr. Ding Gang (丁罡) is the executive Director, deputy general manager and secretary to the Board, and will become one of our joint company secretaries upon the Listing Date. For biographical details of Mr. Ding, please see the subsection headed “Executive Directors” above.

Mr. Ip Pui Sum (葉沛森), aged 55, will become one of our joint company secretaries upon Listing Date. Mr. Ip has been the founding partner of Sum, Arthur & Co., Certified Public Accountants since 1993 whose scope of services include the provision of financial statement audit, accounting and company secretary services. Mr. Ip was appointed as the company secretary of Tingyi (Cayman Islands) Holding Corp., a company listed on the Main Board of the Hong Kong Stock Exchange, (stock code: 0322), Luoyang Glass Company Limited, a company listed on the Main Board of the Hong Kong Stock Exchange, (stock code: 1108) and National Agricultural Holdings Limited (stock code: 1236) on 12 January 1996, 6 August 2008 and 1 December 2011 respectively. Mr. Ip obtained a Higher Diploma in Accountancy from the Hong Kong Polytechnic University in November 1982 and obtained a Master of Business Administration from Henley Management School of Brunel University in May 1997. Mr. Ip is a certified public accountant (practising) in Hong Kong, a fellow member of the Chartered Association of Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants, the Chartered Institute of Management Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

BOARD COMMITTEES

The Board delegates certain responsibilities to various committees. In accordance with the relevant PRC laws and regulations and the corporate governance practices prescribed in the Listing Rules, our Company has set up three board committees, including audit committee, nomination committee, and remuneration committee.

Audit Committee

The Board of Directors of our Company has established an audit committee with written terms of reference in compliance with the code provisions of the Code on

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The primary responsibilities of the audit committee are reviewing and supervising our financial reporting procedures, including proposing on appointing or changing the external auditors, supervising the Company's internal audit system and its implementation communication between the internal auditors and external auditors, auditing the financial information and its disclosure, reviewing the Company's internal control system and auditing the significant connected transactions, nominating the heads of the internal audit department other matters that the Board of Directors has authorised it to deal with.

Our audit committee consists of Ms. Xu Hong, Mr. Tong Xiaobo and Mr. Lin Yiming. Ms. Xu Hong serves as the chairman of our audit committee.

Nomination Committee

The Board of Directors of our Company has established a nomination committee with written terms of reference in compliance with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The primary responsibilities of the nomination committee are preparing the procedures and criteria for determining the candidates for the Directors and senior management of the Company and conducting preliminary review on their qualifications and credentials including proposing to the Board on its size and composition in accordance with the Company's operating results, assets and shareholding structure; reviewing the procedures and criteria for determining the candidates for the Directors and general manager of the Company and making proposals to the Board of Directors; searching extensively for the potential candidates for the directors and general managers; reviewing and making proposals on the candidates for the Directors and general managers; reviewing and making proposals on the candidates for the other senior management such as the vice general managers, secretary to the Board of Directors and chief accountant, on which the Board of Directors need to resolve; other matters that the Board of Directors has authorised it to deal with.

Our nomination committee consists of Mr. Shi, Ms. Xu Hong and Mr. Cheung Ying Kwan. Mr. Shi serves as the chairman of our nomination committee.

Remuneration Committee

The Board of Directors of our Company has established a remuneration committee with written terms of reference in compliance with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The primary responsibilities of the remuneration committee are formulating the criteria for and conducting assessment on the Directors and senior management as well as determining and reviewing the remunerating policies and plans for the Directors and senior management, including formulating remuneration plans and proposals in accordance with the terms of reference of the Directors and senior management and the importance of their positions as well as the remuneration benchmarks for the relevant position in the other comparable companies; drafting the remuneration plans and proposals include, but not limited to criteria, procedures and main assessment system for performance assessment, main proposals and regulations on award and punishment; reviewing the

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performance of the Directors and senior management and conducting annual assessment on their performance and results; supervising the implementation of the remuneration policies of the Company; other matters that the Board of Directors has authorised it to deal with.

Our remuneration committee consists of Mr. Tong Xiaobo, Ms. Xu Hong and Mr. Shi. Mr. Tong Xiaobo serves as the chairman of our remuneration committee.

COMPENSATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The aggregate amount of fees, salaries, bonuses, housing allowances, other allowances, benefits in kind and contributions to pension schemes we paid to our Directors and Supervisors for each of the three years ended 31 December 2013 and for the nine months ended 30 September 2014 was approximately RMB1.2 million, RMB1.3 million, RMB1.3 million and RMB1.0 million, respectively. Further information on the remuneration of each of our Directors and Supervisors during the Track Record Period is set out in paragraph headed “Notes to the Financial Information — K. Related parties and related parties transactions — 2. Related parties transaction — (b) Directors’ and supervisors’ emoluments” in Appendix I to this prospectus.

During the Track Record Period, no remuneration was paid to our Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining our Group. No compensation was paid to, or receivable by, our Directors, past Directors, Supervisors, past Supervisors and the five highest paid individuals during the Track Record Period for the loss of office as director or supervisor of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors or Supervisors or the five highest paid individuals waived any emoluments during the Track Record Period.

The aggregate amount of fees, salaries, bonuses, housing allowances, other allowances, benefits in kind and contributions to pension schemes to the five highest paid individuals by our Group for each of the three years ended 31 December 2013 and for the nine months ended 30 September 2014 was approximately RMB1.2 million, RMB1.4 million, RMB1.4 million and RMB1.0 million, respectively.

Save as disclosed, no other payments have been paid or are payable in respect of the Track Record Period to our Directors or Supervisors or the five highest paid individuals by our Group.

Compliance with Code of Corporate Governance Practices Code

Provision A.2.1 of the Code of Corporate Governance Practices stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Shi is the chairman of the Board and the general manager of our Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management and believes that this structure enables the Group to make and implement decision promptly and

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efficiently. In addition, the Board is of the view that, in view of the current scale of operations of the Group, the separation of the roles of the chairman and chief executive officer of the Group may hinder administrative efficiency and is neither suitable to the Group nor in the interests of its shareholders as a whole. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

WAIVER FROM STRICT COMPLIANCE WITH RULES 8.12 AND 19A.15 OF THE LISTING RULES

Management Presence

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, we must have sufficient management presence in Hong Kong, which normally means that at least two of our executive directors must be ordinarily resident in Hong Kong. Since our principal business and operations are located, managed and carried out in the PRC, and we do not have executive Directors ordinarily resided in Hong Kong, our Group, for the foreseeable future, will not have two Directors ordinarily resided in Hong Kong.

Therefore, we have applied to the Stock Exchange for a waiver under and in respect of Rule 8.12 and Rule 19A.15 of the Listing Rules with respect to the requirements of having management ordinarily resided in Hong Kong. The details of the waiver is set out in the section headed “Waivers and Exemptions from Strict Compliance with the Listing Rules — Management Presence in Hong Kong” in this prospectus.

COMPLIANCE ADVISER

Pursuant to Rules 3A.19 and 19A.05 of the Listing Rules, we have appointed China Everbright Capital as our compliance adviser to advise us on the following matters in accordance with Rule 3A.23 of the Listing Rules:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate significantly from any forecast, estimate or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of our Company regarding unusual movements in the price in trading volume of our Shares.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Pursuant to Rule 19A.06 of the Listing Rules, (1) the compliance adviser will inform us of any amendment or supplement to the Listing Rules that are announced by the Hong Kong Stock Exchange. Without limiting the generality of Chapter 3A of the Listing Rules, the compliance adviser will also inform us of any amendment or supplement of law and guidance applicable to us and (2) as the compliance adviser will also act as our additional channel of communication with the Hong Kong Stock Exchange in Hong Kong.

The term of the appointment will commence on the Listing Date and end on the date on which we publish our financial results as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after the Listing Date.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Background

Immediately following the completion of Global Offering and assuming that the Over-allotment Option is not exercised, Mr. Shi and Ms. Yue will beneficially hold an aggregate of approximately 64.5% of the enlarged issued share capital of our Company as to approximately 36.4% held by Mr. Shi and approximately 28.1% held by Ms. Yue. Mr. Shi and Ms. Yue are husband and wife. Accordingly, as at the Latest Practicable Date, each of Mr. Shi and Ms. Yue will be regarded as our Controlling Shareholders under the Listing Rules. Mr. Shi and Ms. Yue are also our Directors and members of senior management. For details of the background of Mr. Shi and Ms. Yue, please refer to the information set forth in the section headed “Directors, Supervisors and Senior Management” in this prospectus.

Independence from Our Controlling Shareholders

As at the Latest Practicable Date, none of our Controlling Shareholders was engaged, or interested, in any business which directly or indirectly, competed or may compete with our business which was discloseable under Rule 8.10 of the Listing Rules. Having considered the following factors, our Directors believe that we can carry on our business independent of and without reliance on our Controlling Shareholders (and their associates).

Management Independence

Our Company has a Board and senior management that function effectively and independently. Upon Listing, our management team consists of seven Directors, comprising three executive Directors, one non-executive Director, three independent non-executive Directors and five members of the senior management, three of which are executive Directors. On the basis of the following reasons, our Directors believe that our Directors and members of our senior management are able to manage our business independently from our Controlling Shareholders:

- (1) with three independent non-executive Directors out of a total of seven Directors on our Board, there will be a sufficiently robust and independent voice within our Board to counter-balance any situation involving a conflict of interest and protect the interests of our independent Shareholders;
- (2) instances of actual or potential conflict have been identified (please refer to the section headed “Connected Transactions” in this prospectus for details) and minimised by virtue of the Deed of Non-Competition;
- (3) each of our Director is aware of his or her fiduciary duties as a Director of our Company, which require, among other things, that he or she acts for the benefit and in the best interests of our Shareholders as a whole and does not allow any conflict between his or her duties as a Director and his or her personal interests to affect the performance of his or her duties as a Director;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND DIRECTORS

- (4) connected transactions between our Company and companies controlled by our Controlling Shareholders are subject to the rules and regulations under the Listing Rules including rules relating to announcement, reporting and independent Shareholders' approval (where applicable); and
- (5) a number of corporate governance measures are in place to avoid any potential conflict of interest between our Company and our Controlling Shareholders, and to safeguard the interests of our independent Shareholders. Please refer to the subsection headed "Corporate governance measures" below for more details.

Operational Independence

Our operations are independent of and not connected with any of our Controlling Shareholders. We hold all relevant licenses necessary to carry on our business and have sufficient capital, resources and employees to operate our businesses independently.

In addition, based on the following reasons, our Directors consider that our Company will continue to be operationally independent from our Controlling Shareholders following the Listing:

- (1) we do not rely on trademarks owned by our Controlling Shareholders, or other companies controlled by our Controlling Shareholders;
- (2) we do not rely on the research and development or manufacturing capabilities of our Controlling Shareholders;
- (3) we do not rely on the sales and distribution network of our Controlling Shareholders; and
- (4) we have our own administrative and corporate governance infrastructure and staff.

Financial Independence

We have an independent financial system and make financial decisions according to our own business needs. Our Group is capable of obtaining external financing without reliance on our Controlling Shareholders. Our Directors confirm that as at the Latest Practicable Date, our Controlling Shareholders have not provided any guarantee or loan to us. On this basis, our Directors believe that we are financially independent from our Controlling Shareholders.

Controlling Shareholders and Directors' Interests in Other Businesses

Save as disclosed above, as at the Latest Practicable Date, none of our Controlling Shareholders, Directors, directors of our subsidiary or their respective associates were interested in any business (other than our Group) which, directly or indirectly, competes or is likely to compete with our business.

Deed of Non-Competition

To ensure our Controlling Shareholders would not engage in any business that competes with the Group, our Controlling Shareholders, Mr. Shi and Ms. Yue (collectively, the "**Covenantors**") have entered into a deed of non-competition (the "**Deed of Non-Competition**") in favour of our Company pursuant to which, each of our Controlling Shareholders has unconditionally and irrevocably undertaken in favour of our Company (for itself and for the benefit of its subsidiaries), on a joint and several basis, that at any time during the Relevant Period (as defined below), each of them shall, and shall procure that their respective associates and/or companies controlled by them (other than our Group) shall:

- (1) not, directly or indirectly, be interested or involved or engaged in or carry on or be concerned with or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by our Group (including but not limited to the manufacturing and selling of medical devices products) in the PRC and any other country or jurisdiction to which our Group provides such services and/or in which any member of our Group carries on business mentioned above currently and from time to time (the "**Restricted Activity**");
- (2) during the relevant period, the item (1) above shall further be applied to any of such Covenantors and/or their associates (other than the Group) who individually or jointly with other legal persons, individuals, partnership or other organizations (whether or not organized for economic interests) or directly or indirectly through providing assistance to such persons, invest, manufacture and establish sales network to operate, sell, distribute or supply any relevant products; and the forms of existing business and/or promotion, sales, distribution and/or supply of any relevant products jointly undertaken with such person include but not limited to forming associates, joint venture, cooperation, partnership, contracting or lease;
- (3) each of such Covenantors has undertaken not to, and procure his/its associates not to solicit any existing employee or the employee of our Group from the time being from being employed by such Covenantors and/or his/its associates (excluding our Group) or the above legal persons, individuals, partnership or organization mentioned in item (2); not to, by making use of its status as the controlling shareholder of the Company, obtain any operating data which could give rise to any competition with the existing business and the business from time to time of our Group without our consent.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND DIRECTORS

- (4) The above undertakings under the Deed of Non-Competition shall not apply in the following situations:
- (a) Such Covenantors and/or their associates (other than the Group) make any investment directly or indirectly to any member of the Group; or
 - (b) Such Covenantors and/or their associates (other than the Group) produce any relevant products to supply and/or provide any member of the Group (but not for other purposes);
- (5) (a) Each of the Covenantors has also undertaken that, if any new business opportunity of competing business (“**New Business Opportunity**”) arises within the Relevant Period, the Covenantors would, and would procure that their associates (other than us) to:
- (i) promptly notify us in writing of such business opportunity with its details after becoming aware of the New Business Opportunity (“**New Business Opportunity Notification**”);
 - (ii) provide all the information as is reasonably required by us to enable us to consider whether we should accept and engage in the New Business Opportunity;
 - (iii) we are entitled to determine whether we should accept such New Business Opportunity within 30 days upon the receipt of the New Business Opportunity Notification or within the time agreed by all parties;
 - (iv) if we decide to accept such New Business Opportunity, the Covenantors are responsible to collaborate with us or any specified company of our Group to capture such New Business Opportunity. The relevant terms would be determined after arm’s length negotiations between us and other relevant parties; and
- (b) the Covenantor is only entitled to such New Business Opportunity if our Company fails to reply within 30 days or such other time as agreed by parties after having received such New Business Opportunity Notification or determines not to accept such New Business Opportunity.
- (6) (a) Each of the Covenantors has undertaken that during the Relevant Period, saved as otherwise required by the laws and regulations, in the event that any of the Covenantors and/or its associates (other than the Group) intends to dispose to any third party the New Business Opportunity as mentioned in (5) above and such has not been accepted

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND DIRECTORS

by us pursuant to (5) above and ultimately acquired by the Covenantor, the Covenantor shall and procure its associate (other than the Group) shall:

- (i) offer us the first right of refusal which can be exercised within the Relevant Period of the Deed of Non-Competition and it shall notify us in writing with respect to any relevant transaction in advance (“**Notice of Transfer**”);
 - (ii) provide us with all reasonable and necessary information for us to consider whether to exercise the first right of refusal;
 - (iii) enable us to determine whether to exercise fully or partially the first right of refusal to acquire such business within 30 days or such other time as agreed by parties after the Notice of Transfer is received; and
 - (iv) ensure that the terms shall be agreed by any Covenantor or its associate (other than the Group) and us after an arm’s length negotiation if we intend to exercise such right.
- (b) the Covenantors are only entitled to transfer such New Business Opportunity to a third party in the event that our Company fails to reply within 30 days or such other time as agreed by parties after receipt of such Notice of Transfer or determines not to exercise such first right of refusal.

For the above purpose, “Relevant Period” means the period commencing from the Listing Date and shall expire upon the earliest of the dates below:

- (i) the date on which the relevant Covenantor ceases to be our Controlling Shareholder for the purpose of the Listing Rules;
- (ii) the date on which the Shares cease to be listed on the Hong Kong Stock Exchange or (if applicable) other stock exchange.

Corporate Governance Measures

Our Company will adopt the following measures to manage the conflict of interests arising from our Controlling Shareholders and to safeguard the interests of our Shareholders:

- (1) Our Company has engaged China Everbright Capital as our compliance adviser. It will provide us with advice and guidance for compliance with applicable laws and the Listing Rules, including but not limited to various provisions relating to directors duties and internal controls;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND DIRECTORS

- (2) The independent non-executive Directors will review, at least on an annual basis, the compliance with the Deed of Non-Competition set forth in the subsection headed “Deed of Non-Competition” in this section that have been undertaken by the Covenantors;
- (3) The Covenantors shall provide all particulars necessary for the annual review by the independent non-executive Directors of our Company and for execution of the Deed of Non-Competition as required by our Company;
- (4) Independent non-executive Directors may appoint financial advisers or experts at the expense of our Company to advise on any matters associated with the Deed of Non-Competition set out in the subsection headed “Deed of Non-Competition” in this section;
- (5) We will disclose the review by our independent non-executive Directors relating to the compliance with, and the enforcement of, the Deed of Non-Competition that have been undertaken by the Covenantors as set forth in the subsection headed “Deed of Non-Competition” in this section in our annual report;
- (6) The Covenantors will make an annual declaration on their compliance with the Deed of Non-Competition in our annual reports; and
- (7) Directors shall act in accordance with the Articles of Association, which provide that Directors shall not vote in any board resolutions approving any contract, arrangement or other proposals in which such director or his/her associates have material interests nor shall they be counted in the quorum.

RELATIONSHIP WITH OUR DIRECTORS

As at the Latest Practicable Date, Mr. Shi, our executive Director, held 24,237,087 Shares in our Company; Ms. Yue, our executive Director, held 18,762,913 Shares in our Company; Mr. Lin Yiming, our non-executive Director, held 1,160,000 Shares in our Company. Save as disclosed, none of our Directors, Supervisors or members of our senior management held any Shares in our Company.

CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Company has entered into transactions with a distributor who has been a connected person of our Company during the Track Record Period. These transactions will continue on a continuing or recurring basis and will therefore constitute non-exempted continuing connected transactions for our Company under the Listing Rules.

During the Track Record Period, the details of the transactions between our Company and the distributor are as follows:

Connected Person	Transaction	Product	Annual Sales For the year ended 31 December			Sales For the nine months ended 30 September
			2011	2012	2013	2014
			<i>(RMB million)</i>			
Gaoyang Materials	Sale of our products to Gaoyang Materials for distribution	Joint prosthesis products and spinal products	4.8	5.1	6.0	4.1

Gaoyang Materials was one of our domestic distributors during the Track Record Period and remains as one as at the Latest Practicable Date. On 19 April 2014, our Company and Gaoyang Materials entered into a Distribution Framework Contract pursuant to which Gaoyang Materials was authorized to act as a distributor of our Company from 19 April 2014 to 31 December 2016. According to our PRC Legal Advisers, Gaoyang Materials is a collectively owned enterprise (集體所有制企業) which does not have a board of directors, and Mr. GUO Fuxiang (郭福祥), who is the sole responsible person of Gaoyang Materials, is responsible for the day to day management and decision making on behalf of Gaoyang Materials. As Mr. Guo is the husband of the cousin of Mr. Shi, our Company's Controlling Shareholder and executive Director, and Mr. Guo is regarded as the only person who can control the daily management of Gaoyang Materials, Gaoyang Materials is deemed to be a connected person of the Company under Chapter 14A of the Listing Rules. In the circumstances, the transactions contemplated under the Distribution Framework Contract constitute non-exempt continuing connected transactions of the Company upon Listing.

SCOPE OF TRANSACTIONS

Our Company sells joint prosthesis products and spinal products to Gaoyang Materials for them to distribute our products. It is expected that our Company will continue to cooperate with Gaoyang Materials, which is an eligible distributor of our Company according to normal commercial terms in the prevailing market and under the Distribution Framework Contract entered into by both parties.

PRICING

Pursuant to the above Distribution Framework Contract, the selling price of our products from our Company to Gaoyang Materials has been and will be determined based on the same pricing policy applied to our other domestic distributions.

CONNECTED TRANSACTIONS

For our products (other than custom joint prosthesis products) sold to Gaoyang Materials, we have set a nationwide standard price to avoid creating unfairness among our domestic distributors. In determining our nationwide standard price, we would take into account our market position, market demand, competitiveness of our products and the prevailing tendering price (“Tendering Price”).

For our custom joint prosthesis products sold to Gaoyang Materials, as custom joint prosthesis is custom made, its production time and cost is longer and higher than standard prosthesis products. Therefore, the price of our custom joint prosthesis products is generally higher than that of our standard joint prosthesis products. In determining the price for such products sold to Gaoyang Materials, we take into account the actual costs of production, the market price of similar products in the overseas market, the Tendering Price of similar products, the price expected by the general public and the market competitiveness of such products.

Tendering Price is the price offered in the bidding documents by the successful bidder in the tender. The hospitals and medical institutions in China shall procure orthopedic medical devices on the Medical Device Procurement List strictly in accordance with the Tendering Price.

For details of our pricing policy to domestic distributors, please see the section headed “Business — Sales, Distribution Network and Marketing — Pricing” in this prospectus. In such circumstances, our Directors are of the view that the pricing policy is on normal commercial terms and that is in the interest of our Company and our Shareholders as a whole.

PROPOSED ANNUAL CAPS

It is expected that due to the expansion of the sales network of the relevant products of our Company, the increase in market share and the expected increase in the average market prices due to the impacts of inflation and the overall economic growth in China, the Directors are of the view that the annual caps of the value of products provided by our Company to Gaoyang Materials in accordance with the Distribution Framework Contract for the years ended 31 December 2014, 2015 and 2016 will be as follows:

Financial year ended	Annual caps of transaction amounts under the Distribution Framework Contract
31 December 2014	RMB6.6 million
31 December 2015	RMB7.2 million
31 December 2016	RMB7.9 million

The above annual caps of our Company’s products under the Distribution Framework Contract have been determined by our Directors based on the figures of historical transactions between our Company and Gaoyang Materials and with reference to the expected CAGR of the relevant market at approximately 19.5% and the expected inflation rate of 3.0%.

Our Directors, including our independent non-executive Directors, are of the view that the above transactions between our Company and Gaoyang Materials are in the interests of our Company and our Shareholders as a whole. Such transactions have been entered into on normal commercial terms and are fair and reasonable.

CONNECTED TRANSACTIONS

APPLICATION FOR A WAIVER

It is expected that the aggregate transaction amount for the transactions under the Distribution Framework Contract in each of the three financial years ending 31 December 2016 will be capped annually at the proposed annual caps detailed above. The applicable percentage ratios (as defined in the Listing Rules) under such contract for the three financial years ending 31 December 2016 are expected to be less than 25% and the annual consideration is less than HK\$10 million. Accordingly, the transactions contemplated under such contract shall constitute non-exempted continuing connected transactions of our Company under the Listing Rules and will be exempt from the independent shareholders' approval but will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Since the aforesaid transactions are expected to continue on a recurring basis, our Directors consider that strict compliance with the announcement requirement would be impractical and would add unnecessary administrative costs to our Company following the Listing. Accordingly, we have applied to the Hong Kong Stock Exchange, in relation to the transactions contemplated under the above contract, for a waiver from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules, and the Hong Kong Stock Exchange has granted a waiver pursuant to Rule 14A.105 of the Listing Rules (which has come into effect on 1 July 2014) to exempt the transactions under the aforesaid contract, from the announcement requirement under the Listing Rules. In addition, we confirm that we will comply with the reporting requirement under the Listing Rule.

In respect of Rules 14A.53 and 14A.54 of the Listing Rules, the respective aggregate transaction amounts for the transactions contemplated under the aforesaid contract shall not, in respect of the three financial years ending 31 December 2016, exceed the proposed annual caps mentioned above in each such financial year.

If any agreements are entered into by our Company with any connected persons over and above those contemplated in the above-mentioned or the transactions under the aforesaid contract are carried out or proposed to be carried out otherwise than in full compliance with the conditions described above, we will comply with the relevant provisions of the Listing Rules governing connected transactions, as applicable, unless we apply for and obtain a separate waiver from the Hong Kong Stock Exchange.

CONFIRMATION FROM THE SOLE SPONSOR AND DIRECTORS

The Sole Sponsor and Directors (including the independent non-executive Directors) are of the view that (i) the non-exempt continuing connected transactions described above are in the ordinary and usual course of business of our Company, on normal commercial terms after arm's length negotiation, are fair and reasonable and in the interests of our Shareholders as a whole; and (ii) the proposed annual caps for such non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

SHARE CAPITAL

As at the Latest Practicable Date, our registered capital is RMB50 million divided into 50,000,000 Domestic Shares of par value of RMB1.00 each.

Assuming that the Over-allotment Option is not exercised, the share capital of our Company immediately following completion of the Global Offering will be as follows:

Number of Shares	Description of Shares	Approximate percentage to total share capital
50,000,000	Domestic Shares ^(note)	75.0%
16,670,000	H Shares to be issued and sold under the Global Offering	25.0%
<hr style="border-top: 1px solid black;"/>		
<u>66,670,000</u>		<u>100%</u>

Note: Such Domestic Shares can be converted into H Shares. Please refer to subsection headed "Conversion of Domestic Shares into H Shares" in this section for further details.

Assuming that the Over-allotment Option is exercised in full, the share capital of our Company immediately following completion of the Global Offering would be as follows:

Number of Shares	Description of Shares	Approximate percentage to total share capital
50,000,000	Domestic Shares ^(note)	72.3%
19,170,500	H Shares to be issued and sold under the Global Offering	27.7%
<hr style="border-top: 1px solid black;"/>		
<u>69,170,500</u>		<u>100%</u>

Note: Such Domestic Shares can be converted into H Shares. Please refer to subsection headed "Conversion of Domestic Shares into H Shares" in this section for further details.

SHARE CAPITAL

PUBLIC FLOAT REQUIREMENTS

Rules 8.08(1)(a) and (b) of the Listing Rules require there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has one class or more than one class of securities apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Hong Kong Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital and must have an expected market capitalisation at the time of listing of not less than HK\$50 million.

According to the information disclosed in the above table, our Company will meet the public float requirements under the Listing Rules immediately following completion of the Global Offering (whether the Over-allotment Option is exercised in full). We will make appropriate disclosure of the public float and confirm sufficiency of public float in successive annual reports after the Listing.

The table above assumes that the Global Offering has become unconditional and has been completed.

OUR SHARES

Our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company and will rank *pari passu* with each other in all respects, and will qualify for all dividends or other distributions declared, made or paid. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and traded in RMB. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for or traded between legal or natural persons of the PRC and qualified foreign strategic investors. We must pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in RMB.

Our 11 existing Shareholders hold all existing Domestic Shares as promoter shares (as defined in the PRC Company Law). Under the PRC Company Law, promoter shares may not be sold within a period of one year from 17 September 2010, on which we were organised as a joint stock limited liability company. This lock-up period expired on 16 September 2011. The PRC Company Law further provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing on any stock exchange. Upon the approval of the State Council or its authorised regulatory departments and with the consent of the Hong Kong Stock Exchange, the Domestic Shares may be converted into H Shares.

SHARE CAPITAL

Except as described in this prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarised in Appendix VI to this prospectus, Domestic Shares and H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions to be declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to relevant restrictions as PRC law may impose from time to time. Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months from the Listing Date. We have not approved any share issue plan other than the Global Offering.

CONVERSION OF DOMESTIC SHARES INTO H SHARES

We have two classes of ordinary shares, H Shares and Domestic Shares. Our Domestic Shares are unlisted Shares which are not listed or traded on any stock exchange. Upon the completion of the Global Offering, all unlisted Shares will be Domestic Shares held by our existing Shareholders, therefore, the scope of our unlisted Shares is the same as the scope of our Domestic Shares. The term “unlisted Shares” is used to describe whether certain Shares are listed on a stock exchange and is not unique to PRC laws. Given the above, our PRC Legal Advisers have advised us that the use of the term “unlisted Shares” in the Articles of Association does not contravene and are not inconsistent with any PRC laws and regulations (including the Special Regulations and Mandatory Provisions).

If we intend to convert our Domestic Shares into H Shares and such converted H Shares are to be listed and traded on the Hong Kong Stock Exchange, such conversion will have to undergo all the requisite internal approval process and obtain approval from and file with the relevant PRC governmental authorities (including but not limited to the China securities regulatory authority) and the listing of converted shares is subject to the approval of the Hong Kong Stock Exchange. In addition, such conversion, listing and trading shall in all aspects comply with the requirements prescribed by the China securities regulatory authority and the regulations, requirements and procedures prescribed by the Hong Kong Stock Exchange. As at the Latest Practicable Date, the China securities regulatory authority has not promulgated any regulations or guidelines in respect of the conversion of Domestic Shares into H Shares and the listing and trading of such converted H Shares on the Hong Kong Stock Exchange. As any listing of additional shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

SHARE CAPITAL

No Shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for the listing of the converted shares on the Hong Kong Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of any proposed conversion.

MECHANISM AND PROCEDURES FOR CONVERSION

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant Domestic Shares will be withdrawn from the Domestic Shares register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share Registrar will be conditioned on (a) our H Share Registrar lodging with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates, and (b) the admission of the H Shares to trade on the Hong Kong Stock Exchange complying with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our existing Shareholders currently proposes to convert any of the Domestic Shares held by it into H Shares.

TRANSFER OF SHARES ISSUED PRIOR TO THE LISTING DATE

The PRC Company Law provides that in relation to the Hong Kong Public Offering of a company, the shares issued by the company prior to the Hong Kong Public Offering of shares shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralised Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (關於境外上市公司非境外上市股份集中登記存管有關事宜的通知) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 Business Days upon listing.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following persons are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Number of Shares ⁽¹⁾	Approximate percentage of shareholding
Shi Chunbao	24,237,087	48.5%
Yue Shujun	18,762,913	37.6%

Note:

- (1) As at the Latest Practicable Date, all of the issued share capital of our Company is 50,000,000 shares prior to the Global Offering.

So far as our Directors are aware, assuming the Over-allotment Option is not exercised, the following persons will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Class of Shares held after the Global Offering	Nature of interest	Number of Shares held after the Global Offering	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering	Approximate percentage of shareholding in the total share capital of our Company after the Global Offering
Mr. Shi Chunbao ⁽¹⁾	Domestic Shares	Beneficial owner/ Interest of spouse	24,237,087	48.5%	36.4%
			18,762,913	37.6%	28.1%
Ms. Yue Shujun ⁽²⁾	Domestic Shares	Beneficial owner/ Interest of spouse	18,762,913	37.6%	28.1%
			24,237,087	48.5%	36.4%

Notes:

- (1) Mr. Shi is the husband of Ms. Yue. Under the SFO, Mr. Shi will be deemed to be interested in the same number of Shares in which Ms. Yue is interested.
- (2) Ms. Yue is the wife of Mr. Shi. Under the SFO, Ms. Yue will be deemed to be interested in the same number of Shares in which Mr. Shi is interested.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, assuming the Over-allotment Option is fully exercised, the following persons will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Class of Shares held after the Global Offering	Nature of interest	Number of Shares held after the Global Offering	Approximate percentage of shareholding in the relevant class after the Global Offering	Approximate percentage of shareholding in the total share capital of our Company after the Global Offering
Mr. Shi Chunbao ⁽¹⁾	Domestic Shares	Beneficial owner/ Interest of spouse	24,237,087	48.5%	35.0%
			18,762,913	37.6%	27.1%
Ms. Yue Shujun ⁽²⁾	Domestic Shares	Beneficial owner/ Interest of spouse	18,762,913	37.6%	27.1%
			24,237,087	48.5%	35.0%

Notes:

- (1) Mr. Shi is the husband of Ms. Yue. Under the SFO, Mr. Shi will be deemed to be interested in the same number of Shares in which Ms. Yue is interested.
- (2) Ms. Yue is the wife of Mr. Shi. Under the SFO, Ms. Yue will be deemed to be interested in the same number of Shares in which Mr. Shi is interested.

Save as disclosed herein, our Directors are not aware of any other person(s) who will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

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You should read the following discussion and analysis in conjunction with our Group's audited consolidated financial information for the three years ended 31 December 2013 and the nine months ended 30 September 2014, together with the accompanying notes, as set forth in the Accountants' Report in Appendix I to this prospectus. The consolidated financial information of our Group has been prepared in accordance with CASBE. The Reporting Accountants had conducted their audit in accordance with China Standards on Auditing.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on the assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors that we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. Factors that could cause or contribute to such differences include those described in the sections headed "Risk Factors" and "Forward-looking Statements" in this prospectus.

OVERVIEW

We are a well-established orthopedic medical devices company in China focusing on the research and development, production and sales of implantable orthopedic medical devices which include joint prosthesis products and spinal products. In terms of domestic sales revenue in 2013, we ranked second among all domestic enterprises and eighth among all enterprises (including foreign enterprise) in the joint prosthesis industry in China, according to the Euromonitor Report.

Our joint prosthesis products include standard joint prosthesis products and custom joint prosthesis products, which include hip joint prosthesis, knee joint prosthesis, shoulder joint prosthesis and elbow joint prosthesis products. Our spinal products comprise a full product portfolio of spinal fixation systems, including fixation systems in anterior and posterior cervical, thoracic, and lumbar vertebrae.

Currently, we have two production sites, the Tongzhou First Production Base and the Tongzhou Second Production Base, which are both located at the southern district of Beijing Tongzhou Economic Development Zone with a gross floor area of approximately 4,370 sq.m. and 6,457.36 sq.m. respectively. We focus on the production and research and development of joint prosthesis products and spinal products at our current production sites. In January 2011, we acquired the Tongzhou Second Production Base and the land on which it is erected adjacent to our current production site, Tongzhou First Production Base. The plant and the facilities have a total gross floor area of 6,457.36 sq.m., which would be used as our second production base. Renovation of the Tongzhou Second Production Base and relocation from the Tongzhou First Production Base to the Tongzhou Second Production Base have been completed, whereas most of our production facilities have been moved from our Tongzhou First Production Base to our Tongzhou Second Production Base. We have commenced trial production at our Tongzhou Second Production Base in January 2015 and we carried out production at these two production sites since then.

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We primary sell our products through distributors. The table below sets forth the number of distributors, hospitals and overseas ODM and OEM customers as at the dates indicated:

	As at 31 December			As at
	2011	2012	2013	30 September 2014
China				
Distributors	318	337	377	414
Hospitals	10	13	8	34
Overseas				
Distributors	4	21	21	27
ODM and OEM customers	12	11	16	21
	<u>344</u>	<u>382</u>	<u>422</u>	<u>496</u>

Our business has expanded substantially as both of our standard joint prosthesis products and custom joint prosthesis products grew during the Track Record Period. For the three years ended 31 December 2013, our revenue was approximately RMB80.3 million, RMB98.1 million, and RMB110.5 million, respectively, representing a CAGR of 17.4% over the three years. Our revenue also grew from approximately RMB72.7 million for the nine months ended 30 September 2013 to approximately RMB91.3 million for the nine months ended 30 September 2014 by RMB18.6 million, representing an increase of 25.6%. Gross profit margins for the three years ended 31 December 2013 and nine months ended 30 September 2014 are 75.4%, 71.9%, 72.4% and 73.2%, respectively. Our net profit was approximately RMB30.4 million, RMB31.9 million and RMB32.7 million for the three years ended 31 December 2013, respectively, representing a CAGR of approximately 3.6% over the three years. Our net profit for the period also increased by RMB4.8 million or 26.8% from approximately RMB17.9 million for the nine months ended 30 September 2013 to approximately RMB22.7 million for the nine months ended 30 September 2014.

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The table below sets forth our gross profit and gross profit margin by products during the Track Record Period.

	Year ended 31 December						Nine months ended 30 September			
	2011		2012		2013		2013		2014	
	Gross		Gross		Gross		Gross		Gross	
	Gross Profit	Profit Margin	Gross Profit	Profit Margin	Gross Profit	Profit Margin	Gross Profit	Profit Margin	Gross Profit	Profit Margin
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
	(Unaudited)									
Standard joint prosthesis products	37,768	73.7	46,883	69.5	53,912	69.6	34,062	69.1	43,674	69.7
Custom joint prosthesis products	13,533	80.4	15,981	79.5	18,748	80.3	11,677	73.8	17,833	85.5
Spinal products	8,453	74.1	7,695	73.3	7,415	76.0	5,915	78.2	5,398	68.8

Revenue derived from our standard joint prosthesis products for the three years ended 31 December 2013 and nine months ended 30 September 2014 is approximately RMB51.3 million, RMB67.5 million, RMB77.4 million and RMB62.6 million respectively, representing a CAGR of 22.8% over the three years ended 31 December 2013. For the three years ended 31 December 2013 and the nine months ended 30 September 2013 and 30 September 2014, gross profit from our standard joint prostheses products was approximately RMB37.8 million, RMB46.9 million, RMB53.9 million, RMB34.1 million and RMB43.7 million respectively, while their respective gross profit margin was 73.7%, 69.5%, 69.6%, 69.1% and 69.7%.

Revenue derived from our custom joint prosthesis products for the three years ended 31 December 2013 and nine months ended 30 September 2014 was approximately RMB16.8 million, RMB20.1 million, RMB23.3 million and RMB20.9 million respectively, representing a CAGR of 17.8% over the three years ended 31 December 2013. For the three years ended 31 December 2013 and the nine months ended 30 September 2013 and 30 September 2014, gross profit from our custom joint prosthesis products was approximately RMB13.5 million, RMB16.0 million, RMB18.7 million, RMB11.7 million and RMB17.8 million respectively, while their respective gross profit margin was 80.4%, 79.5%, 80.3%, 73.8% and 85.5%.

Revenue derived from our spinal products for the three years ended 31 December 2013 and nine months ended 30 September 2014 was approximately RMB11.4 million, RMB10.5 million, RMB9.8 million and RMB7.8 million, respectively. For the three years ended 31 December 2013 and the nine months ended 30 September 2013 and 30 September 2014, gross profit from our spinal products was approximately RMB8.5 million, RMB7.7 million, RMB7.4 million and RMB5.9 million and RMB5.4 million, respectively, while their respective gross profit margins were 74.1%, 73.3%, 76.0%, 78.2% and 68.8%.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following are the key factors that affect our results of operations.

Regulatory environment in the PRC

Our results of operations are and will continue to be affected by regulations promulgated or undertaken by the PRC Government, particularly those licensing and certification requirements and procedures for manufacturers and distributors of medical device products, as well as operating, quality management and safety standards and environmental protection related regulations.

CFDA has formulated a continuing supervisory and management system in respect of the production and operation of medical device products. Those approvals and licenses are subject to periodic renewal and/or reassessment by the PRC Government authorities. The criteria in the relevant reassessments may be reviewed and updated from time to time. If we fail to obtain and maintain all of the licenses, permits and certificates required for business operations, our business, financial condition and results of operations may be materially and adversely affected.

Size and growth of the orthopedic implant market

Our business expansion and operating income growth depend largely on the growth of the orthopedic implant market in the PRC. The orthopedic implant market, a segment of the medical device market, has experienced rapid growth in recent years. According to the Euromonitor Report, the market size for orthopedic implants was approximately RMB11,803.6 million in 2013, nearly a double of the market size of about RMB6,739.7 million in 2009, representing an increase at a CAGR of about 15.0% from 2009 to 2013. The market size for orthopedic implants represented approximately 5.9% of the total value of the medical device industry. For the five-year period from 2014 to 2018, the orthopedic implant market in the PRC is estimated to grow at a CAGR of 12.3% and reach approximately RMB21,202.6 million, nearly a double of the market size for 2013.

The orthopedic implant industry is generally divided into four major segments, namely joint, spine, trauma and others. According to the Euromonitor Report, the market size of trauma implants was the largest among the four segments in 2013, followed by spine implants, joint implants and other implants. According to the Euromonitor Report, the growth of the joint implant market is higher than that of the other segments and grew at a CAGR of about 19.5% from 2009 to 2013. The market size of joint implants was approximately RMB2,891.9 million in 2013. Our product portfolio is highly diversified, and we believe that we have been well positioned to capture the rapid growth of the PRC orthopedic implant market. However, if the PRC orthopedic implant market does not grow as rapidly as expected, our future growth may be adversely affected.

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Sales volume

Our sales volume is affected by the following factors: (i) the scale of our distribution network; (ii) the effectiveness of our sales activities; (iii) the market acceptance of our new products; (iv) the coverage and reimbursement policies of the social healthcare insurance in China; and (v) the macro factors such as the economic growth, the expansion of the investment in public health, reform in medical policies, and the ageing population in China.

Pricing

The average prices of our products remained stable during the Track Record Period. However, this is affected by various factors such as the sales model, costs, and the change in the prices of our competitors' products.

Product portfolio

Our diversified product portfolio of multiple joint prosthesis products covers high, medium and low-end products. This diversity enables distributors and hospitals to obtain their desired products from a single source instead of procuring products from different manufacturers which may be time consuming and less cost efficient. Our diversified product portfolio also allows us to provide all-rounded services to our distributors and hospitals. We believe that this can enhance the reputation and product acceptance in the market, giving us a competitive advantage during the tendering process at government authorities and hospitals.

Enhancement of our sales and distribution network

To meet our expected increase in demand for our products, we intend to expand our distribution network. The customers of orthopedic medical devices spread over a wide geographical area, therefore, most of the companies in the industry sell their products to hospitals through distributors' networks. Currently, distribution network is key to competitiveness in the sector. Our continuous growth in the scale of business in recent years was dependent on the rapid expansion of our distributors network. We shall continue to expand our distribution network, enhance the diversity of our products, strengthen product promotion efforts and place sales representatives in larger cities. We are currently increasing the number of our distributors and are identifying experienced and qualified distributors with sufficient funds to expand the scale of our business.

Cost of sales

The principal component of our cost of sales has been the costs of raw materials. Titanium alloy, forged titanium alloy, casted Co-Cr-Mo alloy, and medical ultra-high molecular weight polyethylene materials are the principal components of our raw materials. The costs of raw materials remained stable during the Track Record Period. However, if there are significant changes in the prices of these materials, our profitability may be affected.

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Production capacity

As at 30 September 2014, the utilisation rate of our existing production site for standard joint prostheses, custom joint prostheses and spinal products was approximately 98.9%, 96.2% and 98.9%, respectively. As such, we plan to increase our production capacity significantly to meet the soaring market demand.

We are in the process of building a new production plant and facilities in the Daxing New Production Base which land use rights was acquired in September 2012 and the consideration of the land (after tax) of approximately RMB34.6 million has been fully settled. We expect that the development will be carried out in two phases. Phase I of the development mainly involves construction of the first production plant, the acquisition of equipment for the expansion of production capacity of standard joint prostheses and spinal products, the development and commercialisation of advanced customised joint prostheses and the construction of a research and development center and a marketing services center. Phase II of the development mainly includes the construction of the second production plant for the development and commercialisation of ceramic hip joint prostheses and further expansion of production capacity of standard joint prostheses products. Apart from being used as our production site, the Daxing New Production Base will also serve as our headquarters, marketing service center and research and development center.

The development for phase I commenced in March 2014 and is expected to be completed in around December 2016. The production will commence after the production permit for expansion projects is granted, which is expected to be in around October 2017. The development of phase II is expected to commence in January 2017 and completed in December 2018 before production begins.

BASIS OF PREPARATION

This section has been prepared on a going concern basis and included applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance.

This section has been prepared in accordance with the Accounting Standards for Business Enterprises in the PRC (“**ASBE**”) issued by the Ministry of Finance of the PRC (“**MOF**”), the related specific standards, the Accounting Standards for Business Enterprises Application Guidance; China Accounting Standards Bulletins and other relevant regulations (hereinafter referred to as “**China Accounting Standards for Business Enterprises**” or “**CASBE**”).

The Company has adopted the accrual basis of accounting and this section has been prepared on a historical cost basis.

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STATEMENT OF COMPLIANCE WITH THE CASBE

For the preparation of this section throughout the Track Record Period, the Group has consistently adopted all of the new and revised CASBE issued by MOF that are effective for the financial year beginning on 1 January 2014 and the early adoption of the new and revised CASBEs that have been issued during the year ended 31 December 2014 but are not yet effective.

In the opinion of the Directors, this section has been prepared in accordance with the CASBE and presents truly and completely the Group's financial position as at 31 December 2011, 2012 and 2013, and 30 September 2014 and the Group's financial performance and cash flows for the Track Record Period.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Presentation of financial information

The Company includes its subsidiary under its control in the scope of consolidation for the preparation of this section. An investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. Based on the financial statements of the parent and its subsidiary and other relevant information, this section has been prepared in accordance with the ASBE No. 33 "Consolidated financial statements".

All significant intra-group balances and transactions are eliminated on consolidation.

Receivables

At the end of the reporting date, if there is objective evidence that an impairment loss on receivables, provision on doubtful debts are made based on the excess of the carrying amounts of the receivables over the present value of their estimated future cash flows. Criteria and methods of provision on doubtful debts of receivables are as follows:

Receivables that are individually significant for which provision on doubtful debts is individually assessed:

Bases or monetary criteria for determining an individually significant receivable

Accounts receivable is considered individually significant if the amount is 2% or above of the total balance of accounts receivable; Other receivable is considered individually significant if the amount is 10% or above of the total balance of other receivables

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Method of determining provision for receivables that are individually significant for which bad debts provision is individually assessed	The Group assesses the receivables individually for impairment. Provision for bad debts is made based on the excess of the carrying amounts of the receivables over the present value of their estimated future cash flows
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Receivables for which provision on doubtful debts is collectively assessed on a portfolio basis

- (i) *Bases for determining the groupings and methods of determining provision for bad debts by groupings:*

Bases for determining the groupings are as follows:

Related party group within the Group	Receivables from related parties
Aging group	Receivables within the same aging category that have similar credit risk characteristics

Methods of determining provision for bad debts by groupings are as follows:

Related party group within the Group	No provision for bad debts was provided
Aging group	Aging analysis method

- (ii) *The percentages of provision used in the aging analysis method amongst aforesaid groups are as follows:*

Aging	Percentage of provision for accounts receivable %	Percentage of provision for other receivables %
Within 1 year (inclusive)	3.00	3.00
1 to 2 years (inclusive)	8.00	8.00
2 to 3 years (inclusive)	20.00	20.00
3 to 4 years (inclusive)	50.00	50.00
4 to 5 years (inclusive)	80.00	80.00
Over 5 years	100.00	100.00

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Receivables with amounts that are not individually significant but subject to separate assessment for provision on doubtful debts

Reason for making separate assessment for provision for bad debts	Significant differences between the present value of estimated future cash flows and the present value of estimated future cash flows with aforesaid credit risk characteristics
Method of determining provision for bad debts	The Group assesses the receivables individually for impairment. Provision for bad debts are made based on the excess of the carrying amounts of the receivables over the present value of their estimated future cash flows

Provision is recognised when the present value of the estimated future cash flows of notes receivable, prepayments, other non-current assets and other receivables are below their carrying amounts.

Provision for receivables is made when there is objective evidence that the recoverability of receivables becomes doubtful. The provision contains uncertainties because the management is required to make assumptions and to apply judgement regarding historical settlement experience, debt aging, financial status of debtors and general economic conditions. There is no reason to believe that there will be a material change in the future estimates or assumptions which are used in the calculations of the provision for receivables. However, when the actual outcome or expectation in the future is different from the original estimates, the carrying value of receivables and provision may change.

Inventories

Classifications of inventories

Inventories include finished goods or merchandise held for sale in the ordinary course of business, work in progress in the process of production, raw materials to be consumed in the production process.

Valuation method of inventories upon delivery

The inventories are carried at the actual cost. The costs of raw materials and merchandise inventories transferred out is determined by using the weighted average method on a monthly basis.

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Bases for determining net realisable value of inventories and provision methods for decline in value of inventories

At the balance sheet date, inventories are measured at the lower of cost and net realisable value. If the net realisable value falls below the cost of inventories, a provision for the decline in value of inventories is made. For inventories for direct sale, the net realisable value is measured based on the estimated selling price in the ordinary course of business less the estimated costs incurred for the sale. For inventories that need further processing, the net realisable value is measured based on the estimated selling price of finished goods produced by use of such inventories in the ordinary course of business less the estimated costs incurred for the production and sale of such finished goods. At the balance sheet date, for inventories with prices which are partially determined by contracts, their net realisable values are determined separately and compared with their corresponding costs to recognise the amount of provision for the decline in value of inventories, or reversal of the provision.

Net realisable value is determined by reference to clear evidence obtained, and takes into consideration the purposes of holding the relevant inventories and the effects of post balance sheet events.

Inventory system

The perpetual inventory system is maintained for inventory system.

Fixed assets

Recognition, measurement and depreciation of fixed assets

Fixed assets are tangible assets that are held for use in the production of goods or services or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably.

Fixed assets are measured at the costs incurred for their acquisition. Subsequent expenditures incurred for a fixed asset are included in the costs of the fixed asset if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Depreciation is provided over their estimated useful lives from the month after they have attained their working condition by using the straight line method.

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Depreciation of each category of fixed assets

Item	Depreciation period <i>Year</i>	Residual value rate <i>%</i>	Annual depreciation rate <i>%</i>
Buildings	30	5	3.17
Machinery and equipment	10	5	9.50
Motor vehicles	5	5	19.00
Office equipment	5	5	19.00

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain by disposal of the asset, after deducting the estimated costs of disposal, provided that the asset has reached the age and is in the condition expected at the end of its useful life.

Methods of impairment assessment and determining the provision for impairment losses of fixed assets

At the balance sheet date, when there is any indication that the fixed assets may be impaired, a provision for impairment loss is recognised on the excess of the carrying amounts of the assets over their recoverable amounts in profit or loss for the current period. Recoverable amount is estimated on an individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset is estimated by reference to that of the asset group to which the asset belongs. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognised in profit or loss for the period.

Once the impairment loss of such assets is recognised, it will not be reversed in any subsequent period.

The Group reviews the useful life and estimated net residual value of its fixed assets and the depreciation method applied thereto at least once for each financial year, and makes the relevant changes when there is a change in an accounting estimate.

If a fixed asset is disposed or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recorded in profit or loss for the relevant period.

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Construction in progress

Construction in progress is recognised when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be reliably measured. The construction in progress is measured at the actual expenditures incurred before it is ready for its intended use.

Construction in progress is transferred to fixed assets when it is ready for its intended use based on the actual costs incurred. When the construction in progress is ready for its intended use but the final account of the completed project has not been issued, the cost of the asset is transferred to fixed assets based on its estimated cost. When the final account of completed project is issued, the estimated cost is adjusted to the actual cost, while the depreciation charge is not adjusted retrospectively.

At the balance sheet date, when there is any indication that the construction in progress may be impaired, a provision for impairment loss is recognised on the excess of the carrying amounts of the assets over their recoverable amounts in profit or loss for the current period.

Intangible assets and development expenditures

Our intangible assets comprise land use rights and software and are initially measured at their costs.

Intangible assets with definite useful lives are reasonably amortised over their estimated useful lives based on the realisation pattern of the economic benefits relating to the intangible assets. Intangible assets whose economic benefits realisation pattern cannot be reliably anticipated are amortised on a straight line basis over the following amortisation periods:

Item	Amortisation period Year
Land use rights	37.50; 49.00
Software	5.00

The Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

At the balance sheet date, when there is any indication that the intangible assets with finite useful lives may be impaired, a provision for impairment loss is recognised on the excess of the carrying amounts of the assets over their recoverable amounts in profit or loss for the current period.

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The expenditures on internal research and development projects during the research phase are recognised as expenses in the period in which they are incurred. The expenditures on internal research and development projects during the development phase that meet all of the following conditions simultaneously is recognised as intangible asset: (i) it is technically feasible to complete the intangible asset so that it will be available for use or sale; (ii) the Group has the intention to complete the intangible asset and use or sell it; (iii) the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or usefulness of the intangible asset itself that is to be used internally; (iv) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and (v) the expenditures attributable to the intangible asset during its development phase can be reliably measured. During the three years ended 31 December 2013 and the nine months ended 30 September 2014, the Company incurred expenditures of approximately RMB4.8 million, RMB4.9 million, RMB4.8 million and RMB6.6 million, respectively, in respect of internal research and developments projects. The Company did not have an effective costing system to distinguish the expenditures incurred for a research and development project between the research phase and the development phase and thus, the Company is required to treat the entire expenditures on that project as if it were incurred in the research phase only. Further, the Company did not have an effective system to allocate the expenditures to individual and respective research and development project and thus, such expenditures are not recognised as intangible assets of the Company. Accordingly, all of our expenditures on research and development projects were fully charged to our consolidated income statements during the Track record Period upon incurred.

Dividends distribution

Cash dividend is recognised as a liability for the period in which the dividend is approved by the shareholders' meeting.

Provisions

Provisions are recognised when a present obligation arises, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably measured.

A provision is initially measured by the Group at its best estimate of the expenditure required to settle the related present obligation. The carrying amount of the provision is reviewed at the balance sheet date.

Revenue

Revenue from sales of goods

Revenue from sale of goods is recognised when all of the following conditions are met: (i) the significant risks and rewards of ownership of goods have been transferred to the buyers; (ii) the Group retains neither continuing managerial involvements that are usually associated with ownership nor effective control over the goods sold; (iii) the

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amount of revenue can be reliably measured; (iv) it is probable that the associated economic benefits will flow to the Group; and (v) the associated costs incurred or to be incurred can be reliably measured. Pursuant to the Group's distribution agreements, we are obliged to exchange any defective products within 15 days contractual period after delivery. Subsequent to this contractual period, we consider that the risks and reward of the goods have been passed to the customers and thus, we will recognise the revenue in accordance with the accounting policy of the Company as mentioned above. Afterward, product returns or exchanges are only allowed with the management's consent.

We mainly sell our products by way of distribution. Revenue from sale of goods comprises the fair value of the consideration received or receivable and the amount was shown net of returns and discounts.

Revenue from provision of services

Revenue from provision of services is recognised when: (i) the amount of revenue can be reliably measured; (ii) it is probable that the associated economic benefits will flow to the Group; (iii) the stage of completion of the transaction can be reliably measured; and (iv) the associated costs incurred or to be incurred for the transaction can be reliably measured. Revenue from provision of services is recognised by reference to the stage of completion of the transaction which is determined by the proportion of costs incurred to date to the estimated total costs for the provision of services.

If the costs incurred for the provision of services are not expected to be recoverable, the costs incurred are recognised in profit or loss for the current period and no service revenue is recognised.

Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognised only when the Group can comply with the conditions attached to the grant and the Group will receive the grant.

The government grants obtained by the Group to purchase or construct long-term assets are categorised as asset-related government grants. Otherwise, government grants are categorised as income-related government grants.

For companies with evidences at the end of the reporting period indicating that they conform to the conditions of the relevant financial supporting policy and that they are expected to receive the related government grants, such government grants are recognised as accounts receivable. Otherwise, government grants should be recognised as and when they are received.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at its fair value. If the fair value cannot be reliably determined, it is measured at its nominal amount.

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An asset-related government grant is recognised as deferred income, and evenly amortised in profit or loss over the useful life of the asset. For an income-related government grant, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised. If the grant is a compensation for related expenses or losses that have already been incurred, the grant is recognised immediately in profit or loss for the current period.

Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets and liabilities and their tax bases (for items not yet recognised as assets and liabilities that have their tax bases determined by reference to the provisions in the relevant tax laws, the difference between such tax bases and their carrying amounts is applied), the deferred tax assets and liabilities are recognised and measured at the tax rates that are expected to apply to the periods when the assets are realised or the liabilities are settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. At the balance sheet date, if there is objective evidence that future taxable profits will be available against which deductible temporary differences can be utilised, deferred tax assets not recognised in prior accounting periods is recognised.

The carrying amount of a deferred tax asset is reviewed at the balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits are available in the future to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits are available.

Operating lease

When the Group is a lessee, operating lease payments are recognised on a straight line basis over the term of the relevant lease, and are either included in the cost of related asset or charged to profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

When the Group is a lessor, rental income from operating lease is recognised in profit or loss on a straight line basis over the term of the relevant lease. Costs other than the initial direct costs with significant amount are capitalised when incurred and are recognised in profit or loss over the lease term, the initial direct costs with an insignificant amount are charged in profit or loss in the period in which they are incurred. Contingent rents are credited to profit or loss in the period in which they actually arise.

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Segment information

The Group determines the operating segments based on the internal organisation structure, management requirements and internal reporting system. An operating segment is a component of the Group that satisfies all of the following conditions:

- (i) the segment is able to generate revenues and incur expenses from its ordinary activities;
- (ii) the segment's operating results are regularly reviewed by the Group's management to allow them to decide on the resources to be allocated to the segment and to assess its performance; and
- (iii) the information on the financial position, operating results and cash flows of the segment is available to the Group.

The Group determines reporting segments based on the operating segments. Inter-segment revenues are measured on the basis of actual transaction price for such transactions. The common assets employed by the reporting segments and the common expenditures incurred for the operating segments are allocated based on the proportional revenue of the respective reporting segments.

The Group's revenue derived from the top five customers and by geographical areas during the Track Record Period is set out in Note F(1) of Section I of Appendix I to this prospectus.

Taxation

1. Major categories of taxes and tax rates

Category of tax	Basis of tax computation	Tax rate
Value-added Tax ("VAT")	Sales of goods or rendering of services	17%
City construction and maintenance tax	In accordance with Value-added Tax payable	5%
Education Fee Surcharge	In accordance with Value-added Tax payable	3%
Local education fee surcharge (Note below)	In accordance with Value-added Tax payable	2%
Enterprise income tax ("EIT")	In accordance with income tax payable	Company: 15%; Zhao Yi Te: 25%

Note: Pursuant to 《財綜〔2010〕98號 — 財政部關於統一地方教育附加政策有關問題的通知》(Caizong [2010] No. 98 — Notice from the Ministry of Finance Regarding the Issues on Unified Local Education Fee Surcharge Policy*) dated 7 November 2010; 《財綜函〔2011〕57號 — 財政部關於同意北京市開徵地方教育附加的覆函》(Caizonghan [2011] No. 57 — Notice from the Ministry of Finance Regarding Reply in Agreeing Beijing to levy Local Education Fee Surcharge*) dated 22 July 2011 and 《京政發〔2011〕72號 — 北京市人民政府關於印發北京市地方教育附加徵收使用管理辦

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法的通知》(Jingzhengfa [2011] No. 72 — Notice from the Beijing Municipal People’s Government Regarding the Issuance of the Administrative Measures on Local Education Fee Surcharge*) dated 21 December 2011, with effect from 1 January 2012, the applicable Local Education Fee Surcharge of the Company and Zhao Yi Te is 2% of the payable of VAT, consumption tax and business tax which are applicable to enterprises located in the administrative area of Beijing.

2. *Preferential tax policies and approvals*

(1) *VAT*

Our Company’s export commodities are subject to taxation method of “exemption, reduction and rebate”, with the following output tax rates: 13% refund for bars, rods and profile products; 15% refund for artificial joints; 15% refund for orthopedic or fracture appliances; and 17% refund for other medical instruments which are not listed on the Tax Document Number: 90.18.

(2) *EIT*

During the year 2009, our Company obtained the 《高新技術企業證書》(The High and New Technology Enterprise Certificate) issued by 北京市科學技術委員會 (Beijing Municipal Science and Technology Commission*), 北京市財政局 (Beijing Municipal Finance Bureau*), 北京市國家稅務局 (Beijing Municipal Office, State Administration of Taxation*) and 北京市地方稅務局 (Beijing Local Taxation Bureau*) which was valid until 16 June 2012. Pursuant to the 高新技術企業認定管理辦法 (Administrative Measures for the Determination of High and New Technology Enterprises*) and 中華人民共和國企業所得稅法 (The People’s Republic of China on Enterprise Income Tax*) and the related regulations and rules, our Company was recognised as a high and new technology enterprise and accordingly, our Company was eligible to a concessionary PRC EIT tax rate of 15% for three years from 2009 to 2011.

During the year 2012, our Company passed the certification of high and new technology enterprise review and our Company obtained The High and New Technology Enterprise Certificate which is valid until 30 October 2015, which was issued by Beijing Municipal Science and Technology Commission, Beijing Municipal Finance Bureau, State Tax Bureau of Beijing City and Beijing Municipal Local Tax Bureau. Pursuant to the Administrative Measures for the Determination of High and New Technology Enterprises and the People’s Republic of China on Enterprise Income Tax and the related regulations and rules, our Company was recognised as a high and new technology enterprise and accordingly, our Company is eligible to a concessionary PRC EIT tax rate of 15% for three years from 2012 to 2014.

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DESCRIPTION OF CERTAIN CONSOLIDATED INCOME STATEMENT ITEMS

The following table sets forth a summary of our consolidated income statements for the periods indicated. This information should be read together with our consolidated financial information and related notes, which have been prepared in accordance with CASBE and set out in “Appendix I — Accountants’ 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.

Consolidated income statements

	Year ended 31 December			Nine months ended 30 September	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)				
Revenue	80,260	98,095	110,546	72,652	91,346
Cost of sales	<u>(19,747)</u>	<u>(27,536)</u>	<u>(30,471)</u>	<u>(20,998)</u>	<u>(24,441)</u>
Gross profit	60,513	70,559	80,075	51,654	66,905
Selling expenses	(13,022)	(16,344)	(20,145)	(14,878)	(19,341)
Administrative expenses	(11,316)	(16,131)	(20,581)	(14,034)	(19,273)
Impairment loss	(656)	(1,136)	(687)	(1,805)	(1,821)
Business taxes and levies	(892)	(1,094)	(1,171)	(682)	(820)
Finance income (loss)	90	114	(23)	(2)	74
Investment income	<u>–</u>	<u>–</u>	<u>241</u>	<u>185</u>	<u>61</u>
Operating profit	34,717	35,968	37,709	20,438	25,785
Non-operating income	693	1,241	594	592	363
Non-operating expenses	<u>–</u>	<u>(6)</u>	<u>(187)</u>	<u>(183)</u>	<u>(10)</u>
Profit before income tax for the year/period	35,410	37,203	38,116	20,847	26,138
Income tax expenses	<u>(5,005)</u>	<u>(5,263)</u>	<u>(5,451)</u>	<u>(2,955)</u>	<u>(3,469)</u>
Net profit for the year/period	<u><u>30,405</u></u>	<u><u>31,940</u></u>	<u><u>32,665</u></u>	<u><u>17,892</u></u>	<u><u>22,669</u></u>

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Revenue

Our revenue was principally generated from the sales of medical orthopedic devices via distributions to hospitals in the PRC and overseas, which amounted to 99.1%, 100.0%, 100.0% and 100.0% of the total revenue for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively. Our revenue increased from approximately RMB80.3 million for the year ended 31 December 2011 to approximately RMB98.1 million for the year ended 31 December 2012 by RMB17.8 million or 22.2%. Our revenue further increased to approximately RMB110.5 million for the year ended 31 December 2013, or increased by RMB12.4 million or 12.6%. Our revenue for the nine months ended 30 September 2014 was RMB91.3 million, representing an increase of RMB18.6 million or 25.6% when compared with the nine months ended 30 September 2013.

The following table sets out the breakdown of our revenue by principal business activities during the Track Record Period:

Breakdown of revenue

	Year ended 31 December						Nine months ended 30 September			
	2011		2012		2013		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Orthopedic Medical Devices										
— Standard joint prosthesis products	51,262	63.9	67,479	68.8	77,449	70.1	49,283	67.8	62,644	68.6
— Custom joint prosthesis products	16,839	21.0	20,111	20.5	23,336	21.1	15,814	21.8	20,858	22.8
— Spinal Products	11,400	14.2	10,505	10.7	9,761	8.8	7,555	10.4	7,844	8.6
	79,501	99.1	98,095	100.0	110,546	100.0	72,652	100.0	91,346	100.0
Others ⁽¹⁾	759	0.9	-	-	-	-	-	-	-	-
	<u>80,260</u>	<u>100.0</u>	<u>98,095</u>	<u>100.0</u>	<u>110,546</u>	<u>100.0</u>	<u>72,652</u>	<u>100.0</u>	<u>91,346</u>	<u>100.0</u>

Note:

(1) Others represent logistics services which we have not engaged in since 2012.

Our revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for sales of goods and services provided in the normal course of business, net of discounts and related taxes.

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For each of the three years ended 31 December 2013 and nine months ended 30 September 2014, our respective revenue was approximately RMB80.3 million, RMB98.1 million, RMB110.5 million and RMB91.3 million, and increased by RMB17.8 million or 22.2%, RMB12.4 million or 12.6% and RMB18.6 million or 25.6%, respectively.

Standard joint prosthesis products

Our standard joint prosthesis products are standard hip joint prostheses and standard knee joint prostheses with various specifications. As standard joint prostheses are our primary products, revenue derived from our standard joint prostheses for the three years ended 31 December 2013 and nine months ended 30 September 2014 was approximately RMB51.3 million, RMB67.5 million, RMB77.4 million and RMB62.6 million, respectively, accounting for 63.9%, 68.8%, 70.1% and 68.6% of the total revenue, respectively. The increase in the revenue from our standard joint prosthesis products was mainly due to the increase in the number of distributors and the expansion of overseas markets by our Company. We recorded a CAGR of 22.8% over the three years.

Custom joint prosthesis products

Revenue derived from the custom joint prosthesis products accounted to 21.0%, 20.5%, 21.1% and 22.8% of the total revenue for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively. We recorded a CAGR of 17.8% over the three years.

Spinal products

Revenue derived from spinal products attributable to 14.2%, 10.7%, 8.8% and 8.6% for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively. The relevant decrease in the proportion of revenue derived from spinal products was mainly due to our current strategy to focus on the expansion of the market in the joint prosthesis products, which had a higher demand in the market, and the increase of sales from overseas which boosted the sales of our standard joint prosthesis and custom joint prosthesis products, and thus the proportion of spinal products decreased.

Others

We provide customers with transportation service. However, we did not engage in the provision of logistic services in the years ended 31 December 2012 and 2013 and nine months ended 30 September 2014.

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Geographic location

The following table sets out the breakdown of our revenue by geographical location of the sales during the Track Record Period:

	Year ended 31 December						Nine months ended 30 September			
	2011		2012		2013		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
China										
Northern region ⁽¹⁾	34,538	43.0	31,806	32.4	33,361	30.2	25,060	34.5	23,899	26.1
Western region ⁽²⁾	8,215	10.2	10,390	10.5	11,261	10.2	7,763	10.7	11,799	12.9
Central region ⁽³⁾	13,966	17.4	18,497	18.9	26,064	23.5	17,907	24.6	19,919	21.8
Southern region ⁽⁴⁾	9,129	11.4	12,629	12.9	10,784	9.8	6,825	9.4	9,371	10.3
Eastern region ⁽⁵⁾	11,213	14.0	14,477	14.8	15,727	14.2	8,565	11.8	13,308	14.6
Sub-total	77,061	96.0	87,799	89.5	97,197	87.9	66,120	91.0	78,296	85.7
Overseas	3,199	4.0	10,296	10.5	13,349	12.1	6,532	9.0	13,050	14.3
Total	<u>80,260</u>	<u>100.0</u>	<u>98,095</u>	<u>100.0</u>	<u>110,546</u>	<u>100.0</u>	<u>72,652</u>	<u>100.0</u>	<u>91,346</u>	<u>100.0</u>

(1) Includes Hebei Province, Beijing, Tianjin, Shaanxi Province, Gansu Province, Qinghai Province, Xinjiang Uygur Autonomous Region, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, Liaoning Province, Jilin Province and Heilongjiang Province.

(2) Includes Yunnan Province, Guizhou Province, Tibet Autonomous Region, Sichuan Province and Chongqing.

(3) Includes Henan Province, Shanxi Province, Hunan Province, Hubei Province, Jiangxi Province and Anhui Province.

(4) Includes Guangdong Province, Guangxi Zhuang Autonomous Region and Hainan Province.

(5) Includes Jiangsu Province, Zhejiang Province, Shanghai, Shandong Province and Fujian Province.

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The following table sets out the breakdown of our revenue by sales channel during the Track Record Period:

	Year ended 31 December						Nine months ended 30 September			
	2011	2012		2013		2013	2014			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
(Unaudited)										
China										
Distributors	70,575	88.0	81,373	83.0	88,085	79.7	59,600	82.0	69,727	76.3
Hospitals	5,727	7.1	6,426	6.5	9,112	8.2	6,520	9.0	8,569	9.4
Others	759	0.9	-	-	-	-	-	-	-	-
	<u>77,061</u>	<u>96.0</u>	<u>87,799</u>	<u>89.5</u>	<u>97,197</u>	<u>87.9</u>	<u>66,120</u>	<u>91.0</u>	<u>78,296</u>	<u>85.7</u>
Overseas										
Distributors	543	0.7	2,186	2.2	3,665	3.3	2,618	3.6	2,376	2.6
ODM and OEM customers	2,656	3.3	8,110	8.3	9,684	8.8	3,914	5.4	10,674	11.7
	<u>3,199</u>	<u>4.0</u>	<u>10,296</u>	<u>10.5</u>	<u>13,349</u>	<u>12.1</u>	<u>6,532</u>	<u>9.0</u>	<u>13,050</u>	<u>14.3</u>
	<u>80,260</u>	<u>100.0</u>	<u>98,095</u>	<u>100.0</u>	<u>110,546</u>	<u>100.0</u>	<u>72,652</u>	<u>100.0</u>	<u>91,346</u>	<u>100.0</u>

For the three years ended 31 December 2013 and the nine months ended 30 September 2013 and 30 September 2014, we recorded an increase in revenue derived from the distribution channel. For the two years ended 31 December 2011 and 2012, revenue derived from the distributors in China increased by RMB10.8 million or 15.3% from approximately RMB70.6 million to approximately RMB81.4 million. For the two years ended 31 December 2012 and 2013, our revenue derived from the domestic distribution channel further increased by RMB6.7 million or 8.2% from approximately RMB81.4 million to approximately RMB88.1 million. For the nine months ended 30 September 2013 and 30 September 2014, our revenue derived from the domestic distribution channel increased by RMB10.1 million or 17.0% from approximately RMB59.6 million to RMB69.7 million. Such increase was mainly due to the increase in the number of domestic distributors in China.

For the two years ended 31 December 2011 and 2012, revenue derived from direct sales to hospitals increased by RMB0.7 million or 12.3% from approximately RMB5.7 million to approximately RMB6.4 million. For the two years ended 31 December 2012 and 2013, revenue derived from direct sales to hospitals increased by RMB2.7 million or 42.2% from approximately RMB6.4 million to approximately RMB9.1 million. For the nine months ended 30 September 2013 and 30 September 2014, revenue derived from direct sales to hospital increased by approximately RMB2.1 million or 32.3% from approximately RMB6.5 million to approximately RMB8.6 million. The increase in the revenue derived from direct sales to hospitals was mainly due to the increase in the demand for our custom products.

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In addition to the domestic markets, we have been expanding our overseas markets. For the three years ended 31 December 2013 and nine months ended 30 September 2014, our revenue from overseas sales were approximately RMB3.2 million, RMB10.3 million, RMB13.3 million and RMB13.1 million, respectively. The proportion of overseas sales to the total revenue for the three years ended 31 December 2013 and the nine months ended 30 September 2014 had been increasing, which were 4.0%, 10.5%, 12.1% and 14.3%, respectively. Our major overseas distributors are mainly located in Korea, Turkey, and Egypt.

Returns and exchange of products

When the distributors ceased to be our distributors, in order to protect the interest of our Company and avoid the distributors to continue to sell our products after they ceased to be our distributors, although it is not our obligations under the distribution agreements, we may only accept return and refund of unsold products from them provided that the products are in resaleable condition. For the three years ended 31 December 2013 and nine months ended 30 September 2014, the approximate amounts of goods returned were RMB1.4 million, RMB2.4 million RMB1.7 million and RMB2.9 million, respectively, accounting for approximately 1.7%, 2.4%, 1.5% and 3.2% of the revenue of our Company respectively, which these amounts had been net off from the revenue upon incurred. In relation to good returns, our Directors considered that no material impacts on the financial performance of the Group and did not provide any provisions on goods return and refunds of unsold products during the Track Record Period based on (i) the amounts of goods returned had been net off from the revenue upon incurred; and (ii) prior to acceptance of good returns, we would inspect the quality of the returned products including the validity of sterilisation to ensure such goods would be re-sellable to other customers after re-sterilisation and repackaging. Accordingly, the Group did not provide any provision on sole returns during the Track Record Period.

During the term of the distribution agreements, we are obliged to exchange any defective products within 15 days of contractual period after delivery. During the interval of the contractual period, we have the liability of any defective products and are responsible to exchange the goods for the distributors. The Directors confirm that there was no product exchange due to product quality defects during the Track Record Period and up to the Latest Practicable Date. Subsequent to the contractual period, we consider that the risk and rewards of the goods have been passed to the distributors and thus, we will recognise the revenue in accordance with the accounting policy of the Company. Afterward, goods returns or exchanges are only allowed under the following specific circumstances, with the management's consent.

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Except for the exchange due to the defective products, we might also allow the distributors to exchange of goods on the following circumstances: (a) expiration of validity of sterilisation of products; and (b) mismatch of the products purchased with the patients' needs within the authorised territory of the distributors. For the three years ended 31 December 2013 and nine months ended 30 September 2014, the approximate amounts of product exchange from distributors were RMB8.3 million, RMB12.2 million, RMB10.4 million and RMB11.0 million, respectively, accounting for approximately 10.3%, 12.4%, 9.4% and 12.0% of the revenue of our Company. Out of which, the amount in respect of the validity of sterilisation of products that were expired amounting to approximately RMB0.2 million, RMB0.2 million, RMB0.3 million and RMB0.1 million, respectively; and the exchange of products that were not suitable for the patients of the distributors amounting to approximately RMB6.4 million, RMB8.4 million, RMB10.1 million and RMB10.9 million, respectively. In addition, during the Track Record Period, we have exchange of products due to taper conversion amounting to approximately RMB1.7 million, RMB3.6 million, nil and nil, respectively. Save from the product exchange due to taper conversion that we no longer allowed, we did not experience any material product exchange due to product quality defects during the Track Record Period. In view of the nature of exchange of products, we will only record the product exchanges in our inventory system and there will have no material impact on our revenue during the Track Record Period. Further, our Directors considered that such goods exchange would be no material impacts on the financial performance of the Company during the Track Record Period because of (i) the exchanged products are in resaleable condition; (ii) we will charge the distributors with the amounts which are higher than our costs incurred in relation to repackaging and/or re-sterilisation would be borne by the respective distributors; (iii) goods exchange would be accepted if they were not suitable for the patients; and (iv) the values of the exchanging goods would normally be approximate to the original selling prices to distributors. Based on the aforesaid, the difference in the values of the exchanged goods are generally immaterial. If the selling prices of the exchanged goods are higher than the selling prices of the original goods, such difference in the value would lead to an increase in the accounts receivable of the respective distributor, or a further payment in cash would be required. If the selling prices of the exchanged goods are lower than the selling prices of the original goods, such difference in value would lead to a decrease in the accounts receivable of the respective distributor, and to offset future purchase from the distributor. Therefore, generally the Company does not refund the difference to the distributor. Such immaterial difference would be recognised as "cost of sales" and "revenue" in the Group's consolidated income statements and the corresponding amount recorded as "inventory" and "accounts receivable" or "cash and bank deposits" in the Group's consolidated balance sheet. Accordingly, the Group did not provide any provisions on goods exchange during the Track Record Period.

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Cost of sales

Our operating cost of sales comprises cost of materials, labor cost and overhead. Cost of materials comprises primarily the cost of purchasing raw materials and consumables. Labour cost mainly comprises staff salaries and related costs. Overhead comprises rental expenses, subcontracting expenses and depreciations.

The following table sets forth the components of our cost of sales for the years indicated:

	Year ended 31 December						Nine months ended 30 September			
	2011		2012		2013		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Cost of materials	7,554	38.3	10,805	39.3	14,231	46.7	8,265	39.3	10,100	41.3
Labor cost	2,959	15.0	4,936	17.9	4,817	15.8	3,708	17.7	4,125	16.9
Overhead	9,234	46.7	11,795	42.8	11,423	37.5	9,025	43.0	10,216	41.8
Total	<u>19,747</u>	<u>100.0</u>	<u>27,536</u>	<u>100.0</u>	<u>30,471</u>	<u>100.0</u>	<u>20,998</u>	<u>100.0</u>	<u>24,441</u>	<u>100.0</u>

Gross profit and gross profit margin

Our gross profit, which is the net of revenue and cost of sales, was approximately RMB60.5 million, RMB70.6 million, RMB80.1 million and RMB66.9 million for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively. The gross profit increased by approximately RMB10.1 million or 16.7%, approximately RMB9.5 million or 13.5%, and approximately RMB15.2 million or 29.4% when comparing the two years ended 2011 and 2012, and the two years ended 2012 and 2013 and the nine months ended 30 September 2013 and 30 September 2014, respectively.

Our gross profit margin was 75.4%, 71.9%, 72.4% and 73.2% for each of the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively. The gross profit margin decreased slightly in the years ended 2012 and 2013 due to the expansion in the overseas market. Since the overseas market is relatively new to us, goods were sold to our overseas distributors with prices lower than those to our domestic distributors. As a result, we recorded slight decrease in our gross profit margin for the two years ended 2012 and 2013.

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Selling expenses

Our selling expenses primarily consist of staff salaries and related costs, advertising, and sales rebates. The following table sets forth the components of our selling expenses for the years indicated.

	Year ended 31 December				Nine months ended 30 September					
	2011		2012		2013		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Staff salaries and related costs	2,086	16.0	2,497	15.3	3,995	19.8	2,999	20.2	3,753	19.4
Travelling expenses	1,672	12.8	2,923	17.9	4,815	23.9	3,608	24.3	5,022	26.0
Office expenses	1,167	9.0	1,359	8.3	1,456	7.2	1,105	7.4	1,305	6.7
Advertising expenses	4,360	33.5	5,249	32.1	4,785	23.8	3,497	23.5	5,898	30.5
Transportation expenses	390	3.0	614	3.8	685	3.4	496	3.3	441	2.3
Rentals	278	2.1	207	1.3	129	0.6	108	0.7	74	0.4
Sales rebates	2,446	18.8	2,718	16.6	2,855	14.2	1,991	13.4	2,262	11.7
Others	623	4.8	777	4.7	1,425	7.1	1,074	7.2	586	3.0
	<u>13,022</u>	<u>100.0</u>	<u>16,344</u>	<u>100.0</u>	<u>20,145</u>	<u>100.0</u>	<u>14,878</u>	<u>100.0</u>	<u>19,341</u>	<u>100.0</u>

Staff salaries and related costs

Staff salaries and related costs mainly represented the salaries and related costs paid as well as staff benefits provided to our employees. The approximate amount was RMB2.1 million, RMB2.5 million, RMB4.0 million and RMB3.8 million, respectively, accounting for 16.0%, 15.3%, 19.8% and 19.4% of the total selling expenses for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively.

The increase in the total staff salaries and related costs was mainly due to the increase in the number of sales and marketing personnel from approximately 30 people as at 31 December 2011 to approximately 70 people as at 31 December 2013. On contrary, the average number of distributors handled by each staff decreased, which led to the decrease in the average salaries per staff.

Advertising expenses

Advertising expenses mainly represented the expenses incurred for marketing events, which included holding seminars and trainings for doctors and distributors as well as attending meetings held by medical authorities. The approximate amount was RMB4.4 million, RMB5.2 million, RMB4.8 million and RMB5.9 million, respectively, accounting for 33.5%, 32.1%, 23.8% and 30.5% of the total selling expenses for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively.

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Sales rebates

Sales rebates mainly represented the sales rebates provided to the distributors based on their performance. The approximate amount was RMB2.4 million, RMB2.7 million, RMB2.9 million and RMB2.3 million, respectively, accounting for 18.8%, 16.6%, 14.2% and 11.7% to the total selling expenses for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively. For the three years ended 31 December 2013 and nine months ended 30 September 2014, the sales rebates amounted to 3.4%, 3.3%, 3.3% and 3.3% of the revenue derived from domestic distributors, respectively. The sales rebates granted to distributors ranged from 5% to 20% of the settlement of the respective receivables as at 31 December 2011, 2012 and 2013 and 30 September 2014, which were subject to the sales targets set with the distributors. Such sales rebates are only available to certain domestic distributors. At the end of each reporting period, based on the performance of the distributors, sales rebate expense is recognised as “selling expenses — sale rebate expenses” in the Group’s consolidated income statements and the corresponding amount as “other payable — provision for sales rebate” in the Group’s consolidated balance sheet.

Travelling expenses

Travelling expenses mainly represented the expenses incurred when our sales representatives visited our distributors and hospitals for promotions and marketing. For the three years ended 31 December 2013 and nine months ended 30 September 2014, travelling expenses amounted to approximately RMB1.7 million, RMB2.9 million, RMB4.8 million and RMB5.0 million, respectively, accounting for approximately 12.8%, 17.9%, 23.9% and 26.0% of the total selling expenses.

Office expenses

Office expense represented the miscellaneous expenses, accounting for approximately 9.0%, 8.3%, 7.2% and 6.7% of the total selling expenses for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively.

Rentals

Rentals represented the rental of our office in Beijing and temporary staff quarters for sales and marketing personnel when they went on business trips, accounting for 2.1%, 1.3%, 0.6% and 0.4% of the total selling expenses for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively.

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Administrative expenses

Administrative expenses mainly comprised research and development expenses, staff salaries, professional and other fees relating to the Listing fees and rentals expenses. The table below sets out the breakdown of our administrative expenses during the Track Record Period:

	Year ended 31 December						Nine months ended 30 September			
	2011		2012		2013		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Research and development expenses	4,771	42.2	4,873	30.2	4,808	23.4	3,195	22.8	6,549	34.0
Staff salaries and related costs	3,586	31.7	4,909	30.4	6,929	33.7	4,582	32.6	5,443	28.2
Expenditure relating to the Company's proposed listing on the Shenzhen Stock Exchange terminated in 2012	-	-	1,997	12.4	-	-	-	-	-	-
Professional and other fees relating to the Listing	-	-	-	-	2,107	10.2	1,054	7.5	2,655	13.8
Other professional fees	82	0.7	421	2.6	1,014	4.9	882	6.3	224	1.2
Travelling expenses	304	2.7	267	1.7	449	2.2	277	2.0	762	4.0
Motor vehicle expenses	174	1.5	70	0.4	370	1.8	306	2.2	336	1.7
Rentals	405	3.6	846	5.3	1,165	5.7	982	7.0	453	2.4
Depreciation	566	5.0	714	4.4	765	3.7	574	4.1	534	2.8
Office expenses	516	4.6	551	3.4	979	4.7	610	4.4	582	3.0
Other tax expenses	116	1.0	120	0.7	210	1.0	138	1.0	185	1.0
Auditor's remuneration	100	0.9	150	0.9	142	0.7	142	1.0	142	0.7
Amortisation on intangible assets	55	0.5	324	2.0	816	4.0	609	4.3	616	3.2
Entertainments	416	3.7	532	3.3	177	0.9	116	0.8	105	0.5
Others	225	1.9	357	2.3	650	3.1	567	4.0	687	3.5
	<u>11,316</u>	<u>100.0</u>	<u>16,131</u>	<u>100.0</u>	<u>20,581</u>	<u>100.0</u>	<u>14,034</u>	<u>100.0</u>	<u>19,273</u>	<u>100.0</u>

Research and development expenses mainly represented the costs incurred for the research on new products. It amounted to approximately RMB4.8 million, RMB4.9 million, RMB4.8 million and RMB6.5 million, accounting for 42.2%, 30.2%, 23.4% and 34.0% of the total administrative expenses for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively.

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Our staff salaries and related expenses amounted to approximately RMB3.6 million, RMB4.9 million, RMB6.9 million and RMB5.4 million, accounting for 31.7%, 30.4%, 33.7% and 28.2% of the total administrative expenses for the three years ended 31 December 2013 and nine months ended 30 September 2014. Such expenses include benefits expenses such as social insurance fees for our staff and the total number of staff in our Company increased from approximately 320 as at 31 December 2012 to around 325 as at 31 December 2013. Therefore, the total staff salaries and related expenses for the year ended 31 December 2013 has increased by RMB2.0 million as compared to the year ended 31 December 2012.

Other professional fees amounted to approximately RMB82,000, RMB0.4 million, and RMB1.0 million and RMB0.2 million, accounting for 0.7%, 2.6%, 4.9% and 1.2% of the total administrative expenses for the three years ended 31 December 2013 and nine months ended 30 September 2014. Such fees mainly include the consultancy fee paid for the purpose of application for government grants during the relevant periods.

Amortisation of intangible assets mainly represented the amortisation of land use right and computer software amounted to approximately RMB55,000, RMB0.3 million, RMB0.8 million and RMB0.6 million for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively.

Rental expenses mainly represented the rental of our office premises which amounted to approximately RMB0.4 million, RMB0.8 million, RMB1.2 million and RMB0.5 million, respectively, accounting for 3.6%, 5.3%, 5.7% and 2.4% of the total administrative expenses, respectively for the three years ended 31 December 2013 and nine months ended 30 September 2014. The fluctuation of rental expenses was mainly due to the increase in the size of leased office as well as the unit price of rental for such additional leased area during the three years ended 31 December 2013. However, a three-month rent free period was granted to the Group which led to decrease in the proportion of the rental expenses.

Impairment loss of assets

Impairment losses represented the impairment losses of accounts receivable and other receivables, which amounted to approximately RMB0.4 million, RMB0.8 million, RMB1.1 million and RMB1.7 million, accounting for 1.6%, 2.6%, 2.9% and 2.9% of the accounts receivable for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively. For the three years ended 31 December 2013 and nine months ended 30 September 2014, the impairment losses of the other receivables, which amounted to approximately RMB0.3 million, RMB0.3 million and RMB0.4 million of reversal of the impairment loss and RMB0.1 million of impairment loss recognised, respectively, accounting for 3.6%, 4.8%, 45.4% and 9.2% of the other receivables, respectively.

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Business tax and levies

Business tax and levies include the City Construction and Maintenance Tax with approximately 5% of the value-added tax payable, Education Fee Surcharge with approximately 3% of the value-added tax payable and Local Education Fee Surcharge with 2% of the value-added tax payable imposed on the goods sold. For the three years ended 31 December 2013 and nine months ended 30 September 2014, the business tax and surcharges amounted to approximately RMB0.9 million, RMB1.1 million, RMB1.2 million and RMB0.8 million, respectively, with an effective tax rate of 1.1% for the three years ended 31 December 2013 and 0.9% for the nine months ended 30 September 2014.

Investment Income

The purpose of our investment in these structured products was to gain higher short-term investment return than fixed rate return from deposits at banks. For the three years ended 31 December 2013 and nine months ended 30 September 2014, total approximate investment income derived from structured deposits were nil, nil, RMB241,000 and RMB62,000.

We had certain financial assets of RMB78.6 million during the year ended 31 December 2013, and such financial assets were already disposed as at 31 December 2013. These financial assets typically consisted of principal-protected structured deposits placed with interests ranged from 3.0% to 4.2% per annum with maturity periods ranged from 33 days to 62 days offered by national or regional commercial banks in the PRC.

During the nine months ended 30 September 2014, we had certain financial assets of RMB10.0 million of structured deposit at a national commercial bank with medium risk and expected interest rate of approximately 4.5% per annum with maturity period of 50 days. The structured deposit was mature and redeemed in September 2014.

These structured products primarily consisted of financial and wealth management products issued by national or regional commercial banks. Such financial products are not derivative financial instruments and they do not include any element of gearing or leverage which would increase the risk of the investments. These structured deposits we invested in were typically principal-protected and rated by the commercial banks as medium to low-risk financial products, and primarily have underlying elements consisted of highly rated, liquid financial assets such as investment-grade bonds. We do not believe such investments have any liability exposures. All of our historical investments have been withdrawn in full when due.

As at the Latest Practicable Date, the Group did not have financial assets. Our Directors confirmed that the Group would not continue to invest in these structured deposits in the near future and after listing.

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Non-operating income

Non-operating income mainly consisted of government grants and sundry income. The following table sets out the breakdown of non-operating income during the Track Record Period:

	Year ended 31 December						Nine months ended 30 September			
	2011		2012		2013		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Proceeds from disposals of fixed assets	3	0.4	-	-	-	-	-	-	-	-
Government grants	641	92.5	1,226	98.8	588	99.0	588	99.3	361	99.4
Other income	49	7.1	15	1.2	6	1.0	4	0.7	2	0.6
	<u>693</u>	<u>100.0</u>	<u>1,241</u>	<u>100.0</u>	<u>594</u>	<u>100.0</u>	<u>592</u>	<u>100.0</u>	<u>363</u>	<u>100.0</u>

For the year ended 31 December 2011, the government grants mainly comprised approximately RMB0.4 million granted by Beijing Municipal Commission of Commerce (北京商務委員會), approximately RMB0.2 million granted by Beijing Tongzhou District Huoxianzhen Finance Bureau (北京市通州區漷縣鎮財政所) and approximately RMB0.1 million granted by Beijing Tongzhou District Huoxianzhen People's Government (北京市通州區漷縣鎮人民政府).

For the year ended 31 December 2012, the government grants mainly comprised RMB1.0 million granted by Beijing Municipal Science and Technology Commission (北京市科學技術委員會), approximately RMB97,000 granted by Beijing Municipal Commission of Commerce (北京商務委員會) and RMB80,000 granted by Beijing Tongzhou District Huoxianzhen People's Government.

For the year ended 31 December 2013, the government grants mainly comprised approximately RMB0.3 million granted by Beijing Municipal Science and Technology Commission, approximately RMB0.2 million granted by Beijing Municipal Commission of Commerce and approximately RMB0.1 million granted by Beijing Jin San Jiao Investment Management Co., Ltd. (北京市金三角投資管理有限公司).

For the nine months ended 30 September 2014, the government grants mainly comprised RMB0.1 million granted by Beijing Jin San Jiao Investment Management Co., Ltd. (北京市金三角投資管理有限公司), and approximately RMB0.2 million granted by Beijing Municipal Commission of Commerce.

Income Tax Expense

Income tax expense represents current and deferred income tax.

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During the year 2009, our Company obtained the High and New Technology Enterprise Certificate (高新技術企業證書) which was valid until 16 June 2012, was issued by Beijing Municipal Science and Technology Commission (北京市科學技術委員會), Beijing Municipal Finance Bureau (北京市財政局), Beijing Municipal Office, State Administration of Taxation (北京市國家稅務局) and Beijing Local Taxation Bureau (北京市地方稅務局). Pursuant to the Administrative Measures for the Determination of High and New Technology Enterprises (高新技術企業認定管理辦法) and the PRC Law on Enterprise Income Tax (中華人民共和國企業所得稅法) and the related regulations and rules, our Company was recognised as a high and new technology enterprise and accordingly, our Company was eligible to a concessionary PRC EIT tax rate of 15% from 2009 to 2011.

During the year 2012, our Company obtained the certification of high and new technology enterprise review and our Company obtained the High and New Technology Enterprise Certificate which is valid until 30 October 2015, and was issued by Beijing Municipal Science and Technology Commission, Beijing Municipal Finance Bureau, Beijing Municipal Office, State Administration of Taxation and Beijing Local Taxation Bureau. Pursuant to the Administrative Measures for the Determination of High and New Technology Enterprises and the PRC Law on Enterprise Income Tax and the related regulations and rules, our Company was recognised as a high and new technology enterprise and accordingly, our Company is eligible to a concessionary PRC EIT tax rate of 15% from 2012 to 2014.

For the three years ended 31 December 2013 and nine months ended 30 September 2014, our income tax expenses were approximately RMB5.0 million, RMB5.3 million, and RMB5.5 million and RMB3.5 million, respectively, with our effective tax rate maintained at 14.1%, 14.1%, 14.3% and 13.3%, respectively. We had paid all relevant taxes and no disputes or unsolved tax issues with the relevant tax authorities.

NINE MONTHS ENDED 30 SEPTEMBER 2014 COMPARED TO NINE MONTHS ENDED 30 SEPTEMBER 2013

Revenue

Our total revenue increased from approximately RMB72.7 million for the nine months ended 30 September 2013 to approximately RMB91.3 million for the nine months ended 30 September 2014 by RMB18.6 million, representing an increase of 25.6%. The increase in total revenue was attributable to the increase in the number of distributors from over 350 for the nine months ended 30 September 2013 to over 440 for the nine months ended 30 September 2014, the increasing market demand as well as the expansion of our business.

Standard joint prosthesis products

Our revenue derived from our standard joint prosthesis products increased by RMB13.3 million or 27.0% from approximately RMB49.3 million for the nine months ended 30 September 2013 to approximately RMB62.6 million for the nine months ended 30 September 2014. The increase in the revenue derived from standard joint prosthesis products was mainly due to the increase in the number of domestic distributors in China along with the growing sales volume.

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Custom joint prosthesis products

Our revenue derived from the custom joint prosthesis products increased by RMB5.1 million or 32.3% from approximately RMB15.8 million for the nine months ended 30 September 2013 to approximately RMB20.9 million for the nine months ended 30 September 2014. The increase in the revenue derived from the custom joint prosthesis products was mainly due to the increasing market demand from the hospitals.

Spinal products

Our revenue derived from spinal products increased slightly by RMB0.2 million or 3.8% from approximately RMB7.6 million for the nine months ended 30 September 2013 to approximately RMB7.8 million for the nine months ended 30 September 2014. Although the proportion to the total sales decreased, the sales of our spinal products remained stable over the two nine-month periods.

Cost of sales

We recorded an slight increase in cost of sales of RMB3.4 million or 16.2% from approximately RMB21.0 million for the nine months ended 30 September 2013 to approximately RMB24.4 million for the nine months ended 30 September 2014. The increase in cost of sales was mainly due to the increase in the purchase of material by RMB1.8 million or 21.7% from approximately RMB8.3 million for the nine months ended 30 September 2013 to RMB10.1 million for the nine months ended 30 September 2014.

Gross profit and gross profit margin

The gross profit increased by RMB15.2 million or 29.4% from approximately RMB51.7 million to RMB66.9 million for the nine months ended 30 September 2013 and 30 September 2014, respectively.

The profit margin slightly increased from 71.1% to 73.2% for the nine months ended 30 September 2013 and 30 September 2014.

Selling Expenses

Our selling expenses increased by RMB4.4 million or 29.5% from approximately RMB14.9 million for the nine months ended 30 September 2013 to approximately RMB19.3 million for the nine months ended 30 September 2014. Such increase was mainly attributable to (i) increase in advertising expenses by approximately RMB2.4 million due to the expansion of business which more seminars and events were held in 2014; and (ii) slight increases in staff salaries and related costs by RMB0.8 million and travelling expenses by RMB1.4 million due to the increases in number of staff during the nine months ended 30 September 2014 when compared with the nine months ended 30 September 2013.

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Administrative Expenses

Our administrative expenses increased by RMB5.3 million or 37.9% from approximately RMB14.0 million for the nine months ended 30 September 2013 to RMB19.3 million for the nine months ended 30 September 2014. Such increase was mainly attributable to (i) the increase in research and development expenses of RMB3.4 million; (ii) the incurred professional and other fees relating to the Listing of RMB1.6 million during the nine months ended 30 September 2014; (iii) the increase in staff salaries and related costs of RMB0.8 million during the nine months ended 30 September 2014.

Impairment loss of assets

Our impairment loss of assets remained stable at approximately RMB1.8 million for the nine months ended 30 September 2013 and 30 September 2014.

Business tax and levies

Our business tax and levies increased slightly by approximately RMB0.1 million or 14.3% from RMB0.7 million to RMB0.8 million for the nine months ended 30 September 2013 and 30 September 2014. The effective tax rate remained at 0.9% for the nine months ended 30 September 2013 and 30 September 2014.

Non-operating income

Non-operating income mainly consisted of government grants, which accounted for 99.3% and 99.5% of our total non-operating income for the nine months ended 30 September 2013 and 30 September 2014, respectively. Non-operating income decreased slightly from approximately RMB592,000 to approximately RMB363,000 by RMB229,000 or 38.7% for the nine months ended 30 September 2013 and 30 September 2014, which was mainly due to the Beijing Municipal Science and Technology Commission (北京市科學技術委員會) did not grant subsidies to us during the nine months ended 30 September 2014 when compared with the nine months ended 30 September 2013.

Non-operating expenses

Non-operating expenses mainly consisted of donations and sundry expenses for the nine months ended 30 September 2013 and 30 September 2014. Such decrease in this amount for the nine months ended 30 September 2014 when compared with the same of 2013 was mainly due to the one-off net losses incurred from the disposals of fixed assets during the nine months ended 30 September 2013.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by RMB5.3 million or 25.5% from approximately RMB20.8 million for the nine months ended 30 September 2013 to approximately RMB26.1 million for the nine months ended 30 September 2014.

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Net profit for the period

Our net profit for the period increased by RMB4.8 million or 26.8% from approximately RMB17.9 million for the nine months ended 30 September 2013 to approximately RMB22.7 million for the nine months ended 30 September 2014.

Income tax expenses

Income tax expenses represent current and deferred income tax.

Our income tax expenses increased by RMB0.5 million or 16.7% from approximately RMB3.0 million for the nine months ended 30 September 2013 to approximately RMB3.5 million for the nine months ended 30 September 2014. Our effective income tax rate maintained at 14.2% and 13.3% for the nine months ended 30 September 2013 and 30 September 2014.

YEAR ENDED 31 DECEMBER 2013 COMPARED TO YEAR ENDED 31 DECEMBER 2012

Revenue

Our total revenue increased from approximately RMB98.1 million for the year ended 31 December 2012 to approximately RMB110.5 million for the year ended 31 December 2013 by RMB12.4 million representing an increase of 12.6%. The increase in total revenue was attributable to the increase in the number of distributors from around 350 for the year ended 31 December 2012 to around 400 for the year ended 31 December 2013, the increasing market demand as well as the expansion of our business.

Standard joint prosthesis products

Our revenue derived from our standard joint prosthesis products increased by RMB9.9 million or 14.7% from approximately RMB67.5 million for the year ended 31 December 2012 to approximately RMB77.4 million for the year ended 31 December 2013. The increase in the revenue derived from standard joint prosthesis products was mainly due to the increase in the number of domestic customers in China along with the growing sales volume.

Custom joint prosthesis products

Our revenue derived from the custom joint prosthesis products increased by RMB3.2 million or 15.9% from approximately RMB20.1 million for the year ended 31 December 2012 to approximately RMB23.3 million for the year ended 31 December 2013. The increase in the revenue derived from the custom joint prosthesis products was mainly due to the increasing market demand from the hospitals.

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Spinal products

Our revenue derived from spinal products decreased by RMB0.7 million or 6.7% from approximately RMB10.5 million for the year ended 31 December 2012 to approximately RMB9.8 million for the year ended 31 December 2013. Although the proportion to the total sales decreased, the sales of our spinal products remained stable over the two years.

Cost of sales

We recorded an increase in cost of sales of RMB3.0 million or 10.9% from approximately RMB27.5 million for the year ended 31 December 2012 to approximately RMB30.5 million for the year ended 31 December 2013. The increase in cost of sales was mainly due to the increase in the cost of material by RMB3.4 million or 31.5% from approximately RMB10.8 million for the year ended 31 December 2012 to approximately RMB14.2 million for the year ended 31 December 2013, as a result of the expansion of our business.

Gross profit and gross profit margin

The gross profit increased by RMB9.5 million or 13.5% from approximately RMB70.6 million to RMB80.1 million for the years ended 31 December 2012 and 2013.

The gross profit margin maintained at 71.9% and 72.4% for each of the two years ended 31 December 2012 and 2013.

Selling Expenses

Our selling expenses increased by RMB3.8 million or 23.3% from approximately RMB16.3 million for the year ended 31 December 2012 to approximately RMB20.1 million for the year ended 31 December 2013. Such increase was mainly attributable to (i) the increase in travelling expenses by RMB1.9 million or 65.5% as a result of the expansion of our business; and (ii) the increase in our staff costs by approximately RMB1.5 million or 60.0% which was mainly due to the increase in the number of our sales and marketing staffs from around 45 to around 70 for the two years ended 31 December 2013.

Administrative Expenses

Our administrative expenses increased by RMB4.5 million or 28.0% from approximately RMB16.1 million for the year ended 31 December 2012 to approximately RMB20.6 million for the year ended 31 December 2013. The increase in administrative expenses was mainly attributable to (i) the increase in staff salaries and related cost by approximately RMB2.0 million; (ii) the increase in the professional fees related to the increase in the application of government grants and listing expenses by approximately RMB0.7 million; and (iii) the increase in amortisation of intangible assets by approximately RMB0.5 million on the addition of land use right during the year ended 31 December 2013.

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Impairment loss of assets

Our impairment loss of assets decreased by RMB0.4 million or 36.4% from approximately RMB1.1 million to approximately RMB0.7 million for the two years ended 31 December 2013. The decrease in impairment loss of assets was mainly due to the decrease in the balance of other receivables as at 31 December 2013 by approximately RMB5.3 million as compared with that as at 31 December 2012.

Business tax and levies

Our business tax and levies increased by RMB0.1 million or 9.1% from approximately RMB1.1 million to approximately RMB1.2 million for the two years ended 31 December 2013. The effective tax rate remained at 1.1% for the two years ended 31 December 2013.

Non-operating income

Non-operating income mainly consisted of government grants, which accounted for 98.8% and 99.1% of our total non-operating income for the two years ended 31 December 2013, respectively. Non-operating income decreased from approximately RMB1.2 million to approximately RMB0.6 million by RMB0.6 million or 50.0% for the two years ended 31 December 2013, which was mainly due to the fact that the subsidies granted to us by Beijing Municipal Science and Technology Commission (北京市科學技術委員會) during the year ended 31 December 2013 had been decreased by approximately RMB0.7 million when compared with the year ended 31 December 2012.

Non-operating expenses

Non-operating expenses mainly consisted of donations and sundry expenses for the two years ended 31 December 2012 and 2013. Such increase in this amount for the year ended 31 December 2013 was mainly attributable to the net losses from disposal of fixed assets during the year ended 31 December 2013.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by RMB0.9 million or 2.4% from approximately RMB37.2 million for the year ended 31 December 2012 to RMB38.1 million for the year ended 31 December 2013.

Net profit for the year

Our net profit for the year increased by RMB0.8 million or 2.5% from approximately RMB31.9 million for the year ended 31 December 2012 to RMB32.7 million for the year ended 31 December 2013.

Income tax expenses

Income tax expenses represent current and deferred income tax.

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Our income tax expenses increased slightly by RMB0.2 million or 3.8% from approximately RMB5.3 million for the year ended 31 December 2012 to approximately RMB5.5 million for the year ended 31 December 2013. Our effective income tax rate maintained at 14.1% and 14.3% for the two years ended 31 December 2013.

YEAR ENDED 31 DECEMBER 2012 COMPARED TO YEAR ENDED 31 DECEMBER 2011

Revenue

Our total revenue increased by RMB17.8 million or 22.2% from approximately RMB80.3 million for the year ended 31 December 2011 to approximately RMB98.1 million for the year ended 31 December 2012. The increase in total revenue was mainly due to the increase in the revenue derived from standard joint prostheses by approximately RMB16.2 million or 31.6% during the two years ended 31 December 2012, resulting from the increase in the market demands, and the increase in the number of customers (including distributors) from around 344 as at 31 December 2011 to around 382 as at 31 December 2012. The total number of our distributors increased by 9.4% from around 320 as at 31 December 2011 to around 350 as at 31 December 2012.

Standard joint prostheses products

Our revenue derived from standard joint prostheses products increased by RMB16.2 million or 31.6% from approximately RMB51.3 million for the year ended 31 December 2011 to approximately RMB67.5 million for the year ended 31 December 2012. The increase in the revenue derived from standard joint prostheses products was mainly due to the increase in the number of overseas customers and the overseas sales volume.

Custom joint prostheses products

Our revenue derived from the custom joint prostheses products increased by RMB3.3 million or 19.6% from approximately RMB16.8 million for the year ended 31 December 2011 to approximately RMB20.1 million for the year ended 31 December 2012. The increase in our custom joint prostheses was mainly due to the increase in the demand from hospitals for our custom joint prostheses products.

Spinal Products

Our revenue derived from spinal products decreased by approximately RMB0.9 million or 7.9% from approximately RMB11.4 million for the year ended 31 December 2011 to approximately RMB10.5 million for the year ended 31 December 2012. The revenue derived from spinal products remained stable for the two years ended 31 December 2012.

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Cost of sales

We recorded an increase in the cost of sales by approximately RMB7.8 million or 39.6% from approximately RMB19.7 million for the year ended 31 December 2011 to approximately RMB27.5 million for the year ended 31 December 2012. The increase in cost of sales was mainly due to the increase in the costs arising from purchase of raw materials. We recorded an increase in the cost of materials by approximately RMB3.2 million or 42.1% from approximately RMB7.6 million for the year ended 31 December 2011 to approximately RMB10.8 million for the year ended 31 December 2012.

Gross profit and gross profit margin

The gross profit increased by approximately RMB10.1 million or 16.7% from approximately RMB60.5 million to approximately RMB70.6 million for the two years ended 31 December 2012.

The gross profit margin slightly decreased from 75.4% to 71.9% for the two years ended 31 December 2012. The decrease in gross profit margin was mainly due to the expansion in the overseas markets. Since the overseas market is relatively new to us, goods were sold to our overseas distributors with lower prices than those sold to our domestic distributors. As a result, we recorded a decrease in our gross profit margin for the two years ended 31 December 2012.

Selling Expenses

Our selling expenses increased by RMB3.3 million or 25.4% from approximately RMB13.0 million for the year ended 31 December 2011 to approximately RMB16.3 million for the year ended 31 December 2012. The increase in selling expenses was mainly attributable to (i) the increase in advertising expenses by approximately RMB0.9 million or 20.4% resulting from the expansion of business; (ii) the increase in travelling expenses by approximately RMB1.3 million or 74.8%; (iii) the increase in our staff costs by approximately RMB0.4 million or 19.7%, which was mainly due to an increase in the number of our staff. The number of staff from sales department increased from around 30 as at 31 December 2011 to around 45 as at 31 December 2012; and (iv) the increase in sales rebates resulting from the increase in sales.

Administrative Expenses

Our administrative expenses increased by approximately RMB4.8 million or 42.5% from approximately RMB11.3 million for the year ended 31 December 2011 to approximately RMB16.1 million for the year ended 31 December 2012. The increase in administrative expenses was mainly attributable to (i) the increase of staff salaries by approximately RMB1.3 million; (ii) the expenditure relating to our Company's proposed listing on the Shenzhen Stock Exchange terminated in 2012; (iii) the increase in rentals by approximately RMB0.4 million; and (iv) the increase in amortisation of intangible assets by approximately RMB0.2 million for the addition of land use right during the year ended 31 December 2011.

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Impairment loss of assets

Our impairment loss of assets increased by approximately RMB0.4 million or 57.1% from approximately RMB0.7 million to approximately RMB1.1 million for the two years ended 31 December 2012. The increase in impairment loss of assets was mainly due to the increase in the accounts receivable and other receivables as at 31 December 2012 when compared to those as at 31 December 2011.

Business tax and levies

Our business tax and levies increased by approximately RMB0.2 million or 22.2% from approximately RMB0.9 million to approximately RMB1.1 million for the two years ended 31 December 2012. Such increase was in line with the increase in revenue. The effective tax rate remained at 1.1% for the two years ended 31 December 2012.

Non-operating income

Non-operating income mainly consisted of government grants, which accounted for 92.5% and 98.8% of our total non-operating income for the two years ended 31 December 2012. Such government grants increased by approximately RMB0.6 million or 100.0% from approximately RMB0.6 million to approximately RMB1.2 million for the two years ended 31 December 2012, which was mainly due to the new government grant of RMB1.0 million from the Beijing Municipal Science and Technology Commission (北京市科學技術委員會) in the year ended 31 December 2012.

Non-operating expenses

Non-operating expenses mainly consisted of donations for the year ended 31 December 2012.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by RMB1.8 million or 5.1% from approximately RMB35.4 million for the year ended 31 December 2011 to approximately RMB37.2 million for the year ended 31 December 2012.

Net profit for the year

Our net profit for the year increased by RMB1.5 million or 4.9% from approximately RMB30.4 million for the year ended 31 December 2011 to approximately RMB31.9 million for the year ended 31 December 2012.

Income tax expenses

Income tax expenses represent current and deferred income tax.

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Our income tax expenses increased slightly by approximately RMB0.3 million or 6.0% from approximately RMB5.0 million for the year ended 31 December 2011 to approximately RMB5.3 million for the year ended 31 December 2012. Our effective income tax rate maintained at around 14.1% and 14.2% for the two years ended 31 December 2012, respectively.

DESCRIPTION OF CERTAIN ITEMS FROM CONSOLIDATED BALANCE SHEETS

The following table sets forth certain items of the consolidated balance sheets of our Group as at 31 December 2011, 2012 and 2013 which are derived from, and should be read in conjunction with the consolidated balance sheet set out in the Accountants' Report in Appendix I to this prospectus:

The table below sets our Group's current assets, current liabilities and selected items of the consolidated balance sheets as at the respective financial position dates indicated:

	As at 31 December			As at	As at
	2011	2012	2013	30 September 2014	31 January 2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
Current assets					
Cash and bank deposits	44,730	61,258	65,856	46,828	49,787
Notes receivable	2,092	2,661	6,340	4,115	7,480
Accounts receivable	23,958	30,654	33,653	54,260	52,119
Prepayments	1,341	1,015	787	2,347	4,773
Other receivables	6,722	5,488	624	782	1,987
Inventories	17,775	19,587	23,081	30,530	38,199
Other current assets	–	–	2,363	6,447	7,924
	96,618	120,663	132,704	145,309	162,269
Non-current assets					
Fixed assets	24,535	27,487	24,654	32,380	37,083
Construction in progress	1,150	676	5,976	2,213	3,185
Intangible assets	2,417	36,874	36,106	35,490	35,216
Deferred tax assets	254	421	524	799	769
Other non-current assets	33,790	1,389	669	1,990	1,217
	62,146	66,847	67,929	72,872	77,470
Total assets	158,764	187,510	200,633	218,181	239,739

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	As at 31 December			As at 30 September	As at 31 January
	2011	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Current liabilities					
Accounts payable	4,068	4,626	4,235	10,449	14,330
Receipts in advance	716	1,772	1,305	1,030	704
Employee benefits payable	1,007	1,556	1,871	1,863	2,138
Taxes payable	1,875	3,827	4,020	2,660	1,580
Other payables	3,814	2,559	3,639	2,965	3,772
	11,480	14,340	15,070	18,967	22,524
Non-current liabilities					
Other non-current liabilities	-	5,946	5,674	7,656	7,587
	-	5,946	5,674	7,656	7,587
Total liabilities	11,480	20,286	20,744	26,623	30,111
Net current assets	85,138	106,323	117,634	126,342	139,745
Net assets	147,284	167,224	179,889	191,558	209,628

Net current assets

Our approximate net current assets were RMB85.1 million, RMB106.3 million, RMB117.6 million, RMB126.3 million and RMB139.7 million as at 31 December 2011, 2012 and 2013, 30 September 2014 and 31 January 2015, respectively. The increases in the net current assets were mainly attributable to the increase in accounts receivable, and inventories outpaced by the increase in accounts payable, other payables and taxes payable as at the balance sheet date of the Track Record Period.

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Property, plant and equipment

The following table sets out the respective carrying amounts of our Group's property, plant and equipment as at the dates indicated:

	Buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Total <i>RMB'000</i>
CARRYING AMOUNTS					
As at 31 December 2011	8,364	14,623	598	950	24,535
As at 31 December 2012	9,328	16,785	601	773	27,487
As at 31 December 2013	8,965	14,765	387	537	24,654
As at 30 September 2014	14,676	16,988	264	452	32,380

As at 31 December 2011, 2012 and 2013 and 30 September 2014, the approximate carrying amounts of our property, plant and equipment were RMB24.5 million, RMB27.5 million, RMB24.7 million and RMB32.4 million, respectively. The carrying amounts of the property, plant and equipment as at 31 December 2012 increased by approximately RMB3.0 million or 12.2% when compared to those as at 31 December 2011, which was mainly due to the addition of buildings at Tongzhou New Production Base of approximately RMB1.0 million or 12.0% and machinery and equipment of approximately RMB2.2 million or 15.0%.

The carrying amounts of the property, plant and equipment decreased as at 31 December 2013 by RMB2.8 million or 10.2% when compared to those as at 31 December 2012 due to the disposal of machinery and equipment in the year ended 31 December 2013.

The approximate carrying amounts of the property, plant and equipment as at 30 September 2014 were RMB32.4 million when compared to those as at 31 December 2013 with the approximate amount of RMB24.7 million mainly due to the addition of buildings at Tongzhou New Production Base of approximately RMB6.0 million.

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Construction in progress

As at 31 December 2011, 2012 and 2013 and 30 September 2014, our construction in progress was approximately RMB1.2 million, RMB 0.7 million, RMB6.0 million and RMB2.2 million, respectively. Our construction in progress increased by approximately RMB5.3 million as at 31 December 2013 when compared with 31 December 2012 due to the expansion of the production line on orthopedic medical instruments in Tongzhou Second Production Base and Daxing New Production Base.

Our construction in progress decreased by approximately RMB3.8 million as at 30 September 2014 when compared with 31 December 2013 due to the stage completion of constructions of Tongzhou Second Production Base.

During the year ended 31 December 2011, the Group did not have any construction in progress transferred to property, plant and equipment. During the year ended 31 December 2012, the Group transferred approximately RMB1.2 million of construction in progress to property, plant and equipment. We did not have any construction in progress transferred to property, plant and equipment during the year ended 31 December 2013. During the nine months ended 30 September 2014, the Group transferred approximately RMB7.4 million of construction in progress to property, plant and equipment.

Intangible assets

Intangible assets represented the land use rights and software. Land use rights are amortised to reflect the economic benefits over their remaining lease terms. As at 31 December 2011, 2012, and 2013, and 30 September 2014, the approximate carrying amounts were RMB2.4 million, RMB36.9 million, RMB36.1 million, and RMB35.5 million, respectively. During the year ended 31 December 2011, we acquired the land use right in Tongzhou with remaining lease term of 37.5 years; and in the year ended 31 December 2012, we acquired the land use right in Daxing with remaining lease term of 49 years. Software is amortised to reflect the economic benefits derived from it over five years.

Other non-current assets

Other non-current assets mainly represented prepayments for land use rights and machinery equipment, which amounted to approximately RMB33.8 million, RMB1.4 million, RMB0.7 million and RMB2.0 million as at 31 December 2011, 2012 and 2013 and 30 September 2014, respectively. The balance as at 31 December 2011 mainly represented prepayments for land use rights of approximately RMB33.4 million, prepayments for machinery equipment of approximately RMB0.4 million. The balance as at 31 December 2012 mainly represented prepayments for machinery equipment of approximately RMB1.4 million. The balance as at 31 December 2013 mainly represented prepayments for our Company's constructions and deposits on purchase of machineries of approximately RMB0.7 million. The balance as at 30 September 2014 mainly represented deposits on purchase of machineries of approximately RMB2.0 million.

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Accounts receivable

The following table sets out the accounts receivable (before provision for doubtful debts) by types of customers as at the dates indicated:

	As at 31 December				As at 30 September			
	2011		2012		2013		2014	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Distributors	20,673	81.7	27,246	82.9	30,859	83.6	50,531	85.3
Hospitals	4,642	18.3	5,608	17.1	6,061	16.4	8,714	14.7
	<u>25,315</u>	<u>100.0</u>	<u>32,854</u>	<u>100.0</u>	<u>36,920</u>	<u>100.0</u>	<u>59,245</u>	<u>100.0</u>

At the end of each reporting period, provision for doubtful debts was made in accordance with our accounting policy based on the following criteria and methods:

- a. Accounts receivable that are individually significant (2% or above of the total accounts receivable) for which provision on doubtful debts is individually assessed; and the provision is recognised in respect of the shortfall between the carrying amounts and the present value of the estimated future cash flows of the receivables;
- b. Accounts receivable for which provision on doubtful debts are collectively assessed on a portfolio basis, the provision is recognised according to the aging of the receivables; and
- c. Accounts receivable with amounts that are not individually significant (2% or below of the total accounts receivable) but subject to separate assessment, the provision is recognised in respect of the shortfall between the carrying amounts and the present value of the estimated future cash flows of the receivables.

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The following table sets out the movement of the allowance for doubtful debts as at the dates indicated:

	Year ended 31 December			Nine months ended 30 September
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year/period	952	1,357	2,200	3,267
Recognised during the year/period	405	843	1,067	1,719
At the end of the year/period	1,357	2,200	3,267	4,986

According to the aforesaid, as at 31 December 2011, 2012 and 2013 and 30 September 2014, provision on doubtful debts of approximately RMB1.4 million, RMB2.2 million, RMB3.3 million and RMB5.0 million, respectively was made.

The following table sets out an aging analysis of accounts receivable from the first day of billing and net of provision on doubtful debts as at the dates indicated:

	2011		As at 31 December				As at 30 September	
	2011		2012		2013		2014	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Within 90 days	11,166	46.6	14,412	47.0	16,170	48.0	22,763	42.0
Over 90 days and within 180 days	4,407	18.4	5,132	16.7	5,442	16.2	14,306	26.3
Over 180 days and within 365 days	3,432	14.3	5,611	18.4	6,242	18.5	11,910	22.0
Over 1 year	4,953	20.7	5,499	17.9	5,799	17.3	5,281	9.7
	23,958	100.0	30,654	100.0	33,653	100.0	54,260	100.0

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The following table sets out our aging analysis as at the dates indicated, which are past due but not impaired from the first day of billing:

	As at 31 December			As at
	2011	2012	2013	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year past due	5,728	8,274	9,890	23,543
One to two years past due	4,263	3,567	3,602	2,870
Two to three years past due	403	1,568	1,315	1,425
Over three years past due	286	364	882	985
	<u>10,680</u>	<u>13,773</u>	<u>15,689</u>	<u>28,823</u>

We do not provide further impairment for the above past due in the Directors' opinion since there has not been a significant change in the credit quality of our customers and the past due is still considered recoverable based on our experience. Since the settlement period on reimbursements from medical insurance scheme of the PRC government to hospitals has been increasing, hospitals have been requesting their suppliers to extend the settlement periods. This resulted in longer repayments from our distributors. The Group's relatively high amount of past due accounts receivable is due to the prolonged reimbursement process of the PRC medical insurance scheme. The reasons for the extension of time to receive payments from the claims of PRC medical insurance scheme are as follows:

- (1) The settlement of medical fees by social insurance management institutions with medical institutions are generally governed by relevant policies of the different parts of the PRC stipulated based on actual local circumstances. While social insurance management institutions shall generally complete the review within 15 to 30 working days, and make the payment upon completion of review, certain particular regions such as Chengdu City made settlements on a quarterly basis.
- (2) While medical insurance coverage in China keeps expanding, workload of social insurance department increases and assessment time is prolonged. This, to some extent, affects the time for settlement of payments by medical institutions.
- (3) Medical reform in China is still in progress, problem exists where subsidies from the government to medical institutions cannot be in place timely. Some medical institutions may delay the settlement of consideration of goods purchased to improve their cashflow.

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We have assessed the historical performances, including but not limited to the payment history, sales amounts, the market share of the distributors prior to granting credit limits and/or credit periods to the distributors. We have also assessed the business relationship with the distributors as at the year end dates. Our Directors confirmed that the credit periods granted to distributors and hospitals are generally consistent with the industry norm. Other than the above, we also consider the subsequent settlement of our accounts receivable.

The balance of accounts receivable, net of provision, remained stable as at 31 December 2011, 2012, and 2013. As at 30 September 2014, such balance increased by RMB20.6 million or 61.2% when compared with the balance as at 31 December 2013 mainly due to the fact that the distributors tended to settle the outstanding balance in the fourth quarter of the year that was the same with the Track Record Period, which led to the increase in the outstanding balance as at 30 September 2014.

As at 31 December 2013 and 30 September 2014, our outstanding accounts receivables that are past due but not impaired amounted to approximately RMB15.7 million and RMB28.8 million, respectively and as at 31 December 2014, the total outstanding balances of those accounts receivable that are past due but not impaired which have subsequent settlement amounted to approximately RMB13.3 million and RMB21.1 million, respectively, representing that are past due but not impaired of approximately 84.7% and 73.3%, of the total outstanding account receivables, respectively.

As at 31 December 2014, the subsequent settlement of the accounts receivable net of provision was approximately RMB30.9 million, representing approximately 91.7% of the accounts receivable net of provision as at 31 December 2013 and approximately RMB35.1 million, representing approximately 64.7% of the accounts receivable net of provision as at 30 September 2014.

Based on the aforesaid, our Directors considered that no further impairment is needed, and there has not been a significant change in the credit quality of our customers. These past due accounts receivable are considered recoverable based on our experience and assessment. Our Directors considered that the provision on doubtful debts recognised during the Track Record Period was adequate.

The Group has enhanced its credit control measures by requiring our customers to comply with our credit policy on which our accounting and sales departments to perform regular reconciliations of the outstanding balances on an on-going basis. Our enhanced credit control measures include the following: (i) our provincial or regional sales managers periodically contact distributors to ensure their timely settlement of the outstanding payables. Our sales department will compile regular reports on outstanding amounts due from distributors. The accounts receivable that our sales persons are unable to recover on time will be reported through the corporate hierarchy reporting structure of the Company to the sales and marketing director. The sales and marketing director of the Company is Mr. Shi Chunbao, who is also the chairman of the Board and the general manager of the Company. For biographical details of Mr. Shi, please refer to the section headed "Directors, Supervisors and Senior Management" to this prospectus; (ii) if there are accounts receivable that have been past due for a prolonged period, we will adopt the

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following measures: in the event of credit deterioration, we may request our distributors to provide guarantee and/or collateral to secure their payment obligations and may, when necessary, reduce or cancel shipment orders that have already been placed by, as well as revoke the distributorship of, the distributors who have defaulted on our credit terms or have long-term outstanding payables to us, and initiate legal proceedings against the distributors who have maliciously attempted to default on the terms. The Company believes that the above measures are effective in enhancing the Company's ability to manage credit risk.

The following table sets out the debtors' turnover days as at the dates indicated:

	As at 31 December		As at 30 September	
	2011	2012	2013	2014
Debtors' turnover days ^(note)	109	102	106	131

Note: Debtors' turnover days as at 31 December 2011, 2012 and 2013 and 30 September 2014 were based on our average accounts receivable (i.e. sum of opening and closing balances of accounts receivable of the respective periods and divided by two), net of provision on impairment, divided by the total revenue, multiplied by the total number of days of each year or period (i.e. 273 days for the nine months ended 30 September 2014).

The debtors' turnover days were 109 days, 102 days, 106 days and 131 days as at 31 December 2011, 2012 and 2013 and 30 September 2014, respectively, with credit periods generally ranging within 210 days from the date of receipt of purchase order. The debtors' turnover days are consistent with our credit periods. Such increase in turnover days was mainly attributable to the customers mainly settle their outstanding balances near the year end, which had led to increase in the balance of accounts receivable and longer debtor's turnover days as at 30 September 2014.

We have taken into account the impact on our working capital position when granting the credit limits to the distributors and customers. 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 sale of our products.

Quantitative analysis of the domestic debtors' turnover days of the Company

According to the information from the Report of Statistical Analysis on the Operation of Pharmaceutical Distribution Industry of 2012 (2012年藥品流通行業運行統計分析報告) published by the Ministry of Commerce, the domestic debtors' turnover days for wholesale pharmaceutical distribution enterprises in the pharmaceutical distribution industry in 2012 was 142 days, which was increased by 11 days compared to that of 2011 (i.e. the domestic debtors' turnover days in 2011 being 131 days).

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The domestic debtors' turnover days, change in number of days and the percentage change during Track Record Period are as follows:

		As at 31 December		As at
	2011	2012	2013	30 September 2014
Domestic debtors' turnover days ^(note 1)	111	113	121	154
Change in number of days	Not applicable	2	8	33
Percentage change	Not applicable	1.8%	7.1%	26.3%

Note 1: Domestic debtors' turnover days as at 31 December 2011, 2012 and 2013 and 30 September 2014 were based on our average accounts receivable from domestic customers (i.e. sum of opening and closing balances of accounts receivable of the respective periods and divided by two), net of provision on impairment, divided by the total domestic revenue, multiplied by the total number of days of each year or period (i.e. 273 days for the nine months ended 30 September).

Note 2: As overseas customers are not subject to reimbursement under the medical insurance scheme in the PRC, they are not included in the computation of the above quantitative indicators. As the domestic debtors' turnover days of the Company during Track Record Period were affected by the extended time required for the reimbursement under the medical insurance scheme in the PRC, there has been an increase in the relevant debtors' turnover days, which is in line with the trend of increase in the debtors' turnover days as shown in the report published by the Ministry of Commerce.

Notes receivable

The aging of notes receivable was within 180 days, which was consistent with our credit period.

Prepayments and other receivables

Our prepayments and other receivables mainly consisted of prepaid lease payments and prepaid materials. The following table sets out the breakdown of our prepayments and other receivables as at the dates indicated:

	As at 31 December			As at
	2011	2012	2013	30 September 2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepaid lease payments	380	322	239	331
Prepayments to suppliers	306	139	–	1,501
Other prepayments	655	554	548	515
Prepayments	1,341	1,015	787	2,347
Other receivables	6,722	5,488	624	782
	<u>8,063</u>	<u>6,503</u>	<u>1,411</u>	<u>3,129</u>

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Inventories

Our inventories included raw materials, work-in-progress and finished goods. The following table sets out the Group's inventories and the average inventory turnover days as at the dates indicated:

	As at 31 December			As at 30 September
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Raw materials	5,821	5,556	6,956	10,120
Work in progress	2,356	3,234	6,134	6,669
Finished goods	9,598	10,797	9,991	13,741
Total	17,775	19,587	23,081	30,530
Inventory turnover days ^(note)	394	248	256	299

Note: Inventory turnover days as at 31 December 2011, 2012 and 2013 and 30 September 2014 were computed based on our average inventories (i.e. sum of opening and closing balances of inventories of respective periods and divided by two) divided by cost of sales incurred in the respective periods and multiplied by the number of days in the respective year or period (i.e. 273 days for the nine months ended 30 September).

The following table sets out the aging analysis of the Group's inventories as at the dates indicated:

	As at 31 December			As at 30 September
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within one year	12,646	14,226	18,302	26,067
One to two years	3,120	2,175	1,558	2,335
More than two years	2,009	3,186	3,221	2,128
Total	17,775	19,587	23,081	30,530

Our inventories as at 31 December 2011, 2012 and 2013 and 30 September 2014 were mainly standard joint prosthesis products and spinal products, and of approximately 71.1%, 72.6%, 79.3% and 85.4% of the inventories aged within 1 year. Our inventory turnover days decreased from around 394 days as at 31 December 2011 to around 248 days, 256 days and 299 days as at 31 December 2012 and 2013 and 30 September 2014, respectively.

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The gradual increase in the inventory level over the Track Record Period was mainly attributable to the increasing demand in the market and in line with our growth of business. Our Company had foreseen an increase in the price of raw materials in the future. Therefore, our Company decided to purchase more raw materials at the end of 2010 as part of our production plan, which resulted in a relatively higher inventory turnover days as at 31 December 2011. As we did not have such raw materials purchasing plan subsequently, we maintained a relatively stable turnover days of 248 days as at 31 December 2012, 256 days as at 31 December 2013. The inventory level as at 30 September 2014 increased by RMB7.4 million or 32.3% when compared with the same as at 31 December 2013. The Group had to prepare for minor seasonal fluctuation in the industry as set out in the section headed “Business — Sales Distribution Network and Marketing — Sales Model” in this prospectus that as patients usually have joint replacement surgeries and spinal internal fixation surgeries during seasons with cooler temperature to avoid unnecessary infection after surgeries, there are relatively fewer surgeries in the summer. As a result, generally, there would be a relatively higher level of inventory in the third quarter of the year.

As at 31 December 2014, the subsequent sales of inventories as at 31 December 2013 and 30 September 2014 were RMB19.0 million and RMB13.7 million, representing 82.3% and 44.9% of the inventories as at 31 December 2013 and 30 September 2014.

Since our finished goods were mainly joint prosthesis products and the raw materials were mainly metal and ultra-high molecular weight polyethylene materials, our inventories would not deteriorate. Therefore, no provision for impairment of inventories was made during the Track Record Period.

Accounts payable

Our accounts payable increased by RMB0.5 million or 12.2% from approximately RMB4.1 million as at 31 December 2011 to approximately RMB4.6 million as at 31 December 2012. Our accounts payable decreased by RMB0.4 million or 8.7% from approximately RMB4.6 million as at 31 December 2012 to approximately RMB4.2 million as at 31 December 2013. Our accounts payable increased by RMB6.2 million or over 100.0% from approximately RMB4.2 million as at 31 December 2013 to RMB10.4 million as at 30 September 2014. Such increase was mainly due to increase in the purchase of raw materials towards the period end.

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The following table sets out the aging analysis of our accounts payable presented according to the invoices as at the dates indicated:

	As at 31 December			As at
	2011	2012	2013	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2014 <i>RMB'000</i>
Within one year	2,321	4,579	4,103	10,162
Over one year and within two years	410	47	91	168
Over two years and within three years	242	–	41	78
Over three years	1,095	–	–	41
	<u>4,068</u>	<u>4,626</u>	<u>4,235</u>	<u>10,449</u>

The credit period for accounts payable generally ranges from 0 day to 180 days. Our Group has financial risk management policies in place to ensure all payables are paid within the credit period.

The following table sets out the creditors' turnover days for the years indicated:

	As at 31 December			As at
	2011	2012	2013	30 September
				2014
Creditors' turnover days ^(note)	98	58	53	82

Note: Creditors' turnover days as at 31 December 2011, 2012 and 2013 and 30 September 2014 were computed based on our average account payables (i.e. sum of opening and closing balances of account payables of respective periods and divided by two) divided by our cost of sales of the respective periods and multiplied by the number of days of the respective year or period (i.e. 273 days for the nine months ended 30 September).

Our accounts payable turnover days were 98 days, 58 days, 53 days and 82 days as at 31 December 2011, 2012 and 2013 and 30 September 2014, respectively. In order to maintain a stable relationship with our suppliers, we had managed to settle our outstanding balances generally within the credit period granted by the suppliers. Our accounts payable turnover days were generally consistent with the credit period offered by our suppliers.

Receipts in advance

Our receipts in advance represented the payment of goods received in advance from our customers, which amounted to approximately RMB0.7 million, RMB1.8 million, RMB1.3 million, and RMB1.0 million, as at the three years ended 31 December 2013 and 30 September 2014, respectively. Our receipts in advance increased by RMB1.1 million or

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157.1% from approximately RMB0.7 million as at 31 December 2011 to approximately RMB1.8 million as at 31 December 2012 due to the increasing business volume from overseas, and our receipts in advance decreased by RMB0.5 million or 27.8% from approximately RMB1.8 million as at 31 December 2012 to approximately RMB1.3 million as at 31 December 2013 due to a decrease in the payment received from our customers at the relevant time. Our receipts in advance decreased slightly by RMB0.3 million or 23.1% to approximately RMB1.0 million as at 30 September 2014 when compared to those as at 31 December 2013. Our receipts in advance is resulted from our requirement of delivery of goods only after receiving full payment from our overseas customers when they placed orders.

Employee benefits payable

Our employee benefits payable mainly represented the accrued payroll and bonuses, and accrued staff social contributions. Our Group's employee benefits payable increased by RMB0.6 million or 60.0% from approximately RMB1.0 million as at 31 December 2011 to approximately RMB1.6 million as at 31 December 2012, and further increased by RMB0.3 million or 18.8% to approximately RMB1.9 million as at 31 December 2013 and remained stable at RMB1.9 million as at 30 September 2014. Such increases were mainly due to the increase in the number of our total staffs by 31.4% during the period from 31 December 2011 to 31 December 2012 and by 5.5% during the period from 31 December 2012 to 31 December 2013.

Taxes payable

Our taxes payable increased by approximately RMB1.9 million or 100.0% from approximately RMB1.9 million as at 31 December 2011 to approximately RMB3.8 million as at 31 December 2012. It further increased by RMB0.2 million or 5.3% to RMB4.0 million as at 31 December 2013 but decreased by RMB1.3 million or 32.5% to RMB2.7 million as at 30 September 2014. It mainly represents the PRC value-added tax and the Enterprise Income Tax, which amounted to approximately RMB0.6 million and RMB1.1 million as at 31 December 2011, respectively, approximately RMB1.9 million and RMB1.6 million as at 31 December 2012, respectively, approximately RMB2.3 million and RMB1.4 million as at 31 December 2013, respectively, and approximately RMB2.2 million and RMB0.3 million as at 30 September 2014, respectively.

Other payables

Other payables mainly represented the accrual of sales rebates as at the financial position dates and accrual for listing expenses as at 31 December 2013 and 30 September 2014. Sales rebates were granted to certain distributors when they had met the sales targets. Such sales rebates were usually granted in the form of physical products and cash in the year ended 31 December 2011 was rebated to certain distributors. Accrual for listing expenses arised from the listing expenses. As at 31 December 2011, 2012 and 2013 and 30 September 2014, our other payables amounted to approximately RMB3.8 million, RMB2.6 million, RMB3.6 million and RMB3.0 million, respectively.

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Other non-current liabilities

Other non-current liabilities mainly represented the government subsidies granted by the government, for the purpose of equipment acquisition. In accordance with CASBE, this was treated as deferred income.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our working capital and capital expenditure principally through internally generated cash flow. Our primary uses of funds are to finance our working capital and capital expenditures.

Cash flows

The table below sets out a summary of our consolidated cash flow statements during the Track Record Period:

Consolidated cash flow statements

	Year ended 31 December			Nine months ended 30 September	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Net cash generated from operating activities	32,463	28,828	28,202	(11,266)	304
Net cash used in investing activities	(47,594)	(299)	(1,241)	(13,125)	(4,042)
Net cash used in financing activities	<u>(2,000)</u>	<u>(12,000)</u>	<u>(22,364)</u>	<u>(2,364)</u>	<u>(15,290)</u>
Net (decrease) increase in cash and cash equivalents	(17,131)	16,529	4,597	(26,755)	(19,028)
Cash and cash equivalents at the beginning of the year/period	<u>61,861</u>	<u>44,730</u>	<u>61,259</u>	<u>61,259</u>	<u>65,856</u>
Cash and cash equivalents at the end of the year/period	<u><u>44,730</u></u>	<u><u>61,259</u></u>	<u><u>65,856</u></u>	<u><u>34,504</u></u>	<u><u>46,828</u></u>

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Net cash flows generated from operating activities

Cash is generated from operating activities through receipt of payments for the sale of goods and rendering of services. Our cash outflows from operating activities are primarily due to the purchase of goods and the payment for staff costs and business tax and levies.

For the year ended 31 December 2011, our net cash from operating activities was approximately RMB32.5 million, primarily attributable to (i) cash received from sale of goods and rendering of services of approximately RMB98.2 million; (ii) cash used in purchase of materials of approximately RMB20.7 million; (iii) cash paid to workers of approximately RMB12.5 million; and (iv) payments for business tax and levies of approximately RMB17.1 million.

For the year ended 31 December 2012, our net cash from operating activities was approximately RMB28.8 million, primarily attributable to (i) cash received from sale of goods and rendering of services of approximately RMB107.6 million; (ii) cash used in purchase of materials of approximately RMB24.6 million; (iii) cash paid to workers of approximately RMB17.3 million; and (iv) payments for business tax and levies of approximately RMB16.8 million.

For the year ended 31 December 2013, our net cash from operating activities was approximately RMB28.2 million, primarily attributable to (i) cash received from sales of goods and rendering of services of approximately RMB119.6 million; (ii) cash used in purchase of materials of approximately RMB27.2 million; (iii) cash paid to workers of approximately RMB21.4 million; and (iv) payments for business tax and levies of approximately RMB19.9 million.

For the nine months ended 30 September 2014, our net cash from operating activities was approximately RMB0.3 million, primarily attributable to (i) cash received from sale of goods and rendering of services of approximately RMB85.2 million; (ii) cash used in purchase of materials of approximately RMB26.4 million; (iii) cash paid to workers of approximately RMB18.2 million; and (iv) payments for business tax and levies of approximately RMB15.3 million.

Net cash flows used in investing activities

For the year ended 31 December 2011, our net cash used in investing activities was approximately RMB47.6 million, primarily attributable to the cash used in the acquisitions of fixed assets and land use rights of approximately RMB42.8 million.

For the year ended 31 December 2012, our net cash used in investing activities was approximately RMB0.3 million, primarily attributable to the government grants of approximately RMB5.9 million received by our Company during the year and cash used in the acquisitions of fixed assets of approximately RMB6.4 million.

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For the year ended 31 December 2013, our net cash used in investing activities was approximately RMB1.2 million, primarily attributable to the refund of construction deposits of approximately RMB5.0 million, offset by payment for purchasing fixed assets of approximately RMB6.7 million.

For the nine months ended 30 September 2014, our net cash used in investing activities was approximately RMB4.0 million, primarily attributable to the government grants of approximately RMB2.0 million, offset by payment for purchasing fixed assets of approximately RMB6.2 million.

Net cash flows used in financing activities

For the year ended 31 December 2011, our net cash used in financing activities represented the dividends of RMB2.0 million paid by our Company.

For the year ended 31 December 2012, our net cash used in financing activities was the dividends of RMB12.0 million paid by our Company.

For the year ended 31 December 2013, our net cash used in financing activities was RMB22.4 million which was primarily attributable to dividends of approximately RMB20.0 million paid by our Company.

For the nine months ended 30 September 2014, our net cash used in financing activities was approximately RMB15.3 million, which was primarily attributable to dividends of RMB11.0 million paid by our Company.

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Our liquidity requirements mainly relate to working capital needs and capital expenditures. We historically met our working capital and other liquidity requirements. Our principal sources of liquidity are cash generated from our operations. We do not have any bank loan agreements. Our Directors confirmed that we had no material defaults in payment of trade and non-trade payables and bank borrowings, and/or breaches of finance covenants during the Track Record Period. Currently, we do not have material external financing plan in the near future.

Related parties transactions

During the Track Record Period, we sold our products to Gaoyang Materials. The responsible person of Gaoyang Materials is the husband of our Controlling Shareholder's cousin. The transaction amount of Gaoyang Materials was approximately RMB4.8 million, RMB5.1 million, RMB6.0 million and RMB4.1 million for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively.

We had also purchased raw materials from Beijing Huikangxinnuo Technology Development Co., Ltd. ("**Beijing Huikangxinnuo**"), of which Mr. Shi, our Controlling Shareholder, holds approximately 23.34% equity interest. The transaction amount with Beijing Huikangxinnuo was approximately RMB137,000 for the year ended 31 December

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2011. On 21 March 2011, Mr. Shi disposed of the entirety of his equity interest in Beijing Huikangxinnuo and the company ceased to be a related party of our Company.

During the period from April 2011 to May 2012, Ms. Yue, a Controlling Shareholder, leased a building to us as our temporary office without any compensation.

As at 31 December 2011, 2012, and 2013 and 30 September 2014, amounts due from our related parties were RMB0.7 million, RMB1.6 million, RMB2.7 million and RMB5.5 million, respectively. Such amounts were trade in nature, unsecured, interest-free and with credit terms within 210 days. General provisions for bad or doubtful debts of approximately RMB21,000, RMB48,000, RMB82,000 and RMB166,000 were made for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively.

Our Directors confirm that each of the related parties transactions set out in note k of section 1 in Appendix I to this prospectus, was conducted on arm's length and normal commercial terms, in our ordinary and usual course of business and would not distort our historical results of operations or make the historical results not reflective of our future performance.

Certain related parties transactions set out in note k of section 1 in Appendix I to this prospectus will continue after the Listing. For details, please refer to the section headed "Connected Transactions" in this prospectus.

CAPITAL EXPENDITURES

The following table sets out our capital expenditures incurred for the periods indicated:

	Year ended 31 December			Nine months ended
				30 September
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fixed assets	11,717	5,732	501	10,068
Construction in progress	1,150	676	5,300	3,675
Intangible assets	2,472	34,781	48	-
	15,339	41,189	5,849	13,743

We have historically funded our capital expenditures through cash generated from our operations. The aforesaid capital expenditures primarily consisted of the renovation of our Tongzhou Second Production Base and the construction of Daxing New Production Base, and upgrades to our other current production facilities.

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We expect to incur capital expenditures of approximately RMB509.6 million for our Daxing New Production Base, which is expected to be completed by the end of 2018. Please refer to the section headed “Business — Business Strategies and Future Plans — Expansion of our production facilities and strategic relocation — Expansion plan and increase of production capacity” in this prospectus for further details of our expansion plans. We expect to finance our capital expenditures through a combination of operating cash flows and the net proceeds from the Global Offering. We may adjust our capital expenditures for any given period according to our development plans or in light of market conditions and other factors we believe to be appropriate.

CONTRACTUAL AND CAPITAL COMMITMENTS

Operating lease commitments

As at the end of the reporting periods during the Track Record Period, the Group had an agreed price based on the area of the office premises under non-cancellable operating leases, which fall due as follows:

	As at 31 December		As at 30 September	
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	929	424	1,335	1,624
From the second year to fifth year, inclusive	139	139	2,439	1,696
	1,068	563	3,774	3,320

Operating lease payments represent rentals payable by our Company for its office premises as well as factories.

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Capital commitments

During the Track Record Period, we entered into certain contracts in relation to purchase of property, plant and equipment. We had the following capital commitments, which were not provided for in our consolidated financial statements as at the dates indicated:

	As at 31 December			As at
	2011	2012	2013	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2014 <i>RMB'000</i>
Contracted for but not yet recognised	–	–	2,495	14,025
Authorised but not yet contracted for	–	444,409	443,611	434,281
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital commitment	–	444,409	446,106	448,306
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Our capital commitments increased significantly from nil as at 31 December 2011 to approximately RMB444.4 million, RMB446.1 million and RMB448.3 million as at 31 December 2012 and 2013 and 30 September 2014, respectively. The increase was mainly attributable to purchase of property, plant and equipment in relation to our Daxing Production Base. For details, please refer to the section headed “Business — Business Strategies and Future Plans — Expansion of our production facilities and strategic relocation — Expansion plan and increase of production capacity” in this prospectus.

CONTINGENT LIABILITIES

During the Track Record Period and up to the Latest Practicable Date, the Group did not have any outstanding loan capital or bank overdrafts, or hold any liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or acceptance credits, or guarantees, or other contingent liabilities.

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INDEBTEDNESS

At the close of business on 31 January 2015, being the latest practicable date for the purpose of determining our indebtedness prior to the printing of this prospectus, apart from intra-group liabilities, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities. Our directors confirm that, as at the Latest Practicable Date, there has been no material change in our indebtedness.

WORKING CAPITAL

As at 31 December 2011, 2012 and 2013 and 30 September 2014, we had cash and cash equivalents of approximately RMB44.7 million, RMB61.3 million, RMB65.9 million and RMB46.8 million, respectively. Our Directors are of the opinion that, and the Sole Sponsor concurs, after taking into account the financial resources available to us including internally generated funds, cash generated from business operations, and the estimated net proceeds of the Global Offering, our Group has sufficient working capital to satisfy our requirements for at least 12 months following the date of this prospectus.

RECENT DEVELOPMENT

Our approximate net current assets were RMB126.3 million and RMB139.7 million as at 30 September 2014 and 31 January 2015, respectively. Our net current asset as at 31 January 2015 comprised of (i) current assets of approximately RMB162.3 million mainly attributable to cash and bank deposits of approximately RMB49.8 million, accounts receivable of approximately RMB52.1 million, and inventories of approximately RMB38.2 million; and (ii) current liabilities of approximately RMB22.5 million mainly attributable to accounts payable of approximately RMB14.3 million, employee benefits payable of approximately RMB2.1 million, and other payables of approximately RMB3.8 million. Such increase in net current assets as at 31 January 2015 when compared with the same as at 30 September 2014 was primarily due to an increase in current assets, in particular the increase in cash and bank balances, note receivables and inventories.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any material off-balance sheet transactions.

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KEY FINANCIAL RATIOS

The following table sets out the key financial ratios of our Group during the periods and dates indicated:

	Year ended 31 December		Nine months ended 30 September	
	2011	2012	2013	2014
	%	%	%	%
Profitability ratios				
Gross profit margin ⁽¹⁾	75.4	71.9	72.4	73.2
Net profit margin ⁽²⁾	37.9	32.6	29.5	24.8
Return on assets ⁽³⁾	19.2	17.0	16.3	10.4
Return on equity ⁽⁴⁾	20.6	19.1	18.2	11.8
				As at
	As at 31 December		30 September	
	2011	2012	2013	2014
Liquidity ratios				
Current ratio ⁽⁵⁾	8.4	8.4	8.8	7.7
Quick ratio ⁽⁶⁾	6.9	7.0	7.3	6.1

Notes:

- (1) Gross profit margin is calculated based on the revenue minus cost of sales incurred during the relevant year/period over the total revenue incurred during the year/period times 100%.
- (2) Net profit margin is calculated based on the net profit incurred during the relevant year/period over total revenue incurred during the year/period times 100%.
- (3) Return on assets is calculated based on the net profit of the Group during the year/period over the total asset value as at the reporting date of the relevant year/period times 100%.
- (4) Return on equity is calculated based on the net profit of the Group during the year/period over the total equity as at the reporting date of the relevant year/period times 100%.
- (5) Current ratio is calculated based on the total current asset value as at the reporting date of the relevant year/period over the total current liability as at the reporting date of the relevant year/period.
- (6) Quick ratio is calculated based on the total current asset value as at the reporting date of the relevant year/period deducted by the inventory level as at the reporting date of the relevant year/period, then over the total current liabilities as at the reporting date of the relevant year/period.

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Gross profit margin

Our gross profit margin was 75.4%, 71.9%, 72.4% and 73.2% for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively. The lower gross profit margin in the two years ended 31 December 2013 when compared to that in the year ended 31 December 2011 was mainly due to the expansion in the overseas market. Since the overseas market is relatively new to us, goods that are sold to our overseas distributors with lower prices than our domestic distributors'.

Net profit margin

Our net profit margin was 37.9%, 32.6%, 29.5% and 24.8% for the three years ended 31 December 2013 and nine months ended 30 September 2014, respectively. The net profit margin decreased slightly over the periods was mainly attributable to (i) an increase in the selling expenses due to the increase in the number of sales and marketing personnel from over 30 persons as at 31 December 2011 to around 70 persons as at 31 December 2013; and (ii) listing expenses of approximately RMB2.0 million, RMB2.1 million, and RMB2.7 million incurred for the two years ended 31 December 2013 and nine months ended 30 September 2014 respectively.

Return on assets

Return on assets for the three years ended 31 December 2013 was 19.2%, 17.0%, and 16.3%, respectively. Although our net profit increased, our return on assets decreased. It was mainly due to the acquisition of new land use rights in 2011 and 2012 and the construction of new plants in the year ended 31 December 2012. However, as the construction of new plants had not yet been completed and the production had not commenced as at 31 December 2013, our return on assets decreased. Meanwhile, the listing expenses also contributed to the decrease in net profit.

Return on assets for the nine months ended 30 September 2014 was 10.4%. Such decrease for the period was mainly attributable to the listing expenses that led to decrease in net profit, and the construction of the new plants.

Return on equity

Return on equity for the three years ended 31 December 2013 and nine months ended 30 September 2014 was 20.6%, 19.1%, 18.2% and 11.8%, respectively. Although our net profit increased, our return on equity decreased. During the Track Record Period, our return on equity remained relatively stable, however, the listing expenses also contributed to the decrease in net profit, which in turn slightly affected the return on equity. For the nine months ended 30 September 2014, the distribution to shareholders was relatively less which led to a relatively larger equity base and thus smaller return on equity.

Current ratio

Our current ratio as at 31 December 2011, 2012 and 2013 and 30 September 2014 was 8.4 times, 8.4 times, 8.8 times and 7.7 times, respectively, which remained stable over the Track Record Period.

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Quick ratio

Our quick ratio as at 31 December 2011, 2012 and 2013 and 30 September 2014 was 6.9 times, 7.0 times, 7.3 times and 6.1 times, respectively, which remained stable over the Track Record Period.

The following table illustrates the sensitivity analysis of the estimated increase/decrease of our labor costs to generate percentage changes to our gross profit, with all other variables held constant:

	For the year ended 31 December				Nine months ended
	2013	2012	2011	2014	30 September
	%	%	%	%	%
Percentage change in gross profit with labor costs increase/decrease by:					
-15	-0.7	-0.8	-0.6	-0.7	-0.7
-10	-0.4	-0.5	-0.4	-0.5	-0.5
-5	-0.2	-0.3	-0.2	-0.2	-0.2
5	0.2	0.3	0.2	0.2	0.2
10	0.4	0.5	0.4	0.5	0.5
15	0.7	0.8	0.6	0.7	0.7

DIVIDEND POLICY

Subject to approval by our Shareholders, our Directors may declare dividends after taking into account, among other things, our results of operations, cash flows and gearing, working capital and capital expenditure requirements, the amount of distributable profits based on CASBE, the Articles of Association, applicable laws and regulations and other factors that our Directors consider relevant. In particular, under applicable PRC laws and the Articles of Association, our Company can only distribute dividends out of our after-tax profit after the following allocations have been made: (i) recovery of accumulated losses, if any; (ii) mandatory allocations to the surplus reserve equivalent to 10% of our after-tax profit, unless the surplus reserve reaches 50% of our Company's registered capital or above; and (iii) allocations to discretionary common reserve fund, subject to our Shareholders' approval at the Shareholders meeting.

We declared and paid final dividends of RMB2.0 million, RMB12.0 million and RMB20.0 million in cash during the three years ended 31 December 2013, respectively, representing RMB0.04, RMB0.24 and RMB0.40 per share (including tax charge, respectively). On 16 April 2014, we declared the final dividend of RMB11.0 million for the year ended 31 December 2013 to the shareholders of our Company, representing RMB0.22 per share (including tax charge). The amount was paid in May 2014. While our Directors have the discretion to declare and pay any interim dividends, any declaration of final dividends would require the approval of our Shareholders in a general meeting.

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Dividends paid in prior years may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

LISTING EXPENSES

During the Track Record Period, we incurred listing expenses of approximately RMB11.2 million, of which RMB4.8 million was recognised as administrative expenses and approximately RMB6.4 million was capitalised 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 (including underwriting commission) of approximately RMB19.0 million, of which RMB4.4 million will be recognised as administrative expenses and RMB14.6 million will be charged against equity after the Track Record Period. The listing expenses set out above are estimates and provided for reference only. We do not believe the remaining expenses will have a material impact on our results of operations for the years ending 31 December 2014 and 2015.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2014

We have prepared the following profit estimate for the year ended 31 December 2014. This profit estimate is based on the accounting policies consistent with those adopted for the purpose of the Accountants' Report of our Group, the text of which is set forth in Appendix I to this prospectus, and the bases set forth in Appendix III to this prospectus. You should read these bases when you analyse our profit estimate.

Estimated unaudited consolidated profit

attributable to equity owners of the Company⁽¹⁾⁽³⁾ . . . Not less than RMB36.5 million
(approximately HK\$45.6 million)

Unaudited pro forma estimated earnings per Share⁽²⁾⁽³⁾ . . . Not less than RMB0.55
(approximately HK\$0.68)

Notes:

- (1) The bases on which the above profit estimate for the year ended 31 December 2014 has been prepared are summarised in Appendix III to this prospectus. The unaudited estimate of consolidated profit attributable to equity owners of the Company for the year ended 31 December 2014 has been prepared by the Directors based on the audited consolidated results for the nine months ended 30 September 2014, and the unaudited consolidated results based on management accounts of our Group for the three months ended 31 December 2014.
- (2) The unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to the equity owners of the Company for the year ended 31 December 2014, assuming that our Company has been listed since 1 January 2014 and a total of 66,670,000 Shares had been issued. The calculation takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option.
- (3) The estimated unaudited consolidated profit attributable to equity owners of the Company and the unaudited pro forma estimated earnings per Share are converted into HK\$ at the exchange rate of RMB0.80 to HK\$1.00.

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DISTRIBUTABLE RESERVES

As at 30 September 2014, the aggregate amount of reserve available for distribution amounted to approximately RMB66.5 million.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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 programme focuses on the unpredictability of financial markets and seeks to minimise 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 materialised 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.

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 any 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. 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.

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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.

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 long terms. Management believes there is no significant liquidity risk, as we have sufficient cash level to fund our operations. Please refer to note (x)3(iv) of Appendix I to this prospectus for further details.

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Price risk

We are exposed to commodity price risk, mainly due to the fluctuations in prices of metal materials, including titanium alloy materials, which are the key raw materials for our orthopedic implant products. During the Track Record Period, the management considered that the price risk exposure was not material, and we had the flexibility to pass the increases in raw material costs to our customers. Please refer to the section headed “Business — Raw Materials and Suppliers” in this prospectus for further details.

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. Please refer to note (x)2 of Appendix I to this prospectus for further details.

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

In line with other industry participants review the capital structure on a semi-annual basis. As part of this review, the Directors consider the cost of capital and the risks associate with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets (the “Unaudited Pro Forma NTA”) 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 consolidated net tangible assets of the Group attributable to the equity owners of our Company as of 30 September 2014 as if the Global Offering had taken place on that date.

The Unaudited Pro Forma NTA has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as at 30 September 2014 or at any future dates.

FINANCIAL INFORMATION

The Unaudited Pro Forma NTA is prepared based on the audited consolidated net tangible assets of the Group attributable to the equity owners of our Company as at 30 September 2014 as set out in the Accountants' Report of our Company, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of our Group attributable to the equity owners of our Company as at 30 September 2014 ⁽¹⁾ RMB'000	Estimated net proceeds from the Global Offering ⁽²⁾ RMB'000	Unaudited pro forma adjusted net tangible assets attributable to the equity owners of the Company RMB'000	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾ RMB	HK\$
Based on an Offer Price of HK\$12.53 per Share	<u>191,415</u>	<u>141,916</u>	<u>333,331</u>	<u>5.00</u>	<u>6.25</u>
Based on an Offer Price of HK\$14.10 per Share	<u>191,415</u>	<u>162,476</u>	<u>353,891</u>	<u>5.31</u>	<u>6.64</u>

Notes:

1. The audited consolidated net tangible assets of the Group attributable to the equity owners of the Company as at 30 September 2014 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity owners of the Company as at 30 September 2014 of approximately RMB191,558,000 with an adjustment for the intangible assets as at 30 September 2014 of approximately RMB143,000. Accordingly, the audited consolidated net tangible assets of the Group attributable to the equity owners of the Company as at 30 September 2014 was approximately RMB191,415,000.
2. The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$12.53 and HK\$14.10 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option.
3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 66,670,000 Shares were in issue assuming that the Global Offering has been completed on 30 September 2014 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option.
4. No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 September 2014.
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 RMB0.80.

FINANCIAL INFORMATION

DIRECTORS' CONFIRMATION ON NO MATERIAL AND ADVERSE CHANGE

As of the date of this prospectus, our Directors confirm that there has been no material and adverse change in the financial or trading positions or prospects of our Company since 30 September 2014, 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 30 September 2014, and there have been no events since 30 September 2014 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.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

Please refer to the paragraph headed “Business — Business Strategies and Future Plans” in this prospectus for a detailed description of our future plans.

PROPOSED USE OF PROCEEDS

We estimate that the net proceeds from the Global Offering which we will receive, assuming an Offer Price of HK\$13.32 per Offer Share (being the mid-point of the indicative Offer Price range) and the Over-allotment Option is not exercised, will be approximately HK\$184.3 million (equivalent to approximately RMB147.4 million), after deduction of underwriting fees and commissions and estimated expenses paid and payable by us in connection with the Global Offering.

We currently intend to use such net proceeds from the Global Offering as follows:

- approximately 50.0% of the net proceeds from the Global Offering or approximately HK\$92.1 million (equivalent to approximately RMB73.7 million) will be used for the development of Phase I of the Daxing New Production Base, including:
 - approximately 20.0% or approximately HK\$36.9 million (equivalent to approximately RMB29.5 million) for the construction of the new production plant and ancillary facilities; and
 - approximately 30.0% or approximately HK\$55.2 million (equivalent to approximately RMB44.2 million) for the purchase and installation of production equipment and machineries for the production of standard joint prosthesis, advanced customised joint prosthesis and spinal products. When the new production lines commence operation which is currently expected to be in around October 2017, we will have additional maximum designed annual production capacity of standard prosthesis, advanced customised joint prosthesis and spinal products of approximately 40,000 sets, 5,000 sets and 25,000 sets respectively;
- (for further details of the development of the Daxing New Production Base, please refer to the section headed “Business — Business Strategies and Future Plans — Expansion of our production facilities and strategic relocation — Expansion plan and increase of production capacity” in this prospectus)
- approximately 20.2% of the net proceeds from the Global Offering or approximately HK\$37.2 million (equivalent to approximately RMB29.8 million) will be used for research and development activities, including:
 - approximately 12.0% or approximately HK\$22.1 million (equivalent to approximately RMB17.7 million) for the development of a research and development centre at the Daxing New Production Base;

FUTURE PLANS AND USE OF PROCEEDS

- approximately 4.2% or approximately HK\$7.7 million (equivalent to approximately RMB6.2 million) for the purchase of new research and development facilities and equipment; and
- approximately 4.0% or HK\$7.4 million (equivalent to approximately RMB5.9 million) for the expansion of our scope of research and development activities in relation to new products development and products improvement;
- approximately 20.0% of the net proceeds from the Global Offering or approximately HK\$36.9 million (equivalent to approximately RMB29.5 million) will be used for expansion of our existing marketing and distribution networks to increase the level of our market penetration to cover more distributors and hospitals, and accordingly increase our market share, including:
 - approximately 8.5% or approximately HK\$15.7 million (equivalent to approximately RMB12.5 million) for the establishment and development of marketing services centers at the Daxing New Production Base and other parts of the PRC to expand our geographical coverage for marketing services;
 - approximately 6.0% or HK\$11.1 million (equivalent to approximately RMB8.9 million) for the recruitment of marketing staff to consolidate our relationship with hospitals and medical institutes and to strengthen the medical practitioners' understanding of our products; and
 - approximately 5.5% or HK\$10.1 million (equivalent to approximately RMB8.1 million) for the sponsoring of and participation in academic conferences and seminars;
- approximately 9.8% of the net proceeds from the Global Offering or approximately HK\$18.1 million (equivalent to approximately RMB14.4 million) will be used for working capital and other general corporate purposes.

If the Offer Price is set at the high-end of the indicative Offer Price range, the net proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised) will increase by approximately HK\$13.0 million. If the Offer Price is set at the low-end of the indicative Offer Price range, the net proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised) will decrease by approximately HK\$13.2 million.

FUTURE PLANS AND USE OF PROCEEDS

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the Global Offering, will be approximately (i) HK\$32.5 million, assuming the Offer Price is fixed at the high-end of the indicative Offer Price range of HK\$14.10; (ii) HK\$33.3 million, assuming the Offer Price is fixed at the mid-point of the indicative Offer Price range of HK\$13.32; and (iii) HK\$31.3 million, assuming the Offer Price is fixed at the low-end of the indicative Offer Price range of HK\$12.53.

If the Offer Price is fixed at a higher or lower level compared to the mid-point of the indicative Offer Price range, or if the Over-allotment Option is exercised in full or in part, we intend to adjust the application of net proceeds on a pro rata basis.

Pending the use of the net proceeds from the Global Offering for the purposes set out above and/or if we are unable to effect any part of our future development plans as intended, we intend to hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong and/or the PRC for so long as we consider that it would be in our best interests to do so. We will disclose the same in the relevant annual report.

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SOLE GLOBAL COORDINATOR AND SOLE BOOKRUNNER

China Everbright Securities (HK) Limited

HONG KONG UNDERWRITERS

Sole Lead Manager

China Everbright Securities (HK) Limited

Co-Managers

BMI Securities Limited

President Securities (Hong Kong) Limited

Sun Hung Kai Investment Services Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the H Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Hong Kong Underwriting Agreement (including the Sole Global Coordinator, for itself and on behalf of the Underwriters, and our Company agreeing to the final Offer Price), the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. The Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) has the right, in its sole and absolute discretion, to terminate the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement if they see fit upon the occurrence of any of the following events:

- (a) there has come to the notice of the Sole Global Coordinator that:
 - (i) any statement contained in this prospectus, the Application Forms, any supplemental offering materials, any notices, announcements,

UNDERWRITING

advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”), was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any respect or that any forecast, expression of opinion, intention or expectation expressed in any Relevant Documents is not, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or

- (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute a material omission therefrom; or
- (iii) any breach of any of the obligations imposed or to be imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or
- (iv) any event, act or omission which gives or is likely to give rise to any liability of any of our Company, the Controlling Shareholders and the warranting Directors (the “**Warrantors**”) pursuant to the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (v) any change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, shareholders’ equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group; or
- (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the warranties under the Hong Kong Underwriting Agreement; or
- (vii) the grant of the approval by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) our Company withdraws any of the Relevant Documents or the Global Offering; or
- (ix) any person (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Relevant Documents; or

UNDERWRITING

- (x) that a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
 - (xi) an authority or a political body or organization in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of the Directors and senior management members of our Group as set out in the “Directors, Supervisors and Senior Management” section of this prospectus; or
 - (xii) a portion of the orders in the bookbuilding process, which is considered by the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its absolute opinion to be material, at the time the International Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled, and the Sole Global Coordinator, in its sole and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or
 - (xiii) any loss or damage has been sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Sole Global Coordinator (for itself and on behalf of the other Underwriters) in its sole absolute opinion to be material; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1) or such related or mutated forms) or interruption or delay in transportation); or

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- (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or
- (iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Hong Kong Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange;
- (iv) any new laws, or any change or development involving a prospective change in existing laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing laws by any court or other competent authority, in each case, in or affecting any of Hong Kong, the PRC, the United States, the European Union or any other jurisdictions relevant to any member of our Group or the Global Offering (the “**Specific Jurisdictions**”); or
- (v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or
- (viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or

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- (ix) any litigation or claim of any third party involving a material amount being threatened or instigated against any member of our Group or any of the Warrantors; or
- (x) any of the Directors and senior management members of our Company as set out in the “Directors, Supervisors, and Senior Management” section of this prospectus being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of our Company vacating his office; or
- (xii) the commencement by any governmental, regulatory or political body or organisation of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or
- (xiii) a contravention by any member of our Group or any Director of the Listing Rules, the Companies Ordinance or any other laws applicable to the Global Offering;
- (xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the any Shares which may be allotted and issued upon the exercise of the Over-allotment Option pursuant to the terms of the Global Offering; or
- (xv) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Global Offering with the Listing Rules or any other laws applicable to the Global Offering; or
- (xvi) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Global Offering pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Hong Kong Stock Exchange and/or SFC; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness, in each case, of a material amount, of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity, which in each case individually or in aggregate in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Underwriters):
 - (a) has or is or will or may or could be expected to have a material adverse effect on the assets, liabilities, business, general affairs,

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management, shareholders' equity, profits, losses, results of operation, financial, trading or other condition or prospects or risks of our Company or our Group or any member of our Group or on any present or prospective shareholder of our Company in his, her or its capacity as such; or

- (b) has or will or may have or could be expected to have a material adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
- (c) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement, the International Offering or the Global Offering to be performed or implemented or proceeded with as envisaged or to market the Global Offering or shall otherwise result in an interruption to or delay thereof; or
- (d) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings to the Hong Kong Stock Exchange under the Listing Rules

By us

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that, except pursuant to the Global Offering and the Over-allotment Option as described and contained in this prospectus, no further H Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of H Shares or securities will be completed within six months from the Listing Date), except for the circumstances as permitted by Rule 10.08(1) to (5) of the Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and our Company respectively that, except pursuant to the Global Offering and the Over-allotment Option as described and contained in this prospectus, he/she shall not and shall procure that the relevant registered shareholder(s) shall not:

- (a) in the period commencing on the date by reference to which disclosure of his/her shareholding in our Company is made in this prospectus and ending

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on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those H Shares in respect of which he/she is shown by this prospectus to be the beneficial owners; or

- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the H Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she would cease to be a controlling shareholder (as defined in the Listing Rules).

Each of the Controlling Shareholders has also undertaken to the Hong Kong Stock Exchange and our Company respectively that, within the period commencing on the date by reference to which disclosure of his/her shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she will:

- (a) when he/she pledges or charges any Shares beneficially owned by him/her in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when he/her receive indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us of such indications.

Undertakings pursuant to the Hong Kong Underwriting Agreement

By us

Except pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), our Company hereby undertakes to each of the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters not to, and to procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of

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our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, with a depositary in connection with the issue of depositary receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transactions specified in sub-paragraphs (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraphs (a), (b) or (c) above,

in each case, whether any of the transactions specified in sub-paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

Our Company will not, and will procure each other member of our Group not to, enter into any of the transactions specified in sub-paragraphs (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that the Controlling Shareholder would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”).

In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in sub-paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

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By our Controlling Shareholders

Each of the Controlling Shareholders jointly and severally undertakes to each of our Company, the Hong Kong Stock Exchange, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the other Hong Kong Underwriters that, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters):

- (i) at any time during the First Six-Month Period, he/she shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for him/her and the companies controlled by he/she (together, the “**Controlled Entities**”) shall not, (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by him/her directly or indirectly through its Controlled Entities (the “**Relevant Securities**”), or deposit any Relevant Securities with a depository in connection with the issue of depository receipts; or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; (c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (a) or (b) above; or (d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (a), (b) or (c) above, which any of the foregoing transactions referred to in sub-paragraphs (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (ii) at any time during the Second Six-Month Period, he/she shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in sub-paragraphs (i)(a), (b) or (c) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he/she would cease to be a “controlling shareholder” (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be “controlling shareholders” (as defined in the Listing Rules) of our Company;

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- (iii) in the event that he/she enters into any of the transactions specified in sub-paragraphs (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, he/she shall take all reasonable steps to ensure that he/she will not create a disorderly or false market for any Shares or other securities of our Company; and
- (iv) he/she shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by he/she or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

Each of the Controlling Shareholders further undertakes to each of our Company, the Hong Kong Stock Exchange, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the other Hong Kong Underwriters that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, he/she will:

- (i) when he/she pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when he/she receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

Our Company shall inform the Hong Kong Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by the Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the Listing Rules as soon as possible.

International Offering

In connection with the International Offering, it is expected that our Company, will enter into the International Underwriting Agreement with, inter alia, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions, severally agree to subscribe or buy or procure subscribers or purchasers for the International Offer Shares being offered pursuant to the International Offering.

UNDERWRITING

Our Company is expected to grant to the Sole Global Coordinator the Over-allotment Option, exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until 30 days from the date of the last day of lodging applications under the Hong Kong Public Offering to require our Company to allot and issue up to an aggregate of 2,500,500 additional H Shares, representing 15% of the initial Offer Shares in aggregate, at the same price per H Share under the International Offering to cover, among other things, over-allocations (if any) in the International Offering.

Commission and expenses

The underwriting commission of the Underwriters is 4.0% of the aggregate Offer Price of all the Offer Shares or RMB8.57 million, whichever is higher, out of which any sub-underwriting commission will be paid. The underwriting bonus of the Global Coordinator is RMB1.2 million.

The underwriting commissions, listing fees, Hong Kong Stock Exchange trading fee and transaction levy, legal and printing and other professional fees and other expenses relating to the Global Offering are payable by our Company with reference to the number of the Offer Shares under the Global Offering.

Indemnity

Our Company has agreed to indemnify the Hong Kong Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters' interests in our Company

Save for their obligations under the Hong Kong Underwriting Agreements, none of the Hong Kong Underwriters has any shareholding interests in our Company nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares in our Company nor any interest in the Global Offering.

The Sole Sponsor's independence

China Everbright Capital satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. China Everbright Capital is the Sole Sponsor for the listing of the H Shares on the Hong Kong Stock Exchange and China Everbright Securities is the Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager of the Global Offering.

The Global Offering initially consists of (subject to the Over-allotment Option):

- (i) the Hong Kong Public Offering of 1,667,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described in the paragraph headed “Hong Kong Public Offering” in this section below; and
- (ii) the International Offering of 15,003,000 H Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have applied for Hong Kong Offer Shares in the Hong Kong Public Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Underwriters are soliciting from prospective investors' indications of interest in acquiring the Offer Shares in the International Offering. Prospective professional, institutional and other investors will be required to specify the number of the Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

Our Company has obtained the requisite PRC governmental approvals, including the approval of CSRC, in respect of the Global Offering.

The number of the Offer Shares to be offered under the Hong Kong Public Offering and International Offering respectively may be subject to reallocation and, in the case of the International Offering only, the Over-allotment Option as set out in the paragraph headed “Over-allotment Option” in this section of the prospectus.

STRUCTURE OF THE GLOBAL OFFERING

The Hong Kong Public Offering is underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date. Details of the underwriting arrangements are summarised in the section headed “Underwriting” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Global Offering will be conditional on, among others:

- (i) the Listing Committee granting the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering and any H Shares which may be issued pursuant to the exercise of the Over-allotment Option;
- (ii) the Offer Price having been determined and the execution of the price determination agreement on or around the Price Determination Date and the price determination agreement not having been subsequently revoked;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator, for itself and on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the respective Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.clzd.com on the next business day following such lapse. In such

STRUCTURE OF THE GLOBAL OFFERING

eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares are expected to be issued on Tuesday, 10 March 2015 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 11 March 2015 provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in the paragraph headed “Grounds for termination” in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade H Shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 1,667,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of H Shares between (i) the International Offering and (ii) the Hong Kong Public Offering as mentioned below, the number of the Hong Kong Offer Shares will represent approximately 2.50% of our Company’s enlarged issued share capital immediately after completion of the Global Offering (without taking into account the Over-allotment Option).

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “Conditions of the Global Offering” in this section of the prospectus.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking into account of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering) is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: 833,600 Offer Shares for pool A and 833,400 Offer Shares for pool B. The Hong Kong Offer Shares in pool A will be allocated on

STRUCTURE OF THE GLOBAL OFFERING

an equitable basis to successful applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million or below (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable). The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to successful applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million and up to the total value of Pool B (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools and can only apply for Hong Kong Offer Shares in either pool A or pool B.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 833,400 Hong Kong Offer Shares are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times; (ii) 50 times or more but less than 100 times; and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 5,001,000 Offer Shares (in the case of (i)), 6,668,000 Offer Shares (in the case of (ii)) and 8,335,000 Offer Shares (in the case of (iii)) representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering respectively (before any exercise of the Over-allotment Option) and in each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be reduced correspondingly, in such manner as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may, at its sole and absolute discretion, reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy in whole or in part the valid applications in the Hong Kong Public Offering.

If the Hong Kong Offer Shares are not fully subscribed for, the Sole Global Coordinator may, at its sole and absolute discretion, reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportion as the Sole Global Coordinator deems appropriate.

STRUCTURE OF THE GLOBAL OFFERING

Applications

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered H Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for H Shares under Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) the Offer Shares under the International Offering.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$14.10 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% amounting to a total of HK\$2,848.42 per board lot of 200 Offer Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed "Price determination of the Global Offering" in this section of the prospectus, is less than the maximum price of HK\$14.10 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the paragraph headed "12. Refund of Application Monies" in the section headed "How to Apply for the Hong Kong Offer Shares" in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

INTERNATIONAL OFFERING

Number of Offer Shares offered

The number of the Offer Shares to be initially offered for subscription under the International Offering will be 15,003,000 H Shares, representing 90% of the total number of the Offer Shares initially available under the Global Offering (subject to adjustment and the Over-allotment Option).

The International Offering is subject to the Hong Kong Public Offering being unconditional.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

Allocation of the Offer Shares pursuant to the International Offering will be effected in accordance with the book-building process and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

Over-allotment Option

In connection with the Global Offering, our Company is expected to grant the Over-allotment Option to the Sole Global Coordinator (for itself and on behalf of the International Underwriters) that is exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days from the date of the last day of lodging application under the Hong Kong Public Offering, to require our Company to allot and issue up to 2,500,500 additional H Shares, representing 15% of the number of the Offer Shares initially available under the Global Offering, at the Offer Price, to cover, among other things, over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.6 % of our enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the Listing Rules.

RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a global offering of the Offer Shares, other than in Hong Kong, the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the PRC.

STRUCTURE OF THE GLOBAL OFFERING

PRICE DETERMINATION OF THE GLOBAL OFFERING

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Wednesday, 4 March 2015, and in any event on or before Monday, 9 March 2015, by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company by Monday, 9 March 2015, the Global Offering will not proceed and will lapse.

The Offer Price will be not more than HK\$14.10 per H Share and is expected to be not less than HK\$12.53 per H Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Sole Global Coordinator, for itself and on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with our consent, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.clzd.com notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon by our Company with the Sole Global Coordinator (for itself and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The final Offer Price, the levels of indication of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares under the Hong Kong Public Offering, are expected to be announced on Tuesday, 10 March 2015 in the manner set out in the section headed "How to Apply for the Hong Kong Offer Shares" in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

STABILISATION ACTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and a number of other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price. The Sole Global Coordinator has been appointed by us as the stabilising manager (“**Stabilising Manager**”) for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO. In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect transactions with a view to stabilising or supporting the market price of our H Shares at a level higher than that which might otherwise prevail in the open market for a limited period beginning on the Listing Date and expected to end on 3 April 2015, being the 30th day after the last day for lodging of applications under the Hong Kong Public Offering. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Any market purchases of the H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the sole and absolute discretion of the Sole Global Coordinator and may be discontinued at any time. Any such stabilising activity is required to be brought to an end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The number of H Shares that may be over-allocated will not exceed the number of H Shares that may be allotted and issued by our Company under the Over-allotment Option, namely 2,500,500 H Shares in aggregate, which is 15% of the H Shares initially available under the Global Offering.

Subject to and under the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), the Stabilising Manager, its affiliates or any person acting for it, may take all or any of the following stabilising action in Hong Kong during the stabilisation period:

- (i) purchase, or agree to purchase, any of the H Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of the H Shares;
- (ii) in connection with any action described in paragraph (i) above;
 - (a) (1) over-allocate our H Shares; or
 - (2) sell or agree to sell the H Shares so as to establish a short position in them, for the sole purpose of preventing or minimising any reduction in the market price of our H Shares;

STRUCTURE OF THE GLOBAL OFFERING

- (b) exercise the Over-allotment Option and subscribe for or purchase, or agree to subscribe for or purchase, the H Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) above;
- (c) sell or agree to sell any H Shares acquired by it in the course of the stabilising action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; and
- (d) offer or attempt to do anything described in subparagraphs (a)(2), (b) or (c) above.

Specifically, prospective applicants for and investors in the H Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the H Shares, and there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position;
- liquidation of such long position by the Stabilising Manager, its affiliates or any other person acting for them, may have an adverse impact on the market price of the H Shares;
- stabilising action cannot be used to support the price of the H Shares for longer than the stabilising period which will begin on the Listing Date, and is expected to expire on 3 April 2015, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the H Shares, and therefore the price of the H Shares, could fall;
- the market price of the H Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the H Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) will be made within seven days of the expiration of the stabilising period.

STRUCTURE OF THE GLOBAL OFFERING

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into the Central Clearing and Settlement System, or CCASS, established and operated by Hong Kong Securities Clearing Company Limited, or HKSCC.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

COMMENCEMENT OF DEALING IN THE H SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 11 March 2015, it is expected that dealings in the Offer Shares on the Main Board of the Hong Kong Stock Exchange will commence at 9:00 a.m. on Wednesday, 11 March 2015, and will be traded in board lots of 200 H Shares each. The stock code of the Company is 1858.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors or those who have obtained approval from competent regulatory authorities).

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or **electronically instruct** HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 27 February 2015 until 12:00 noon on Wednesday, 4 March 2015 from:

- (i) the following address of the Hong Kong Underwriters:

China Everbright Securities (HK) Limited	36th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong
BMI Securities Limited	Suites 909–916, 9th Floor Shui On Centre 6–8 Harbour Road Wan Chai Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

President Securities (Hong Kong) Limited Units 2603–6, 26/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

Sun Hung Kai Investment Services Limited 42/F The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

(ii) any of the following branches of the following receiving bank:

Bank of China (Hong Kong) Limited

	Branch	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Sheung Wan Branch	252 Des Voeux Road Central
	Taikoo Shing Branch	Shop G1006, Hoi Sing Mansion, Taikoo Shing
Kowloon	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
New Territories	Kau Yuk Road Branch	18–24 Kau Yuk Road, Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 27 February 2015 until 12:00 noon on Wednesday, 4 March 2015 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Bank of China (Hong Kong) Nominees Limited — Chunlizhengda Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Friday, 27 February 2015 — 9:00 a.m. to 5:00 p.m.
Saturday, 28 February 2015 — 9:00 a.m. to 1:00 p.m.
Monday, 2 March 2015 — 9:00 a.m. to 5:00 p.m.
Tuesday, 3 March 2015 — 9:00 a.m. to 5:00 p.m.
Wednesday, 4 March 2015 — 9:00 a.m. to 12:00 noon

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The application lists will be open from 11: 45 a.m. to 12: 00 noon on Wednesday, 4 March 2015, the last application day or such later time as described in “9. Effect of Bad Weather on the Opening of the Applications Lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Hong Kong Companies Ordinance, the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

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- (viii) agree to disclose to our Company, our H Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

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- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance).

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

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HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square,
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the **electronic application instructions** are given to your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

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- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our H Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the

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application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Hong Kong Companies Ordinance and the Articles of Association; and
- agree with the Company, for itself and for the benefit of each shareholder of the Company and each Director, Supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each Director, Supervisor, manager and other senior officer of the Company, with each CCASS participant giving electronic application instructions);
 - (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;
 - (b) that any award made in such arbitration shall be final and conclusive; and

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- (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agree with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H shares in the Company are freely transferable by their holders; and
- authorise the Company to enter into a contract on its behalf with each Director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company.
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

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Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 200 Hong Kong Offer Shares. Instructions for more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, 27 February 2015	—	9:00 a.m. to 8:30 p.m. ⁽¹⁾
Saturday, 28 February 2015	—	8:00 a.m. to 1:00 p.m. ⁽¹⁾
Monday, 2 March 2015	—	8:00 a.m. to 8:30 p.m. ⁽¹⁾
Tuesday, 3 March 2015	—	8:00 a.m. to 8:30 p.m. ⁽¹⁾
Wednesday, 4 March 2015	—	8:00 a.m. ⁽¹⁾ to 12:00 noon

Note:

⁽¹⁾ These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 27 February 2015 until 12: 00 noon on Wednesday, 4 March 2015 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12: 00 noon on Wednesday, 4 March 2015, the last application day or such later time as described in “9. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or

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causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, our H Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facility is subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Bookrunner, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 4 March 2015 or such later time under “9. Effect of Bad Weather on the Opening of the Application Lists” below.

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

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All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

8. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 200 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the paragraph headed “Price Determination of the Global Offering” in the section headed “Structure of the Global Offering”.

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9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 4 March 2015. Instead they will open between 11: 45 a.m. and 12: 00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9: 00 a.m. and 12: 00 noon.

If the application lists do not open and close on Wednesday, 4 March 2015 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 10 March 2015 in The Standard (in English) and the Hong Kong Economic Times (in Chinese), on our Company’s website at www.clzd.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.clzd.com and the Hong Kong Stock Exchange’s website at www.hkexnews.hk by no later than 9: 00 a.m., Tuesday, 10 March 2015;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a “search by ID” function on a 24-hour basis from 8: 00 a.m. on Tuesday, 10 March 2015 to midnight on Monday, 16 March 2015;
- by telephone enquiry line by calling +852 3691 8488 between 9: 00 a.m. and 6:00 p.m. from Tuesday, 10 March 2015 to Friday, 13 March 2015;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 10 March 2015 to Thursday, 12 March 2015 at all the receiving bank branches and sub-branches.

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If our Company accepts your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

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12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$14.10 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the paragraph headed “Conditions of the Global Offering” in the section headed “Structure of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, 10 March 2015.

13. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- H share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, H share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate

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completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of H share certificates and refund monies as mentioned below, any refund cheques and H share certificates are expected to be posted on or around Tuesday, 10 March 2015. The right is reserved to retain any H share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

H Share certificates will only become valid at 8: 00 a.m. on Wednesday, 11 March 2015 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 500,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H share certificate(s) from Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9: 00 a.m. to 1: 00 p.m. on Tuesday, 10 March 2015 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar.

If you do not collect your refund cheque(s) and/or H share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 500,000 Hong Kong Offer Shares, your refund cheque(s) and/or H share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 10 March 2015, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 500,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 500,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 10 March 2015, by ordinary post and at your own risk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your H share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 10 March 2015, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "10. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 10 March 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) **If you apply via Electronic Application Instructions to HKSCC**

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of H Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your H share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 10 March 2015, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "10. Publication of Results" above on Tuesday, 10

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

March 2015. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 10 March 2015 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 10 March 2015. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 10 March 2015.

14. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of report, prepared for the purpose of incorporation in this prospectus, received from our reporting accountants, Pan-China Certified Public Accountants LLP, Certified Public Accountants, the PRC.



Add: 128XixiRd. Hangzhou
P c: 310007
Tel: (0571) 8821 6888
Fax: (0571) 8821 6999

27 February 2015

The Directors
Beijing Chunlizhengda Medical Instruments Co., Ltd.

China Everbright Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding 北京市春立正達醫療器械股份有限公司 (Beijing Chunlizhengda Medical Instruments Co., Ltd.*, the "Company") and its wholly owned subsidiary, 北京兆億特醫療器械有限公司 (Beijing Zhao Yi Te Medical Devices Co., Ltd.*, "Zhao Yi Te") (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2013 and the nine months ended 30 September 2014 (the "Track Record Period"), for inclusion in the prospectus of the Company dated 27 February 2015 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing").

The Company was incorporated as a limited liability company in the People's Republic of China (the "PRC") under the name of 北京市春立正達科技開發有限公司 (Beijing Chunlizhengda Technology Development Co., Ltd.*) on 12 February 1998. Pursuant to an approval granted by the relevant PRC authorities on 17 September 2010, the Company was transformed into a joint stock company with limited liability and changed to its current name, and details of which are explained in the paragraphs headed "Restructured as joint stock limited company" in the Section "History and Development" to the Prospectus.

At the end of each reporting period and the date of this report, the Company has direct interest in Zhao Yi Te and details of which are set out in Note D of Section I.

The Company and its subsidiary have adopted 31 December as their financial year end date.

The statutory financial statements of the Company and Zhao Yi Te prepared in accordance with the China Accounting Standards for Business Enterprises and the related requirements ("CASBE") for the Track Record Period were audited by us in accordance with the China Standards on Auditing.

* The English name is for identification purpose only

No audited financial statements have been prepared for the Company and Zhao Yi Te for the nine months ended 30 September 2014 as there is no such statutory requirement.

For the purposes of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Track Record Period in accordance with CASBE (the "Underlying Financial Statements"), which were audited by us in accordance with the China Standards on Auditing.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information, and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at 31 December 2011, 31 December 2012, 31 December 2013 and 30 September 2014, and of the consolidated results and consolidated cash flows of the Group for the Track Record Period.

The comparative consolidated income statement, consolidated statement of changes in shareholders' equity and consolidated cash flows statement of the Group for the nine months ended 30 September 2013 together with the notes thereon (the "30 September 2013 Financial Information") have been extracted from the Group's unaudited consolidated financial information for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 September 2013 Financial Information in accordance with the Review Standard for Chinese Certified Public Accountants No. 2101 "Review of Financial Statements". Our review of the 30 September 2013 Financial Information consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with China Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 September 2013 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 September 2013 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with CASBE.

I. FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS OF THE GROUP

Item	Section I Notes	As at 31 December			As at 30 September
		2011 RMB	2012 RMB	2013 RMB	2014 RMB
Current assets:					
Cash and bank deposits	E(1)	44,729,547.85	61,258,695.24	65,856,195.97	46,827,861.29
Notes receivable	E(2)	2,091,880.00	2,660,714.15	6,339,878.88	4,115,324.09
Accounts receivable	E(3)	23,957,743.47	30,653,852.54	33,652,530.23	54,259,566.37
Prepayments	E(4)	1,340,856.68	1,015,197.30	787,244.78	2,346,959.28
Other receivables	E(5)	6,722,293.97	5,488,143.81	624,074.49	782,277.21
Inventories	E(6)	17,775,374.78	19,586,738.82	23,080,797.44	30,529,599.42
Other current assets	E(7)	-	-	2,363,584.88	6,447,612.64
Total current assets		<u>96,617,696.75</u>	<u>120,663,341.86</u>	<u>132,704,306.67</u>	<u>145,309,200.30</u>
Non-current assets:					
Fixed assets	E(8)	24,534,630.72	27,486,582.02	24,654,282.31	32,380,638.16
Construction in progress	E(9)	1,150,427.30	676,333.00	5,976,309.58	2,212,790.99
Intangible assets	E(10)	2,417,309.73	36,873,914.79	36,105,935.68	35,490,186.37
Deferred tax assets	E(11)	253,866.85	421,155.25	523,655.38	799,179.78
Other non-current assets	E(12)	33,790,000.00	1,388,600.00	669,021.96	1,989,500.00
Total non-current assets		<u>62,146,234.60</u>	<u>66,846,585.06</u>	<u>67,929,204.91</u>	<u>72,872,295.30</u>
Total assets		<u>158,763,931.35</u>	<u>187,509,926.92</u>	<u>200,633,511.58</u>	<u>218,181,495.60</u>
Current liabilities:					
Accounts payable	E(14)	4,067,704.47	4,625,679.05	4,235,146.49	10,449,405.24
Receipts in advance	E(15)	716,130.08	1,771,919.14	1,305,356.35	1,029,671.44
Employee benefits payable	E(16)	1,007,382.46	1,556,234.81	1,871,038.71	1,862,833.19
Taxes payable	E(17)	1,875,343.08	3,827,058.66	4,019,774.95	2,660,479.52
Other payables	E(18)	3,813,157.94	2,559,193.07	3,639,491.63	2,964,506.03
Total current liabilities		<u>11,479,718.03</u>	<u>14,340,084.73</u>	<u>15,070,808.13</u>	<u>18,966,895.42</u>
Non-current liabilities:					
Other non-current liabilities	E(19)	-	5,946,000.00	5,673,500.00	7,656,190.76
Total non-current liabilities		<u>-</u>	<u>5,946,000.00</u>	<u>5,673,500.00</u>	<u>7,656,190.76</u>
Total liabilities		<u>11,479,718.03</u>	<u>20,286,084.73</u>	<u>20,744,308.13</u>	<u>26,623,086.18</u>

Item	Section I Notes	As at 31 December			As at 30 September
		2011 RMB	2012 RMB	2013 RMB	2014 RMB
Shareholders' equity:					
Share capital	E(20)	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
Capital reserve	E(21)	63,352,595.15	63,352,595.15	63,352,595.15	63,352,595.15
Surplus reserve	E(22)	3,369,103.74	6,572,003.65	9,851,777.79	9,851,777.79
Retained earnings	E(23)	30,562,514.43	47,299,243.39	56,684,830.51	68,354,036.48
Total shareholders' equity		<u>147,284,213.32</u>	<u>167,223,842.19</u>	<u>179,889,203.45</u>	<u>191,558,409.42</u>
Total liabilities and shareholders' equity		<u>158,763,931.35</u>	<u>187,509,926.92</u>	<u>200,633,511.58</u>	<u>218,181,495.60</u>
Net current assets		<u>85,137,978.72</u>	<u>106,323,257.13</u>	<u>117,633,498.54</u>	<u>126,342,304.88</u>
Total assets less current liabilities		<u>147,284,213.32</u>	<u>173,169,842.19</u>	<u>185,562,703.45</u>	<u>199,214,600.18</u>

BALANCE SHEETS OF THE COMPANY

Item	Section I Notes	As at 31 December			As at 30 September
		2011 RMB	2012 RMB	2013 RMB	2014 RMB
Current assets:					
Cash and bank deposits	H(1)	42,718,604.25	58,203,549.03	63,556,852.39	44,414,817.06
Notes receivable		2,091,880.00	2,660,714.15	6,339,878.88	4,115,324.09
Accounts receivable		23,607,906.18	30,653,852.54	33,652,530.23	54,259,566.37
Prepayments		1,340,856.68	1,015,197.30	787,244.78	2,346,959.28
Other receivables	H(2)	6,146,398.48	5,912,873.44	615,208.35	891,965.30
Inventories		17,775,374.78	19,586,738.82	23,080,797.44	30,529,599.42
Other current assets		–	–	2,363,584.88	6,447,612.64
Total current assets		<u>93,681,020.37</u>	<u>118,032,925.28</u>	<u>130,396,096.95</u>	<u>143,005,844.16</u>
Non-current assets:					
Investment in a subsidiary	H(3)	665,263.00	665,263.00	665,263.00	665,263.00
Fixed assets	H(4)	24,522,950.06	27,482,406.38	24,652,307.31	32,378,663.16
Construction in progress		1,150,427.30	676,333.00	5,976,309.58	2,212,790.99
Intangible assets		2,417,309.73	36,873,914.79	36,105,935.68	35,490,186.37
Deferred tax assets	H(5)	240,404.84	415,597.55	519,535.27	788,879.50
Other non-current assets		33,790,000.00	1,388,600.00	669,021.96	1,989,500.00
Total non-current assets		<u>62,786,354.93</u>	<u>67,502,114.72</u>	<u>68,588,372.80</u>	<u>73,525,283.02</u>
Total assets		<u>156,467,375.30</u>	<u>185,535,040.00</u>	<u>198,984,469.75</u>	<u>216,531,127.18</u>
Current liabilities:					
Accounts payable		4,065,854.47	4,625,679.05	4,235,146.49	10,449,405.24
Receipts in advance		611,630.08	1,771,919.14	1,305,356.35	1,029,671.44
Employee benefits payable	H(6)	1,001,360.03	1,547,969.38	1,860,734.50	1,862,833.19
Taxes payable	H(7)	1,960,693.63	4,021,647.78	4,409,867.81	2,924,133.64
Other payables	H(8)	3,784,204.57	2,549,193.07	3,629,491.63	2,942,461.91
Total current liabilities		<u>11,423,742.78</u>	<u>14,516,408.42</u>	<u>15,440,596.78</u>	<u>19,208,505.42</u>
Non-current liabilities:					
Other non-current liabilities		–	5,946,000.00	5,673,500.00	7,656,190.76
Total non-current liabilities		<u>–</u>	<u>5,946,000.00</u>	<u>5,673,500.00</u>	<u>7,656,190.76</u>
Total liabilities		<u>11,423,742.78</u>	<u>20,462,408.42</u>	<u>21,114,096.78</u>	<u>26,864,696.18</u>

Item	Section I Notes	As at 31 December			As at 30 September
		2011 RMB	2012 RMB	2013 RMB	2014 RMB
Shareholders' equity:					
Share capital		50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
Capital reserve		63,352,595.15	63,352,595.15	63,352,595.15	63,352,595.15
Surplus reserve		3,369,103.74	6,572,003.65	9,851,777.79	9,851,777.79
Retained earnings	H(9)	<u>28,321,933.63</u>	<u>45,148,032.78</u>	<u>54,666,000.03</u>	<u>66,462,058.06</u>
Total shareholders' equity		<u>145,043,632.52</u>	<u>165,072,631.58</u>	<u>177,870,372.97</u>	<u>189,666,431.00</u>
Total liabilities and shareholders' equity		<u>156,467,375.30</u>	<u>185,535,040.00</u>	<u>198,984,469.75</u>	<u>216,531,127.18</u>
Net current assets		<u>82,257,277.59</u>	<u>103,516,516.86</u>	<u>114,955,500.17</u>	<u>123,797,338.74</u>
Total assets less current liabilities		<u>145,043,632.52</u>	<u>171,018,631.58</u>	<u>183,543,872.97</u>	<u>197,322,621.76</u>

CONSOLIDATED INCOME STATEMENTS OF THE GROUP

Item	Section I Notes	Year ended 31 December			Nine months ended 30 September	
		2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
					(Unaudited)	
I. Revenue	F(1) & (12)	80,259,599.13	98,094,696.51	110,545,519.29	72,651,850.50	91,346,553.13
Less: Cost of sales	F(1)	19,746,968.22	27,536,004.95	30,470,602.37	20,997,462.00	24,441,356.20
Business taxes and levies	F(2)	891,956.26	1,093,741.45	1,171,282.39	681,703.73	820,231.42
Selling expenses	F(3)	13,021,994.34	16,344,197.68	20,145,275.75	14,877,961.29	19,341,093.63
Administrative expenses	F(4)	11,315,626.32	16,130,532.14	20,581,299.15	14,034,399.89	19,273,483.97
Finance expenses	F(5)	(90,260.65)	(113,621.51)	22,616.29	2,262.29	(74,264.04)
Impairment losses of assets	F(6)	656,450.43	1,136,334.19	687,167.79	1,805,060.12	1,820,348.85
Add: Investment income	F(7)	-	-	241,339.26	185,284.47	61,643.84
II. Operating profit		34,716,864.21	35,967,507.61	37,708,614.81	20,438,285.65	25,785,946.94
Add: Non-operating income	F(8)	693,757.68	1,240,838.78	593,728.12	592,610.12	362,597.24
Less: Non-operating expenses	F(9)	200.00	5,604.81	186,463.66	183,609.76	9,947.50
<i>Including:</i>						
Loss on disposals of non-current assets		-	-	179,173.49	179,173.49	-
III. Profit before tax for the year/period		35,410,421.89	37,202,741.58	38,115,879.27	20,847,286.01	26,138,596.68
Less: Income tax expenses	F(10)	5,004,974.45	5,263,112.71	5,450,518.01	2,955,187.61	3,469,390.71
IV. Net profit for the year/period		<u>30,405,447.44</u>	<u>31,939,628.87</u>	<u>32,665,361.26</u>	<u>17,892,098.40</u>	<u>22,669,205.97</u>
Net profit attributable to the equity holders of the Company		<u>30,405,447.44</u>	<u>31,939,628.87</u>	<u>32,665,361.26</u>	<u>17,892,098.40</u>	<u>22,669,205.97</u>
V. Earnings per share:						
(I) Basic earnings per share	F(11)	<u>0.61</u>	<u>0.64</u>	<u>0.65</u>	<u>0.36</u>	<u>0.45</u>
(II) Diluted earnings per share	F(11)	<u>0.61</u>	<u>0.64</u>	<u>0.65</u>	<u>0.36</u>	<u>0.45</u>
VI. Other comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
VII. Total comprehensive income		<u>30,405,447.44</u>	<u>31,939,628.87</u>	<u>32,665,361.26</u>	<u>17,892,098.40</u>	<u>22,669,205.97</u>
Total comprehensive income attributable to the equity holders of the Company		<u>30,405,447.44</u>	<u>31,939,628.87</u>	<u>32,665,361.26</u>	<u>17,892,098.40</u>	<u>22,669,205.97</u>

INCOME STATEMENTS OF THE COMPANY

Item	Section I Notes	Year ended 31 December			Nine months ended 30 September	
		2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
I. Revenue	I(1)	79,720,944.61	98,332,730.68	111,485,690.23	73,335,611.30	91,773,903.62
Less: Cost of sales	I(1)	19,746,968.22	27,774,039.10	31,410,773.36	21,681,222.80	24,868,706.73
Business taxes and levies		842,900.75	1,093,741.45	1,171,282.39	681,703.73	820,231.42
Selling expenses		12,909,117.14	16,334,309.88	20,128,670.69	14,865,370.23	19,329,051.63
Administrative expenses		11,234,508.53	16,000,624.11	20,449,640.46	13,944,140.68	19,170,634.95
Finance expenses		(74,950.69)	(101,160.38)	34,187.10	8,074.81	(67,684.62)
Impairment losses of assets		619,944.74	1,167,951.42	692,918.14	1,810,810.47	1,795,628.18
Add: Investment income		-	-	241,339.26	185,284.47	61,643.84
II. Operating profit		34,442,455.92	36,063,225.10	37,839,557.35	20,529,573.05	25,918,979.17
Add: Non-operating income		693,757.68	1,225,948.00	593,728.12	592,610.12	362,597.24
Less: Non-operating expenses		200.00	5,601.52	186,463.66	183,609.76	9,947.50
Including: Loss on disposals of non-current assets		-	-	179,173.49	179,173.49	-
III. Profit before tax for the year/period		35,136,013.60	37,283,571.58	38,246,821.81	20,938,573.41	26,271,628.91
Less: Income tax expenses		4,934,799.20	5,254,572.52	5,449,080.42	2,953,750.02	3,475,570.88
IV. Net profit for the year/period		<u>30,201,214.40</u>	<u>32,028,999.06</u>	<u>32,797,741.39</u>	<u>17,984,823.39</u>	<u>22,796,058.03</u>
V. Other comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
VI. Total comprehensive income		<u>30,201,214.40</u>	<u>32,028,999.06</u>	<u>32,797,741.39</u>	<u>17,984,823.39</u>	<u>22,796,058.03</u>

CONSOLIDATED CASH FLOW STATEMENTS OF THE GROUP

Item	Section I Notes	Year ended 31 December			Nine months ended 30 September	
		2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
I. Cash flows from operating activities:						
Cash received from sales of goods and rendering of services		98,239,594.47	107,602,282.32	119,628,524.65	55,607,763.05	85,181,817.43
Other cash receipts relating to operating activities	G(1)	645,166.00	1,379,398.78	331,463.66	315,741.00	347,008.00
Sub-total of cash inflows from operating activities		98,884,760.47	108,981,681.10	119,959,988.31	55,923,504.05	85,528,825.43
Cash payments for goods purchased and services received		20,663,543.06	24,601,566.05	27,227,935.77	20,874,047.93	26,352,412.91
Cash payments to and on behalf of employees		12,536,039.89	17,349,742.68	21,358,629.85	15,767,241.87	18,195,053.63
Payments of various types of taxes		17,126,704.52	16,786,933.12	19,914,125.40	13,716,947.95	15,308,535.53
Other cash payments relating to operating activities	G(2)	16,095,282.52	21,415,468.72	23,256,769.89	16,831,461.57	25,369,117.28
Sub-total of cash outflows from operating activities		66,421,569.99	80,153,710.57	91,757,460.91	67,189,699.32	85,225,119.35
Net cash flows from operating activities	G(6)	32,463,190.48	28,827,970.53	28,202,527.40	(11,266,195.27)	303,706.08
II. Cash flows from investing activities:						
Cash receipts from disposals of investments		-	-	78,648,000.00	48,648,000.00	10,000,000.00
Cash receipts from investment income		-	-	241,339.26	185,284.47	61,643.84
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		10,000.00	-	20,577.00	20,577.00	-
Other cash receipts relating to investing activities	G(3)	186,509.06	6,111,240.57	5,200,957.33	140,278.53	2,096,299.12
Sub-total of cash inflows from investing activities		196,509.06	6,111,240.57	84,110,873.59	48,994,140.00	12,157,942.96
Cash payments to acquire or construct of fixed assets, intangible assets and other long-term assets		42,791,437.05	6,410,063.71	6,704,315.38	3,471,485.68	6,199,889.39
Cash payments to acquire investments		-	-	78,648,000.00	58,648,000.00	10,000,000.00
Other cash payments relating to investing activities	G(4)	5,000,000.00	-	-	-	-
Sub-total of cash outflows from investing activities		47,791,437.05	6,410,063.71	85,352,315.38	62,119,485.68	16,199,889.39
Net cash flow from investing activities		(47,594,927.99)	(298,823.14)	(1,241,441.79)	(13,125,345.68)	(4,041,946.43)

Item	Section I Notes	Year ended 31 December			Nine months ended 30 September	
		2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
III. Cash flows from financing activities:						
Cash payments for distribution of dividends or profits		2,000,000.00	12,000,000.00	20,000,000.00	-	11,000,000.00
Other cash payments relating to financing activities	G(5)	-	-	2,363,584.88	2,363,584.87	4,290,094.33
Sub-total of cash outflows from financing activities		<u>2,000,000.00</u>	<u>12,000,000.00</u>	<u>22,363,584.88</u>	<u>2,363,584.87</u>	<u>15,290,094.33</u>
Net cash flow from financing activities		<u>(2,000,000.00)</u>	<u>(12,000,000.00)</u>	<u>(22,363,584.88)</u>	<u>(2,363,584.87)</u>	<u>(15,290,094.33)</u>
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-	-	-	-	-
V. Net increase in cash and cash equivalents		(17,131,737.51)	16,529,147.39	4,597,500.73	(26,755,125.82)	(19,028,334.68)
Add: Opening balance of cash and cash equivalents		<u>61,861,285.36</u>	<u>44,729,547.85</u>	<u>61,258,695.24</u>	<u>61,258,695.24</u>	<u>65,856,195.97</u>
VI. Closing balance of cash and cash equivalents	G(7)	<u>44,729,547.85</u>	<u>61,258,695.24</u>	<u>65,856,195.97</u>	<u>34,503,569.42</u>	<u>46,827,861.29</u>

CASH FLOW STATEMENTS OF THE COMPANY

Item	Section I Notes	Year ended 31 December			Nine months ended 30 September	
		2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
I. Cash flows from operating activities:						
Cash received from sales of goods and rendering of services		93,050,112.47	107,181,625.32	119,628,524.65	55,607,763.05	85,011,712.43
Other cash receipts relating to operating activities		645,166.00	1,364,508.00	1,081,463.66	315,741.00	347,008.00
Sub-total of cash inflows from operating activities		93,695,278.47	108,546,133.32	120,709,988.31	55,923,504.05	85,358,720.43
Cash payments for goods purchased and services received		14,488,392.12	25,204,871.05	27,227,935.77	20,874,047.93	26,352,412.91
Cash payments to and on behalf of employees		12,470,288.45	17,349,267.18	21,231,502.58	15,677,502.27	18,085,753.46
Payments of various types of taxes		16,667,264.72	16,770,710.56	19,914,125.40	13,716,947.95	15,308,535.53
Other cash payments relating to operating activities		15,747,722.44	21,424,849.98	23,366,183.18	16,907,733.52	25,415,033.68
Sub-total of cash outflows from operating activities		59,373,667.73	80,749,698.77	91,739,746.93	67,176,231.67	85,161,735.58
Net cash flows from operating activities	J(1)	34,321,610.74	27,796,434.55	28,970,241.38	(11,252,727.62)	196,984.85
II. Cash flows from investing activities:						
Cash receipts from disposals of investments		-	-	78,648,000.00	48,648,000.00	10,000,000.00
Cash receipts from investment income		-	-	241,339.26	185,284.47	61,643.84
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		10,000.00	-	20,577.00	20,577.00	-
Other cash receipts relating to investing activities		171,023.10	6,098,573.94	5,189,045.98	134,336.01	2,089,319.70
Sub-total of cash inflows from investing activities		181,023.10	6,098,573.94	84,098,962.24	48,988,197.48	12,150,963.54
Cash payments to acquire or construct of fixed assets, intangible assets and other long-term assets		41,641,009.75	6,410,063.71	6,704,315.38	3,471,485.68	6,199,889.39
Cash payments to acquire investments		-	-	78,648,000.00	58,648,000.00	10,000,000.00
Other cash payments relating to investing activities		5,000,000.00	-	-	-	-
Sub-total of cash outflows from investing activities		46,641,009.75	6,410,063.71	85,352,315.38	62,119,485.68	16,199,889.39
Net cash flow from investing activities		(46,459,986.65)	(311,489.77)	(1,253,353.14)	(13,131,288.20)	(4,048,925.85)

Item	Section I Notes	Year ended 31 December			Nine months ended 30 September	
		2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
III. Cash flows from financing activities:						
Cash payments for distribution of dividends or profits		2,000,000.00	12,000,000.00	20,000,000.00	-	11,000,000.00
Other cash payments relating to financing activities		-	-	2,363,584.88	2,363,584.87	4,290,094.33
Sub-total of cash outflows from financing activities		<u>2,000,000.00</u>	<u>12,000,000.00</u>	<u>22,363,584.88</u>	<u>2,363,584.87</u>	<u>15,290,094.33</u>
Net cash flow from financing activities		<u>(2,000,000.00)</u>	<u>(12,000,000.00)</u>	<u>(22,363,584.88)</u>	<u>(2,363,584.87)</u>	<u>(15,290,094.33)</u>
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-	-	-	-	-
V. Net increase in cash and cash equivalents		(14,138,375.91)	15,484,944.78	5,353,303.36	(26,747,600.69)	(19,142,035.33)
Add: Opening balance of cash and cash equivalents		<u>56,856,980.16</u>	<u>42,718,604.25</u>	<u>58,203,549.03</u>	<u>58,203,549.03</u>	<u>63,556,852.39</u>
VI. Closing balance of cash and cash equivalents		<u>42,718,604.25</u>	<u>58,203,549.03</u>	<u>63,556,852.39</u>	<u>31,455,948.34</u>	<u>44,414,817.06</u>

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
OF THE GROUP**

Item	Share	Capital	Surplus	Retained	Total	
	capital	reserve	reserve	earnings	shareholders'	
	RMB	RMB	RMB	RMB	equity	
					RMB	
Year ended 31 December 2011						
I.	Closing balance of the preceding year	50,000,000.00	63,352,595.15	348,982.30	5,177,188.43	118,878,765.88
II.	Opening balance of the current year	50,000,000.00	63,352,595.15	348,982.30	5,177,188.43	118,878,765.88
III.	Changes for the year	-	-	3,020,121.44	25,385,326.00	28,405,447.44
(I)	Net profit	-	-	-	30,405,447.44	30,405,447.44
(II)	Other comprehensive income	-	-	-	-	-
	Subtotal of (I) and (II) above	-	-	-	30,405,447.44	30,405,447.44
(III)	Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV)	Profit distribution	-	-	3,020,121.44	(5,020,121.44)	(2,000,000.00)
1	Transfer to surplus reserve	-	-	3,020,121.44	(3,020,121.44)	-
2	Distribution to shareholders	-	-	-	(2,000,000.00)	(2,000,000.00)
(V)	Transfers within shareholders' equity	-	-	-	-	-
(VI)	Special reserve	-	-	-	-	-
(VII)	Others	-	-	-	-	-
IV.	Closing balance of the current year	50,000,000.00	63,352,595.15	3,369,103.74	30,562,514.43	147,284,213.32
Year ended 31 December 2012						
I.	Closing balance of the preceding year	50,000,000.00	63,352,595.15	3,369,103.74	30,562,514.43	147,284,213.32
II.	Opening balance of the current year	50,000,000.00	63,352,595.15	3,369,103.74	30,562,514.43	147,284,213.32
III.	Changes for the year	-	-	3,202,899.91	16,736,728.96	19,939,628.87
(I)	Net profit	-	-	-	31,939,628.87	31,939,628.87
(II)	Other comprehensive income	-	-	-	-	-
	Subtotal of (I) and (II) above	-	-	-	31,939,628.87	31,939,628.87
(III)	Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV)	Profit distribution	-	-	3,202,899.91	(15,202,899.91)	(12,000,000.00)
1	Transfer to surplus reserve	-	-	3,202,899.91	(3,202,899.91)	-
2	Distribution to shareholders	-	-	-	(12,000,000.00)	(12,000,000.00)
(V)	Transfers within shareholders' equity	-	-	-	-	-
(VI)	Special reserve	-	-	-	-	-
(VII)	Others	-	-	-	-	-
IV.	Closing balance of the current year	50,000,000.00	63,352,595.15	6,572,003.65	47,299,243.39	167,223,842.19

Item	Share	Capital	Surplus	Retained	Total
	capital	reserve	reserve	earnings	shareholders'
	RMB	RMB	RMB	RMB	equity
					RMB
Year ended 31 December 2013					
I. Closing balance of the preceding year	50,000,000.00	63,352,595.15	6,572,003.65	47,299,243.39	167,223,842.19
II. Opening balance of the current year	50,000,000.00	63,352,595.15	6,572,003.65	47,299,243.39	167,223,842.19
III. Changes for the year	-	-	3,279,774.14	9,385,587.12	12,665,361.26
(I) Net profit	-	-	-	32,665,361.26	32,665,361.26
(II) Other comprehensive income	-	-	-	-	-
Subtotal of (I) and (II) above	-	-	-	32,665,361.26	32,665,361.26
(III) Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV) Profit distribution	-	-	3,279,774.14	(23,279,774.14)	(20,000,000.00)
1 Transfer to surplus reserve	-	-	3,279,774.14	(3,279,774.14)	-
2 Distribution to shareholders	-	-	-	(20,000,000.00)	(20,000,000.00)
(V) Transfers within shareholders' equity	-	-	-	-	-
(VI) Special reserve	-	-	-	-	-
(VII) Others	-	-	-	-	-
IV. Closing balance of the current year	50,000,000.00	63,352,595.15	9,851,777.79	56,684,830.51	179,889,203.45
Nine months ended 30 September 2014					
I. Closing balance of the preceding year	50,000,000.00	63,352,595.15	9,851,777.79	56,684,830.51	179,889,203.45
II. Opening balance of the current period	50,000,000.00	63,352,595.15	9,851,777.79	56,684,830.51	179,889,203.45
III. Changes for the period	-	-	-	11,669,205.97	11,669,205.97
(I) Net profit	-	-	-	22,669,205.97	22,669,205.97
(II) Other comprehensive income	-	-	-	-	-
Subtotal of (I) and (II) above	-	-	-	22,669,205.97	22,669,205.97
(III) Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV) Profit distribution	-	-	-	(11,000,000.00)	(11,000,000.00)
1 Transfer to surplus reserve	-	-	-	-	-
2 Distribution to shareholders	-	-	-	(11,000,000.00)	(11,000,000.00)
(V) Transfers within shareholders' equity	-	-	-	-	-
(VI) Special reserve	-	-	-	-	-
(VII) Others	-	-	-	-	-
IV. Closing balance of the current period	50,000,000.00	63,352,595.15	9,851,777.79	68,354,036.48	191,558,409.42

Item	Share capital RMB	Capital reserve RMB	Surplus reserve RMB	Retained earnings RMB	Total shareholders' equity RMB
Nine months ended 30 September 2013 (Unaudited)					
I. Closing balance of the preceding year	50,000,000.00	63,352,595.15	6,572,003.65	47,299,243.39	167,223,842.19
II. Opening balance of the current period	50,000,000.00	63,352,595.15	6,572,003.65	47,299,243.39	167,223,842.19
III. Changes for the period	-	-	-	(2,107,901.60)	(2,107,901.60)
(I) Net profit	-	-	-	17,892,098.40	17,892,098.40
(II) Other comprehensive income	-	-	-	-	-
Subtotal of (I) and (II) above	-	-	-	17,892,098.40	17,892,098.40
(III) Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV) Profit distribution	-	-	-	(20,000,000.00)	(20,000,000.00)
1 Transfer to surplus reserve	-	-	-	-	-
2 Distribution to shareholders	-	-	-	(20,000,000.00)	(20,000,000.00)
(V) Transfers within shareholders' equity	-	-	-	-	-
(VI) Special reserve	-	-	-	-	-
(VII) Others	-	-	-	-	-
IV. Closing balance of the current period	50,000,000.00	63,352,595.15	6,572,003.65	45,191,341.79	165,115,940.59

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

Item	Share capital RMB	Capital reserve RMB	Surplus reserve RMB	Retained earnings RMB	Total shareholders' equity RMB
Year ended 31 December 2011					
I. Closing balance of the preceding year	50,000,000.00	63,352,595.15	348,982.30	3,140,840.67	116,842,418.12
II. Opening balance of the current year	50,000,000.00	63,352,595.15	348,982.30	3,140,840.67	116,842,418.12
III. Changes for the year	-	-	3,020,121.44	25,181,092.96	28,201,214.40
(I) Net profit	-	-	-	30,201,214.40	30,201,214.40
(II) Other comprehensive income	-	-	-	-	-
Subtotal of (I) and (II) above	-	-	-	30,201,214.40	30,201,214.40
(III) Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV) Profit distribution	-	-	3,020,121.44	(5,020,121.44)	(2,000,000.00)
1 Transfer to surplus reserve	-	-	3,020,121.44	(3,020,121.44)	-
2 Distribution to shareholders	-	-	-	(2,000,000.00)	(2,000,000.00)
(V) Transfers within shareholders' equity	-	-	-	-	-
(VI) Special reserve	-	-	-	-	-
(VII) Others	-	-	-	-	-
IV. Closing balance of the current year	50,000,000.00	63,352,595.15	3,369,103.74	28,321,933.63	145,043,632.52
Year ended 31 December 2012					
I. Closing balance of the preceding year	50,000,000.00	63,352,595.15	3,369,103.74	28,321,933.63	145,043,632.52
II. Opening balance of the current year	50,000,000.00	63,352,595.15	3,369,103.74	28,321,933.63	145,043,632.52
III. Changes for the year	-	-	3,202,899.91	16,826,099.15	20,028,999.06
(I) Net profit	-	-	-	32,028,999.06	32,028,999.06
(II) Other comprehensive income	-	-	-	-	-
Subtotal of (I) and (II) above	-	-	-	32,028,999.06	32,028,999.06
(III) Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV) Profit distribution	-	-	3,202,899.91	(15,202,899.91)	(12,000,000.00)
1 Transfer to surplus reserve	-	-	3,202,899.91	(3,202,899.91)	-
2 Distribution to shareholders	-	-	-	(12,000,000.00)	(12,000,000.00)
(V) Transfers within shareholders' equity	-	-	-	-	-
(VI) Special reserve	-	-	-	-	-
(VII) Others	-	-	-	-	-
IV. Closing balance of the current year	50,000,000.00	63,352,595.15	6,572,003.65	45,148,032.78	165,072,631.58

Item	Share capital RMB	Capital reserve RMB	Surplus reserve RMB	Retained earnings RMB	Total shareholders' equity RMB
Year ended 31 December 2013					
I. Closing balance of the preceding year	50,000,000.00	63,352,595.15	6,572,003.65	45,148,032.78	165,072,631.58
II. Opening balance of the current year	50,000,000.00	63,352,595.15	6,572,003.65	45,148,032.78	165,072,631.58
III. Changes for the year	-	-	3,279,774.14	9,517,967.25	12,797,741.39
(I) Net profit	-	-	-	32,797,741.39	32,797,741.39
(II) Other comprehensive income	-	-	-	-	-
Subtotal of (I) and (II) above	-	-	-	32,797,741.39	32,797,741.39
(III) Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV) Profit distribution	-	-	3,279,774.14	(23,279,774.14)	(20,000,000.00)
1 Transfer to surplus reserve	-	-	3,279,774.14	(3,279,774.14)	-
2 Distribution to shareholders	-	-	-	(20,000,000.00)	(20,000,000.00)
(V) Transfers within shareholders' equity	-	-	-	-	-
(VI) Special reserve	-	-	-	-	-
(VII) Others	-	-	-	-	-
IV. Closing balance of the current year	<u>50,000,000.00</u>	<u>63,352,595.15</u>	<u>9,851,777.79</u>	<u>54,666,000.03</u>	<u>177,870,372.97</u>
Nine months ended 30 September 2014					
I. Closing balance of the preceding year	50,000,000.00	63,352,595.15	9,851,777.79	54,666,000.03	177,870,372.97
II. Opening balance of the current period	50,000,000.00	63,352,595.15	9,851,777.79	54,666,000.03	177,870,372.97
III. Changes for the period	-	-	-	11,796,058.03	11,796,058.03
(I) Net profit	-	-	-	22,796,058.03	22,796,058.03
(II) Other comprehensive income	-	-	-	-	-
Subtotal of (I) and (II) above	-	-	-	22,796,058.03	22,796,058.03
(III) Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV) Profit distribution	-	-	-	(11,000,000.00)	(11,000,000.00)
1 Transfer to surplus reserve	-	-	-	-	-
2 Distribution to shareholders	-	-	-	(11,000,000.00)	(11,000,000.00)
(V) Transfers within shareholders' equity	-	-	-	-	-
(VI) Special reserve	-	-	-	-	-
(VII) Others	-	-	-	-	-
IV. Closing balance of the current period	<u>50,000,000.00</u>	<u>63,352,595.15</u>	<u>9,851,777.79</u>	<u>66,462,058.06</u>	<u>189,666,431.00</u>

Item	Share capital RMB	Capital reserve RMB	Surplus reserve RMB	Retained earnings RMB	Total shareholders' equity RMB
Nine months ended 30 September 2013 (Unaudited)					
I. Closing balance of the preceding year	50,000,000.00	63,352,595.15	6,572,003.65	45,148,032.78	165,072,631.58
II. Opening balance of the current period	50,000,000.00	63,352,595.15	6,572,003.65	45,148,032.78	165,072,631.58
III. Changes for the period	-	-	-	(2,015,176.61)	(2,015,176.61)
(I) Net profit	-	-	-	17,984,823.39	17,984,823.39
(II) Other comprehensive income	-	-	-	-	-
Subtotal of (I) and (II) above	-	-	-	17,984,823.39	17,984,823.39
(III) Shareholders' contributions and reduction in share capital	-	-	-	-	-
(IV) Profit distribution	-	-	-	(20,000,000.00)	(20,000,000.00)
1 Transfer to surplus reserve	-	-	-	-	-
2 Distribution to shareholders	-	-	-	(20,000,000.00)	(20,000,000.00)
(V) Transfers within shareholders' equity	-	-	-	-	-
(VI) Special reserve	-	-	-	-	-
(VII) Others	-	-	-	-	-
IV. Closing balance of the current period	50,000,000.00	63,352,595.15	6,572,003.65	43,132,856.17	163,057,454.97

NOTES TO THE FINANCIAL INFORMATION

A BASIC INFORMATION ABOUT THE COMPANY

History and development

北京市春立正達醫療器械股份有限公司 (Beijing Chunlizhengda Medical Instruments Co., Ltd*, hereinafter referred to as the "Company") was previously known as 北京市春立正達科技開發有限公司 (Beijing Chunlizhengda Technology Development Co., Ltd*, "Chunli Limited"). Chunli Limited was established as a limited liability company in the People's Republic of China (the "PRC") on 12 February 1998 with the initial registered capital of RMB300,000.00, and 史春寶先生 (Mr. Shi Chunbao) contributed assets of RMB200,000.00 and 岳術俊女士 (Ms. Yue Shujun, spouse of Mr. Shi Chunbao) contributed cash of RMB100,000.00 to the Company.

Pursuant to the resolution of the shareholders' meeting of the Company passed on 11 December 2001, the registered capital of Chunli Limited was increased by RMB1,300,000 from RMB300,000.00 to RMB1,600,000.00. Out of which, Mr. Shi Chunbao and Ms. Yue Shujun contributed cash of RMB650,000.00 and RMB650,000.00, respectively to Chunli Limited. Subsequently, Mr. Shi Chunbao and Ms. Yue Shujun contributed capital of RMB850,000.00 and RMB750,000.00, representing 53.125% and 46.875% of the registered capital to the Company, respectively. An updated business licence was issued by 北京市工商行政管理局 (Beijing Administration for Industry and Commerce*) on 18 December 2001.

Pursuant to the capital injection agreement between the Company and nine third parties in June 2010, 孫偉琦先生 (Mr. Sun Weiqi), 北京新安財富創業投資有限責任公司 (Beijing Xin'an Caifu Venture Investment Co., Ltd.*, "Xin'an Caifu", formerly known as 北京新安財富資本投資有限公司 (Beijing Xin'an Caifu Capital Investment Co., Ltd.*)), 林一鳴先生 (Mr. Lin Yiming), 谷長躍先生 (Mr. Gu Changyue), 黃東先生 (Mr. Huang Dong), 何榮梅先生 (Mr. He Rongmei), 倪學禎先生 (Mr. Ni Xuezhen), 張朝暉女士 (Ms. Zhang Zhaohui) and 陳旭勝先生 (Mr. Chen Xusheng) contributed cash of RMB13,000,000.00, RMB10,000,000.00, RMB8,700,000.00, RMB6,000,000.00, RMB5,000,000.00, RMB5,000,000.00, RMB3,000,000.00, RMB2,000,000.00 and RMB800,000.00 for the contribution of registered capital of RMB64,698.00, RMB49,767.00, RMB43,297.00, RMB29,860.00, RMB24,883.00, RMB24,883.00, RMB14,930.00, RMB9,953.00 and RMB3,981.00, respectively to the Company. The excess between the total cash contributed of RMB53,500,000.00 over the contributed registered capital of RMB266,252.00 was RMB53,233,748.00, which was credited to the capital reserve of the Company for the year ended 31 December 2010. An updated business licence was issued by Beijing Administration for Industry and Commerce on 2 July 2010.

* *The English name is for identification purpose only*

Pursuant to an agreement between Ms. Yue Shujun, 王海雅女士 (Ms. Wang Haiya) and 金杰先生 (Mr. Jin Jie) in June 2010, Ms. Yue Shujun transferred the registered capital of the Company of RMB24,883.00 and RMB49,767.00 to Miss Wang Haiya and Mr. Jin Jie, respectively for a total consideration of RMB15,000,000.00.

In August 2010, the shareholders of the Company were decided to transform the Company into a joint stock company with limited liability. Based on the audited consolidated net assets of the Group as at 31 July 2010 of RMB111,552,595.15, representing registered capital of RMB1,866,252.00, capital reserve of RMB53,233,748.00, surplus reserve of RMB3,991,952.22 and retained earnings of RMB52,460,642.93, the Company was transformed into a joint stock limited liability company by way of promotion with a share capital of RMB50,000,000.00, divided into 50,000,000 domestic shares with a nominal value of RMB1.00 each in the Company. The excess between the net assets of RMB111,552,595.15 over the share capital of RMB50,000,000.00 was RMB61,552,595.15, which was credited to the share premium account of the Company for the year ended 31 December 2010. The shareholders and their percentage of shareholdings remain unchanged. The above share capital has been verified by capital verification report (Tianjianzhengxin Yan (2010) Zongzi No.030048 capital verification report) dated 28 August 2010 issued by us. On 17 September 2010, the Company obtained a new business license from the Beijing Administration for Industry and Commerce.

On 25 June 2012, Mr. Gu Changyue transferred his holding of 800,000 shares in the Company, representing 1.6% equity interest in the Company to Mr. Shi Chunbao. Subsequently, Mr. Shi Chunbao held 23,572,917 shares in the Company, representing approximately 47.1458% equity interest in the Company.

On 13 December 2013, Xin'an Caifu transferred its holding of 1,333,333 shares in the Company, representing approximately 2.67% equity interest in the Company to Mr. Shi Chunbao and Ms. Yue Shujun. Up to the date of this report, Mr. Shi Chunbao and Ms. Yue Shujun hold 24,237,087.00 shares and 18,762,913.00 shares in the Company, approximately 48.4742% and 37.5258% equity interests in the Company, respectively, representing a total of 86% of the equity interest in the Company.

The address of the registered office and the principal place of business of the Company are set out in the Section "Corporate Information" to the Prospectus.

Industry of the Company

The Company and its subsidiary (hereinafter collectively referred to as the "Group") are mainly engaged in the manufacture and trading of surgical implants, instruments and related products.

Scope of business

The business scopes of the Company are: the production of Class III medical devices such as III-6846-1 implants, III-6846-2 artificial organ implants, the sales of Class III medical devices such as implants materials and artificial organs, medical knitwear

and adhesive, sales of Class II medical devices such as physiotherapy and rehabilitation equipment and orthopedics surgery devices, as well as the sales of Class I medical devices such as basic surgery devices, and normal operating projects: imports and exports and technology promotion.

Others

The Company has a wholly owned subsidiary, 北京兆億特醫療器械有限公司 (Beijing Zhao Yi Te Medical Devices Co., Ltd.*, "Zhao Yi Te") which was established on 8 June 2006 and details of which are set out in Note D of Section I.

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Basis of preparation of Financial Information

The Financial Information has been prepared on a going concern basis and included applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

The Financial Information has been prepared in accordance with the Accounting Standards for Business Enterprises in the PRC ("ASBE") issued by the Ministry of Finance of the PRC ("MOF"), the related specific standards, the Accounting Standards for Business Enterprises Application Guidance; China Accounting Standards Bulletins and other relevant regulations (hereinafter referred to as "China Accounting Standards for Business Enterprises", "CASBE").

The Company has adopted the accrual basis of accounting and the Financial Information has been prepared on a historical cost basis.

Statement of compliance with the CASBE

For the preparation of this Financial Information throughout the Track Record Period, the Group has consistently adopted all of the new and revised CASBE issued by MOF that are effective for the financial year beginning on 1 January 2014 and the early adoption of the following new and revised CASBE that have been issued during the year ended 31 December 2014 but are not yet effective:

- ASBE No. 2 *"Long-term equity investments" (amended)*
- ASBE No. 9 *"Employee Benefits" (amended)*
- ASBE No. 30 *"Presentation of Financial Statements" (amended)*
- ASBE No. 33 *"Consolidated Financial Statements" (amended)*

* *The English name is for identification purpose only*

- ASBE No. 37 *"Presentation of Financial Instruments" (amended)*
- ASBE No. 39 *"Fair value measurements"*
- ASBE No. 40 *"Joint Venture Arrangements"*
- ASBE No. 41 *"Disclosure of Interests in Other Entities"*

In the opinion of the directors of the Company, the Financial Information for the Track Record Period has been prepared in accordance with the CASBE and presents truly and completely the Group's and the Company's financial position as at 31 December 2011, 31 December 2012, 31 December 2013 and 30 September 2014 and the Group's and the Company's financial performance and cash flows for the Track Record Period.

Accounting period

The Company has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December. The Financial Information included the financial statements of the Company and its subsidiary for the period from 1 January 2011 to 30 September 2014.

Functional currency

The directors assessed the Group's functional currency and concluded that the functional currency of the Group is Renminbi ("RMB"), which is also the presentation currency of its Financial Information.

The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control

- (a) Business combinations involving enterprises under common control

The assets and liabilities obtained by the Company in the business combination are measured at their respective carrying amounts as recorded by the combining entities at the date of the combination. The difference between the carrying amount of the net assets acquired and the carrying amount of the consideration paid for the combination (or the total face value of shares issued) is adjusted in the capital reserve. If the capital reserve is insufficient, any excess is adjusted to retained earnings. Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

- (b) Business combinations not involving enterprises under common control

Where the costs arising from the business combination by the acquirer exceeds the fair value at the date of acquisition of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the costs arising from the business combination by the acquirer is less than the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable net assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognises the remaining difference immediately to profit or loss for the current period.

The costs incurred by the acquirer that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

Preparation of Financial Information

The Company includes its subsidiary under its control in the scope of consolidation for the preparation of the Financial Information. An investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. Based on the financial statements of the parent and its subsidiary and other relevant information, the Financial Information was prepared in accordance with the ASBE No. 33 "*Consolidated financial statements*".

All significant intra-group balances and transactions are eliminated on consolidation.

Recognition criteria of cash and cash equivalents

Cash shown in the statement of cash flows comprises cash on hand and bank deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Translation of transactions and financial statements denominated in foreign currencies

- (a) Transactions denominated in foreign currencies

Foreign currency transactions are translated into RMB, on initial recognition, by applying the spot exchange rates on the date of the transactions. At the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rates at the balance sheet date. Exchange differences

arising from different exchange rates are recognised to profit or loss for the period, except that: those exchange differences regarding the principal and interest for a specific-purpose borrowing denominated in foreign currency that qualify for capitalisation; Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currencies at the spot exchange rates on the dates of the transactions and the amounts of RMB remain unchanged; Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rates on the dates the fair value is determined and the differences are recognised in profit and loss or capital reserve.

(b) Translation of financial statements denominated in foreign currencies

Assets and liabilities on the balance sheet are translated at the spot exchange rates prevailing at the balance sheet date; Shareholders' equity items except for "retained earnings" are translated at the spot exchange rates at the dates on which such items arose; Income and expense items in the income statement are translated at the exchange rates that approximate the actual spot exchange rates on the dates of the transactions. The above differences are separately presented as the exchange differences arising on translation of financial statements denominated in foreign currencies under the shareholders' equity in the balance sheet.

Financial instruments

(a) Classification of financial assets and financial liabilities

On initial recognition, the financial assets are classified into one of the four categories: financial assets at fair value through profit or loss (including financial assets held for trading and financial assets designated at fair value through profit or loss); held-to-maturity investments; loans and receivables; and available-for-sale financial assets.

On initial recognition, financial liabilities are classified into one of the two categories: financial liabilities at fair value through profit or loss (including financial liabilities held for trading and financial liabilities designated at fair value through profit or loss) and other financial liabilities.

Financial assets or financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets or financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognised to profit or loss. For other financial assets or financial liabilities, transaction costs are included in their initial recognised amounts.

- (b) Recognition, measurement and derecognition of financial assets and financial liabilities

Financial assets are subsequently measured at fair value without considering of the possible transaction costs upon the disposal thereof in the future, except that: (i) Held-to-maturity investments and loans and receivables are subsequently measured at amortised cost using the effective interest method; and (ii) Investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, except that: (i) Financial liabilities at fair value through profit are subsequently measured at fair value without considering of the possible transaction costs upon the settlement thereof in the future; (ii) Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument without a quoted price in an active market whose fair value cannot be reliably measured, they are subsequently measured at cost; and (iii) Financial guarantee contracts that are not designated as financial liabilities at fair value through profit or loss, or loan commitments to provide a loan at a below-market interest rate, which are not designated at fair value through profit or loss, subsequent to initial recognition, they are measured at the higher of: (i) the amount determined in accordance with ASBE No. 13 "*Contingencies*"; and (ii) the amount initially recognised less cumulative amortisation recognised in accordance with the principles set out in ASBE No. 14 "*Revenue*".

Any gains or losses arising from changes in the fair value on financial assets or financial liabilities, other than those hedging instrument, are accounted for as follows: (i) Gains or losses arising from the change in fair value on financial assets or financial liabilities at fair value through profit or loss are recorded as gains or losses from change in fair value; Any interest or dividend income earned during the holding on such financial assets are recognised to profit or loss. On disposal, the differences between the consideration received and initial recognised amount are recognised as investment income and adjust to the gains or losses from change in fair value accordingly; and (ii) Changes in fair value of available-for-sale financial assets are recorded in the capital reserve. Interest calculated using the effective interest method for the periods, in which the assets are held, are recognised as investment income. Cash dividends from available-for-sale equity investments are recognised as investment income when the dividends are declared by the investee. On disposal, the differences between the considerations received and the carrying amounts of financial assets after deducting the accumulated fair values adjustments previously recorded in the capital reserve are recognised as investment income.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when it transfers substantially all the risks and rewards of ownership of the asset to another entity. A financial liability (or part of it) is derecognised only when the underlying present obligations (or part of it) are discharged, cancelled or expired.

(c) Recognition and measurement on transfer of financial assets

If the Group has transferred substantially all the risks and rewards of ownership of the financial asset to the transferee, the financial asset should be derecognised; If the Group retains substantially all the risks and rewards of ownership of a financial asset, the transferred financial asset should be recognised and the consideration receipt should be recognised as a financial liability; If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference of the following is recognised to profit or loss: (i) The carrying amount of the financial asset transferred; and (ii) The sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income. If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the respective fair values of those parts. The difference of the following is recognised to profit or loss: (i) The carrying amount allocated to the part derecognised; and (ii) The sum of the consideration received for the part derecognised and any cumulative gain or loss allocated to the part derecognised which has been previously recognised.

(d) Determination of fair value of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction.

For a financial asset or financial liability which has an active market, the Group considers the quoted price in the active market to determine its fair value. For a financial assets or financial liability which has no active market, the Group uses a valuation technique (valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models) to determine its fair value. For a financial asset acquired or a financial liability assumed initially, its fair value is based on the recent arm's length market transactions.

(e) Assessment and provision for impairment on financial assets

At each balance sheet date, the Group assesses the carrying amounts of its financial assets other than those financial assets at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment loss.

At the end of the reporting period, if there is objective evidence that an impairment loss on a financial asset carried at amortised cost has occurred, an impairment loss is recognised as the excess of the carrying amount of the financial asset over its present value of estimated future cash flows to profit or loss. If an impairment loss has been incurred on an investment in unquoted equity instrument without a quoted price in an active market whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such equity instrument, an impairment loss is recognised as the excess of the carrying amount of the unquoted equity investment or a derivative financial asset over its present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset to profit or loss. An impairment is recognised where there is a significant decrease in the fair value of available-for-sale financial assets, or taken into account all factors, the decrease trend is not temporary to profit or loss. The cumulative loss arising from decline in fair value previously recognised directly in the capital reserve is reclassified from the capital reserve to profit or loss.

Objective evidence indicating a financial asset is impaired includes the following observable events:

(i) Significant financial difficulty of the issuer or obligor;

- (ii) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- (iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;
- (iv) It becoming probable that the borrower will enter bankruptcy or other financial reorganisations;
- (v) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;
- (vi) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:
 - Adverse changes in the payment status of borrower in the group of assets; and
 - Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets.
- (vii) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;
- (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- (ix) Other objective evidence indicating there is an impairment of the financial assets.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount

of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether the financial asset is significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment.

The objective evidence which indicates impairment in fair value of available-for-sale equity instruments includes the significant and prolonged decline in fair value of the available-for-sale equity instruments. The Group has separately tested various available-for-sale equity instruments at the balance sheet date. At the balance sheet date, if the fair value of the equity instrument is lower than its cost by more than 50% (including 50%) or the low state has lasted for longer than twelve months (including twelve months), this indicates an impairment of the equity instrument; While the lower proportion is more than 20% (including 20%) but is lower than 50% or the low state has lasted for longer than six months (including six months) but is not longer than 12 months, the Group will take other factors such as price fluctuation into consideration to estimate whether the equity instrument has impaired or not.

If there is objective evidence that an impairment loss on available-for-sale financial assets incurred, the cumulative losses arising from the decline in fair value that had been recognised directly in shareholders' equity are transferred out from the shareholders' equity and into impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in shareholders' equity.

(f) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The consideration received from issuing equity instruments, net of transaction costs, are added to shareholders' equity.

All types of distributions made by the Group to holders of equity instruments are deducted from shareholders' equity. The Group does not recognise any changes in the fair value of equity instruments.

Receivables

At the end of the reporting period, if there is objective evidence that an impairment loss on receivables, provision for bad debts are made based on the excess of the carrying amounts of the receivables over the present value of their estimated future cash flows.

Criteria and methods of provision for bad debt of receivables are as follows:

- (a) Receivables those are individually significant for which bad debt provision is individually assessed

Basis or monetary criteria for determining an individually significant receivable

Trade receivable is considered individually significant if the amount is 2% or above of the total balance of accounts receivable; Other receivable is considered individually significant if the amount is 10% or above of the total balance of other receivables

Method of determining provision for receivables that are individually significant for which bad debts provision is individually assessed

The Group assesses the receivables individually for impairment. Provision for bad debts are made based on the excess of the carrying amounts of the receivables over the present value of their estimated future cash flows

- (b) Receivables for which bad debts provision is collectively assessed on a portfolio basis

- (i) Basis for determining the groupings and the methods of determining provision for bad debts by groupings:

Basis for determining the groupings is as follows:

Related party group within the Group

Receivables from related parties

Aging group

Receivables within the same aging category have similar credit risk characteristics

Methods of determining provision for bad debts by groupings are as follows:

Related party group within the Group No provision for bad debts was provided

Aging group Aging analysis method

(ii) The percentages of provision used in the aging analysis method amongst aforesaid groups are as follows:

Aging	Percentage of provision for accounts receivable %	Percentage of provision for other receivables %
Within 1 year (inclusive)	3.00	3.00
1 to 2 years (inclusive)	8.00	8.00
2 to 3 years (inclusive)	20.00	20.00
3 to 4 years (inclusive)	50.00	50.00
4 to 5 years (inclusive)	80.00	80.00
Over 5 years	100.00	100.00

(c) Receivables with amounts those are not individually significant but subject to separate assessment for provision for bad debts

Reason for making separate assessment for provision for bad debts Significant differences between the present value of estimated future cash flows and the present value of estimated future cash flows with aforesaid credit risk characteristics

Method of determining provision for bad debts The Group assesses the receivables individually for impairment. Provision for bad debts are made based on the excess of the carrying amounts of the receivables over the present value of their estimated future cash flows

Provision is recognised when the present value of the estimated future cash flows of notes receivable, prepayments, other non-current assets and other receivables are below their carrying amounts.

Inventories

(a) Classifications of inventories

Inventories include finished goods or merchandise held for sale in the ordinary course of business, work in progress in the process of production, raw materials to be consumed in the production process.

(b) Valuation method of inventories upon delivery

The inventories are carried at the actual cost. The costs of raw materials and merchandise inventories transferred out is determined by using the weighted average method on a monthly basis.

(c) Basis for determining net realisable value of inventories and provision methods for decline in value of inventories

At the balance sheet date, inventories are measured at the lower of cost and net realisable value. If the net realisable value is below the cost of inventories, a provision for decline in value of inventories is made. For inventories directly for sale, net realisable value is measured based on the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale and relevant taxes. For inventories that need processing, net realisable value is measured based on the estimated selling price of finished goods in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. At the balance sheet date, for an item of inventories where a portion of inventories is subject to contractual price while the remainder is not, their net realisable values are determined separately and compared with their corresponding costs respectively to recognise the amount of provision for decline in value of inventories, or reversal of the provision. Net realisable value is determined on the basis of clear evidence obtained, and takes into consideration the purposes of holding inventories and effect of post balance sheet events.

(d) Inventory system

The perpetual inventory system is maintained for stock system.

(e) Amortisation method for low cost and short-lived consumable items and packaging materials

Low cost and short-lived consumable items and packing materials are amortised using the immediate write-off method.

Long-term equity investments

- (a) Determination of investment cost
- (i) For a business combination involving entities under common control, if the consideration for combination is settled in cash, by way of transfer of non-cash assets, assumption of liabilities or issuance of equity securities, the initial investment cost of the long-term equity investment is the carrying value of the absorbing party's share of the shareholders' equity of the party being absorbed at the date of combination. The difference between the initial investment cost of a long-term equity investment and the carrying amount of the consideration given or the total nominal value of shares issued, the amount is adjusted to capital reserve. If the balance of the capital reserve is insufficient, any excess is adjusted to retained earnings.

Where a business combination involving enterprises under common control is achieved in stages that involve multiple transactions, the initial investment cost recognised in the separate financial statements and the consolidated financial statements is the percentage of shareholders' share the carrying value of the absorbing party's share of the shareholders' equity at the date of combination. The difference between the carrying amount of the equity investment in the party being absorbed prior to the date of business combination plus the additional investment costs as at the date of business combination and the initial investment costs of the long-term equity investments is adjusted to capital reserve. If the balance of the capital reserve is insufficient, any excess is adjusted to retained earnings.

- (ii) For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost is the fair value of the consideration given for combination at the date of acquisition.

Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the relevant accounting treatments adopted in the separate financial statements and the consolidated financial statements are as follows:

- (1) In the separate financial statements, the initial equity investment cost of an investment represents the aggregate of the carrying amount of equity investment in the acquiree held by the Company prior to the date of acquisition and the additional investment cost as at the date of acquisition. Any other comprehensive income attributable to the equity investment in acquiree held by the Company prior to the date of acquisition is transferred to investment income upon the disposal of such investment.

- (2) In the consolidated financial statements, the equity investment in the acquiree held by the Company prior to the date of acquisition is remeasured at its fair value at the date of acquisition. The difference between the fair value and the carrying amount of the equity investment is recognised in the investment income for the current period. The other comprehensive income attributable to the equity investment in acquiree held by the Company and the related other comprehensive income of the Company is transferred to investment income at the date of acquisition.
- (3) For a long-term equity investment acquired other than through a business combination: If the investment is acquired by paying of cash, the initial investment cost is the actual purchase price paid; If the investment is acquired by the issue of equity securities, the initial investment cost is the fair value of the securities issued; If the investment is contributed by the investor, the initial investment cost is the value stipulated in the investment contract or agreement, except that where the value stipulated in the investment contract or agreement is not fair.

(b) Subsequent measurement and recognition of profit or loss

The long-term equity investments are stated in accordance with cost method where the Company can exercise control over the investee; In preparing the consolidated financial statements, the investments are adjusted in accordance with equity method; For a long-term equity investment where the Company has joint control or significant influence over the investee, the investment is stated in accordance with equity method.

(c) Basis for determining for significant influence over investee

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

(d) Methods of impairment assessment and determining the provision for impairment loss

Where long-term equity investments accounted for using the cost method that are not quoted in active market and whose fair value cannot be reliably measured, when there is objective evidence that the investments are impaired at the balance sheet date, a provision for impairment loss is recognised on the excess of the carrying amounts of the investments over their recoverable amounts. Where other long-term equity investments that the investments are not quoted in an active market and their fair value cannot be reliably measured, a provision for impairment loss is recognised in accordance with ASBE No. 22 "*Recognition and measurement of financial instruments*".

Once an impairment loss is recognised for a long-term equity instrument, it will not be reversed in any subsequent period.

- (e) Accounting treatment regarding the disposal of investment in a subsidiary through multiple transactions when the control on the investee was lost
 - (i) Other than the transactions which are associated with the disposal of equity investment when the control on the investee was lost are a series of transactions, the accounting treatment of the Company regarding the disposal of investment in a subsidiary through multiple transactions when the control on the investee was lost are as follows.
 - (1) Accounting treatments regarding the disposal of a portion of the investment in a subsidiary prior to the control on the investee was lost

For the disposal of investment in a subsidiary over which the Company has still control, the relevant accounting treatments adopted in the separate financial statements and the consolidated financial statements are as follows:

In the separate financial statements, the carrying amount of the long-term equity investment attributable to the equity interest to be disposed is transferred out, and the difference between the proceeds from the disposal and the transferred out of the carrying amount of the long-term equity investment is recognised in profit or loss; and

In the consolidated financial statements, whereas the difference between the proceeds from the disposal and the amount of the share of the subsidiary's net assets attributable to the disposal are adjusted to the capital reserve (or share premium). If the balance of the capital reserve is insufficient, any excess is adjusted to retained earnings.

- (2) For the disposal of a portion of investment in a subsidiary over which the Company has lost control, the relevant accounting treatments adopted in the separate financial statements and the consolidated financial statements are as follows:

In the separate financial statements, the carrying amount of the long-term equity investment attributable to the equity interest to be disposed is transferred out, and the difference between the proceeds from the disposal and the transferred out of the carrying amount of the long-term equity investment is recognised in profit or loss. At the same time, regarding the remaining equity investment, the related carrying amount is recognised as long-term equity investment or other relevant financial assets.

Subsequent to the disposal, where the remaining equity investment may still has joint control or significant influence over the previously controlled subsidiary, the accounting treatment relating to changing from cost method to equity method is adopted.

In the consolidated financial statements, regarding the remaining equity investment, the amount is remeasured at its fair value at the date when the Group has lost control over the subsidiary. The amount between the sum of consideration received from the disposal of the equity investment and the fair value of the remaining equity investment less the amount of the original percentage of shareholding's share of the previously controlled subsidiary's net assets since the date of acquisition is recognised as investment income during the current period in which the control on the investee was lost (deducting the relevant amount of goodwill, if any). Other comprehensive income associated with the investment in equity investment of the previously controlled subsidiary is transferred to investment income when the control on the investee was lost.

- (ii) For the Company disposal of investment in a subsidiary through multiple transactions when the control on the investee was lost are a series of transactions, in the separate financial statements, the accounting treatment is same as when the transactions that are not part of a series of transactions. In the consolidated financial statements, the relevant accounting treatment is adopted on the basis that such transactions are collectively treated as a transaction associated with the disposal of a subsidiary where the control on the investee was lost. Nonetheless, prior to the control on the investee was lost, the differences between the amounts of the proceeds from each of the disposals and the amounts of the share of the subsidiary's net assets on such disposals are recognised as other comprehensive income in the consolidated financial statements, and the aggregate amount is transferred to profit or loss during the period when the control on the investee was lost.

Where the terms, conditions and financial effects of the transactions involving the disposal of equity investment in a subsidiary meet one or more of the following situations, in general, the accounting treatments is adopted on the basis that such transactions are treated as a series of transactions: (a) such transactions are entered into concurrently or after considering the effects on each other; (b) such transactions will only constitute a completion of business deal if they are counted as a whole; (c) whether a transaction proceed will be conditional on the completion of at least one of the other transactions; and (d) the profitability of a transaction is determined along with other subsequent transactions instead of being viewed separately.

Fixed assets

(a) Recognition, measurement and depreciation of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably.

Fixed assets are measured at cost at the date of acquisition. Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset and if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred. Depreciation is provided over their estimated useful lives from the month after they have reached the working condition for their intended use using the straight line method.

(b) Depreciation of each category of fixed assets

Item	Depreciation period <i>Year</i>	Residual value rate <i>%</i>	Annual depreciation rate <i>%</i>
Buildings	30	5	3.17
Machinery and equipment	10	5	9.50
Motor vehicles	5	5	19.00
Office equipment	5	5	19.00

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

(c) Methods of impairment assessment and determining the provision for impairment losses of fixed assets

At the balance sheet date, when there is any indication that the fixed assets may be impaired, a provision for impairment loss is recognised on the excess of the carrying amounts of the assets over their recoverable amounts to profit or loss for the current period. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognised in profit or loss for the period.

Once the impairment loss of such assets is recognised, it is not be reversed in any subsequent period.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year-end, and accounts for any change as a change in an accounting estimate.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recorded in profit or loss for the period.

Construction in progress

- (a) Construction in progress is recognised when it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured. The construction in progress is measured at the actual expenditures incurred before it is ready for its intended use and not depreciated.
- (b) Construction in progress is transferred to fixed assets when it is ready for its intended use based on the actual costs incurred. When the construction in progress is ready for its intended use but the final account of the completed project has not been issued, the cost of the asset is transferred to fixed assets based on its estimated cost. When the final account of completed project is issued, the estimated cost is adjusted to the actual cost, while the depreciation charge is not adjusted retrospectively.
- (c) At the balance sheet date, when there is any indication that the construction in progress may be impaired, a provision for impairment loss is recognised on the excess of the carrying amounts of the assets over their recoverable amounts to profit or loss for the current period.

Borrowing costs

- (a) Recognition principle on capitalisation of the borrowing costs

For the borrowing costs incurred by the Group that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the costs of the assets. Other borrowing costs are recognised as expenses in the period in which they are incurred.

- (b) The period of capitalisation of the borrowing costs

Borrowing costs are capitalised when the following conditions are met: (i) The expenditures for the assets are being incurred; (ii) The borrowing costs are being incurred; and (iii) The activities relating to the acquisition or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

Capitalisation of borrowing costs is suspended during periods in which the acquisition or production of the asset is suspended abnormally and when the suspension is for a continuous period of more than three months. The borrowing costs incurred during the suspension period are recognised as an expense in the profit or loss for the current period until activities relating to the acquisition or production of the asset is resumed.

The capitalisation of borrowing costs for the acquisition or production of the asset ceases when the qualifying asset being acquired or produced becomes ready for its intended use or sale.

(c) Capitalised amount of borrowing costs

Where funds are borrowed under a specific-purpose borrowing that are directly attributable to the acquisition or production of a qualifying asset, the amount of borrowing costs eligible for capitalisation is the actual interest expense incurred on that borrowing for the period (including amortisation of discount or premium determined using the effective interest method) less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds; Where funds are borrowed under general-purpose borrowings that are directly attributable to the acquisition or production of a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific-purpose borrowings.

Intangible assets and development expenditures

Intangible assets comprise land use rights and software are initially measured at cost.

Intangible assets with definite useful lives are reasonably amortised over their estimated useful lives based on the pattern of the economic benefits relating to the intangible assets are expected to be realised. Intangible assets whose economic benefits realisation pattern cannot be reliably anticipated are amortised on a straight line basis over the following useful lives:

Item	Amortisation period Year
Land use rights	37.50; 49.00
Software	5.00

The Group reviews the useful life and amortisation method at the end of the reporting period, and makes adjustments when necessary.

At the balance sheet date, when there is any indication that the intangible assets with finite useful lives may be impaired, a provision for impairment loss is recognised on the excess of the carrying amounts of the assets over their recoverable amounts to profit or loss for the current period.

The expenditures on internal research and development project during the research phase are recognised as expenses in the period in which they are incurred. The expenditures on internal research and development project during the development phase that meets all of the following conditions at the same time is recognised as intangible asset: (i) It is technically feasible to complete the intangible asset so that it will be available for use or sale; (ii) The Group has the intention to complete the intangible asset and use or sell it; (iii) the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (iv) The availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and (v) The expenditure attributable to the intangible asset during its development phase can be reliably measured. The expenditure on internal research and development project during development phase that does not meet the above conditions is recognised in profit or loss for the period. If the expenditures cannot be distinguished between the research phase and development phase, the Group recognises all of them in profit or loss for the period.

Long-term prepaid expenses

Long-term prepaid expenses are measured at actual incurred amounts are amortised on the straight line basis over the expected period in which benefits are derived. When the long-term prepaid expenses are no longer beneficial to the subsequent accounting periods, the unamortised balance is then fully transferred to profit or loss for the current period.

Employee benefits

Employee benefits include salary, post-employment benefits, severance and other long-term employee benefits.

Actual salary is recognised as liability and charged to profit or loss during the current accounting period in which the services have been rendered by the employees.

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year/period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

Dividends distribution

Cash dividend is recognised as a liability for the period in which the dividend is approved by the shareholders' meeting.

Provisions

Provisions are recognised when the Group has a present obligation related to a contingency such as provision of products warranty, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably measured.

A provision is initially measured by the Group at its best estimate of the expenditure required to settle the related present obligation. The carrying amount of the provision is reviewed at the balance sheet date.

Revenue

Revenue from sale of goods comprises the fair value of the consideration received or receivable and the amount was shown net of returns and discounts.

(a) Revenue from sales of goods

Revenue from sale of goods is recognised when all the following conditions are met: (i) The significant risks and rewards of ownership of goods have been transferred to the buyers; (ii) The Group retains neither continuing managerial involvements to the degree usually associated with ownership nor effective control over the goods sold; (iii) The amount of revenue can be reliably measured; (iv) It is probable that the associated economic benefits will probably flow to the Group; and (v) The associated costs incurred or to be incurred can be reliably measured. Goods returns or exchanges are only allowed with the management's consent.

(b) Revenue from rendering of services

Revenue from rendering of services is recognised when: The amount of revenue can be reliably measured; it is probable that the associated economic benefits will probably flow to the Group; the stage of completion of the transaction can be reliably measured; the associated costs incurred or to be incurred for the transaction can be reliably measured. Revenue from rendering of services is recognised by reference to the stage of completion of the transaction by using the proportion of costs incurred to date to the estimated total costs.

Where the outcome of the transaction involved the rendering of services cannot be reliably estimated at the balance sheet date: If the costs incurred are expected to be recoverable, revenues are recognised to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged as service cost; If the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss for the current period and no service revenue is recognised.

Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognised only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

The government grants obtained by the Group to purchase or construct or otherwise for long-term assets are categorised as asset-related government grants. Other than asset-related government grants are income-related government grants.

For companies with evidences at the end of the reporting period indicating that they conform to the relevant conditions of the financial supporting policy and that they are expected to receive financial assistance, government grants are recognised as amount receivable. Otherwise, government grants should be recognised when they are received.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount.

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised to profit or loss over the periods in which the related costs are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately to profit or loss for the current period.

Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets and liabilities and their tax bases (for items not yet recognised as assets and liabilities that have their tax bases determined by reference to the provision in the relevant tax laws, the difference between such tax bases and their carrying amounts is applied), the deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realised or the liabilities are settled.

Deferred tax is generally recognised for all temporary difference. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. At the balance sheet date, if there is objective evidence that future taxable profits will be available against which deductible temporary differences can be utilised, deferred tax assets not recognised in prior accounting periods is recognised.

The carrying amount of a deferred tax asset is reviewed at the balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits are available in the future to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits are available.

The Group's income tax comprises current and deferred tax and is recognised as income or expense in the profit or loss, except for the income tax arising from the following: (i) Business combination; (ii) The transactions and events that are directly recognised in the shareholders' equity.

Operating lease

When the Group is a lessee, operating lease payments are recognised on a straight line basis over the term of the relevant lease, and are either included in the cost of related asset or charged to profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

When the Group is a lessor, rental income from operating lease is recognised to profit or loss on a straight line basis over the term of the relevant lease. Other than the initial direct costs with significant amount are capitalised when incurred and are recognised to profit or loss over the lease term, the initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are credited to profit or loss in the period in which they actually arise.

Segment information

The Group determines the operating segments based on the internal organisation structure, management requirements and internal reporting system. An operating segment is a component of the Group that satisfies all of the following conditions:

- (a) The component is able to generate revenues and incur expenses from its ordinary activities;
- (b) Whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance; and
- (c) For which the information on financial position, operating results and cash flows is available to the Group.

The Group determines reporting segments based on the operating segments. Inter-segment revenues are measured on the basis of actual transaction price for such transactions. The common assets employed by the reporting segments and the common expenditures incurred for the operating segments are allocation based on the proportional revenue of respective segments.

Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are considered to be reasonable.

The following are the critical assumptions and uncertainties on such estimated which may cause material adjustments to the carrying amounts of assets and liabilities concerning the future at the balance sheet date:

(a) Useful lives of fixed assets and intangible assets

The Group reviewed the estimated useful lives for its fixed assets and intangible assets annually. The estimated useful lives are determined by management by reference to the historical experience of similar assets, the estimation generally used by other companies in the same industry and anticipated renovation in technologies. When there are significant changes in previous estimates, the Group should adjust the depreciation and amortisation expense in future periods.

(b) Provision for decline in the value of inventories

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable values. The Group determines the net realisable values of inventories based on the estimated selling price of similar inventories less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. When the realised selling price or costs or expenses are different with previous estimates, the Group should adjust the net realisable values of inventories. Therefore, the estimates based on current experience may be different with the real situation, which could result in adjustment to the carrying amount of inventories in the balance sheet date.

(c) Provision for receivables

Provision for receivables is made when there is objective evidence that the recoverability of receivables becomes doubtful. The provision contains uncertainties because the management is required to make assumptions and to apply judgement regarding historical settlement experience, debt aging, financial status of debtors and general economic conditions. There is no reason to believe that there will be a material change in the future estimates or assumptions which are used in the calculations of the provision for

receivables. However, when the actual outcome or expectation in future is different from the original estimates, the carrying value of receivables and provision may change.

C TAXATION

Major categories of taxes and tax rates

Category of tax	Basis of tax computation	Tax rate
Value-added Tax ("VAT")	Sales of goods or rendering of services	17%
City Construction and Maintenance Tax	In accordance with Value-added Tax payable	5%
Education Fee Surcharge	In accordance with Value-added Tax payable	3%
Local Education Fee Surcharge (Note below)	In accordance with Value-added Tax payable	2%
Enterprise Income Tax ("EIT")	In accordance with income tax payable	Company: 15%; Zhao Yi Te: 25%

Note: Pursuant to 《財綜〔2010〕98號 — 財政部關於統一地方教育附加政策有關問題的通知》(Caizong [2010] No. 98 — Notice from the Ministry of Finance Regarding the Issues on Unified Local Education Fee Surcharge Policy*) dated 7 November 2010; 《財綜函〔2011〕57號 — 財政部關於同意北京市開徵地方教育附加的覆函》(Caizonghan [2011] No. 57 — Notice from the Ministry of Finance Regarding Reply in Agreeing Beijing to levy Local Education Fee Surcharge*) dated 22 July 2011 and 《京政發〔2011〕72號 — 北京市人民政府關於印發北京市地方教育附加徵收使用管理辦法的通知》(JingZhengfa [2011] No. 72 — Notice from the Beijing Municipal People's Government Regarding the Issuance of the Administrative Measures on Local Education Fee Surcharge*) dated 21 December 2011, with effective from 1 January 2012, the applicable Local Education Fee Surcharge of the Company and Zhao Yi Te is 2% of the payable of VAT, Consumption Tax and Business Tax which are applicable to enterprises located in the administrative area of Beijing.

Preferential tax policies and approvals

(a) VAT

The Company's export commodities are subject to taxation method of "exemption, reduction and rebate", including output tax rates are as follows: 13% refund for bars, rods, profiles products; 15% refund for artificial joints; 15% refund for orthopedic or fracture appliances; and 17% refund for other medical instruments which are not listed on the Tax Document Number: 90.18.

(b) EIT

During the year ended 31 December 2009, the Company obtained the 《高新技術企業證書》(The High and New Technology Enterprise Certificate*), with the effective date till 16 June 2012 which was issued by 北京市科學技術委員會 (Beijing Municipal Science and Technology Commission*), 北京市財政局 (Beijing Municipal Finance Bureau*), 北京市國家稅務局 (Beijing Municipal Office, State Administration of Taxation*) and 北京市地方稅務局 (Beijing Local Taxation Bureau*) on 12 June 2009. Pursuant to the 《高新技術企業認定管理辦法》(Administrative Measures for the Determination of High and New Technology Enterprises*) and 《中華人民共和國企業所得稅法》(The People's Republic of China on Enterprise Income Tax*) and the related regulations and rules, the Company was recognised as a high and new technology enterprise and accordingly, the Company is eligible to a concessionary PRC EIT tax rate of 15% for a period of three years from 2009 to 2011.

During the year ended 31 December 2012, the Company passed the certification of high and new technology enterprise review and the Company obtained The High and New Technology Enterprise Certificate, with the effective date till 30 October 2015, which was issued by Beijing Municipal Science and Technology Commission, Beijing Municipal Finance Bureau, State Tax Bureau of Beijing City and Beijing Municipal Local Tax Bureau on 30 October 2012. Pursuant to the Administrative Measures for the Determination of High and New Technology Enterprises and The People's Republic of China on Enterprise Income Tax and the related regulations and rules, the Company was recognised as a high and new technology enterprise and accordingly, the Company is eligible to a concessionary PRC EIT tax rate of 15% for a period of three years from 2012 to 2014.

* *The English name is for identification purpose only*

D BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

Information about the subsidiary - Subsidiary acquired through establishment or investment

Name	Type	Place of registration	Scope of business	Registered capital RMB'000	Legal representative	Business scope	Organisation code	Capital contribution as at 30 September 2014 (RMB)	Percentage of shareholding/ percentage of voting rights				Whether financial statements are consolidated	Non- controlling interest	
									as at 31 December 2011 %	2012 %	2013 %	as at 30 September 2014 %			
Zhao Yi Te	Wholly owned subsidiary	Tongzhou Beijing	Selling of medical devices	665,263.00	Mr. Zhai Jianling	Selling of medical devices	790699716	665,263.00	100	100	100	100	100	Yes	-

The statutory financial statements of Zhao Yi Te prepared in accordance with CASBE for the Track Record Period were audited by us in accordance with the China Standards on Auditing.

E NOTES TO ITEMS IN THE CONSOLIDATED BALANCE SHEETS OF THE GROUP

1 Cash and bank deposits

Item	As at 31 December 2011			As at 31 December 2012			As at 31 December 2013			As at 30 September 2014		
	Foreign currency	Exchange rate	Amount RMB	Foreign currency	Exchange rate	Amount RMB	Foreign currency	Exchange rate	Amount RMB	Foreign currency	Exchange rate	Amount RMB
Cash on hand:												
RMB	-	-	57,796.58	-	-	14,481.40	-	-	4,891.48	-	-	407,356.25
USD	2,972.78	6.3009	18,731.19	5,009.55	6.2855	31,487.53	28,466.93	6.0969	173,560.05	53,914.46	6.1525	331,708.72
EUR	1,537.87	8.1625	12,552.86	545.83	8.3176	4,540.00	1,315.63	8.4189	11,076.16	1,315.63	7.8049	10,268.36
Subtotal			89,080.63			50,508.93			189,527.69			749,333.33
Bank deposits:												
RMB	-	-	44,240,597.01	-	-	57,565,591.19	-	-	64,625,941.35	-	-	44,272,239.30
USD	63,461.45	6.3009	399,864.25	579,522.56	6.2855	3,642,589.05	170,697.72	6.0969	1,040,726.93	293,586.13	6.1525	1,806,288.66
EUR	0.73	8.1625	5.96	0.73	8.3176	6.07	-	-	-	-	-	-
Subtotal			44,640,467.22			61,208,186.31			65,666,668.28			46,078,527.96
Total			44,729,547.85			61,258,695.24			65,856,195.97			46,827,861.29

At the end of each reporting period, there are no funds with use restriction (as they are collateralised, pledged as security or frozen, etc.).

At the end of each reporting period, there are no funds being kept in a foreign country or with potential recovery risk should be disclosed separately.

2 Notes receivable

Item	As at 31 December 2011			As at 31 December 2012			As at 31 December 2013			As at 30 September 2014		
	Cost RMB	Provision RMB	Carrying value RMB	Cost RMB	Provision RMB	Carrying value RMB	Cost RMB	Provision RMB	Carrying value RMB	Cost RMB	Provision RMB	Carrying value RMB
Bank acceptance notes	1,233,520.00	-	1,233,520.00	2,660,714.15	-	2,660,714.15	5,733,578.88	-	5,733,578.88	3,356,834.09	-	3,356,834.09
Commercial acceptance notes	858,360.00	-	858,360.00	-	-	-	606,300.00	-	606,300.00	758,490.00	-	758,490.00
Total	2,091,880.00	-	2,091,880.00	2,660,714.15	-	2,660,714.15	6,339,878.88	-	6,339,878.88	4,115,324.09	-	4,115,324.09

At the end of each reporting period, there are no notes receivable which have been pledged as security.

At the end of each reporting period, there are no notes receivable that have been endorsed to other parties which are not yet due at the end of the period.

At the end of each reporting period, the Group did not discount any commercial acceptance notes to banks or did not have any commercial acceptance notes which have been pledged as security.

3 Accounts receivable

Categories of accounts receivable:

Item		Individually significant and for which provision is individually assessed	Determining provision for bad debts by grouping basis	By aging group	Sub-total	Not individually significant but for which provision is individually assessed	Total
As at 31 December 2011							
Carrying amount	Amount (RMB)	-	25,315,193.59	25,315,193.59	25,315,193.59	-	25,315,193.59
	Percentage (%)	-	100.00	100.00	100.00	-	100.00
Provision	Amount (RMB)	-	1,357,450.12	1,357,450.12	1,357,450.12	-	1,357,450.12
	Percentage (%)	-	5.36	5.36	5.36	-	5.36
Net amount		-	23,957,743.47	23,957,743.47	23,957,743.47	-	23,957,743.47
As at 31 December 2012							
Carrying amount	Amount (RMB)	-	32,853,445.41	32,853,445.41	32,853,445.41	-	32,853,445.41
	Percentage (%)	-	100.00	100.00	100.00	-	100.00
Provision	Amount (RMB)	-	2,199,592.87	2,199,592.87	2,199,592.87	-	2,199,592.87
	Percentage (%)	-	6.70	6.70	6.70	-	6.70
Net amount		-	30,653,852.54	30,653,852.54	30,653,852.54	-	30,653,852.54
As at 31 December 2013							
Carrying amount	Amount (RMB)	-	36,919,123.32	36,919,123.32	36,919,123.32	-	36,919,123.32
	Percentage (%)	-	100.00	100.00	100.00	-	100.00
Provision	Amount (RMB)	-	3,266,593.09	3,266,593.09	3,266,593.09	-	3,266,593.09
	Percentage (%)	-	8.85	8.85	8.85	-	8.85
Net amount		-	33,652,530.23	33,652,530.23	33,652,530.23	-	33,652,530.23
As at 30 September 2014							
Carrying amount	Amount (RMB)	-	59,245,402.43	59,245,402.43	59,245,402.43	-	59,245,402.43
	Percentage (%)	-	100.00	100.00	100.00	-	100.00
Provision	Amount (RMB)	-	4,985,836.06	4,985,836.06	4,985,836.06	-	4,985,836.06
	Percentage (%)	-	8.42	8.42	8.42	-	8.42
Net amount		-	54,259,566.37	54,259,566.37	54,259,566.37	-	54,259,566.37

Grouping of accounts receivable for which bad debt provision has been assessed using the aging analysis approach (based on the date of billing):

Aging	As at 31 December 2011 Carrying amount			As at 31 December 2012 Carrying amount			As at 31 December 2013 Carrying amount			As at 30 September 2014 Carrying amount		
	Amount RMB	Percentage %	Provision RMB	Amount RMB	Percentage %	Provision RMB	Amount RMB	Percentage %	Provision RMB	Amount RMB	Percentage %	Provision RMB
Within 90 days	11,511,299.62	45.47	345,338.98	14,858,017.28	45.23	445,740.52	16,670,506.93	45.16	500,115.21	23,466,696.57	39.61	704,000.90
90 to 180 days	4,543,813.66	17.95	136,314.41	5,290,238.69	16.10	158,707.16	5,610,420.73	15.20	168,312.62	14,747,425.11	24.89	442,422.75
180 to 360 days	3,538,548.17	13.98	106,156.45	5,784,866.91	17.61	173,546.01	6,434,910.50	17.43	193,047.31	12,279,088.85	20.73	368,372.67
1 to 2 years	4,633,457.94	18.30	370,676.64	3,876,969.87	11.80	310,157.59	3,915,153.13	10.60	313,212.25	3,119,957.86	5.27	249,596.63
2 to 3 years	503,578.20	1.99	100,715.64	1,960,278.46	5.97	392,055.69	1,643,272.57	4.45	328,654.51	1,781,799.25	3.01	356,359.85
3 to 4 years	564,496.00	2.23	282,248.00	503,578.20	1.53	251,789.10	1,561,785.26	4.23	780,892.63	1,346,742.59	2.27	673,371.30
4 to 5 years	20,000.00	0.08	16,000.00	559,496.00	1.70	447,596.80	503,578.20	1.36	402,862.56	1,559,901.20	2.63	1,247,920.96
More than 5 years	-	-	-	20,000.00	0.06	20,000.00	579,496.00	1.57	579,496.00	943,791.00	1.59	943,791.00
Total	25,315,193.59	100.00	1,357,450.12	32,853,445.41	100.00	2,199,592.87	36,919,123.32	100.00	3,266,593.09	59,245,402.43	100.00	4,985,836.06

The Group trades with its customers primarily on credit terms and allows a credit period ranging from 30 to 210 days to its trade customers. The Group allows different credit periods for certain customers if they have long term credit quality history or they are significant customers to the Group, or the Group decides to develop a long term business relationship with such customers.

Details of aging regarding the carrying amounts of accounts receivable which are past due (based on the date of billing) are as follows:

Aging	As at 31 December 2011 Carrying			As at 31 December 2012 Carrying			As at 31 December 2013 Carrying			As at 30 September 2014 Carrying		
	amount RMB	Provision RMB	Net amount RMB	amount RMB	Provision RMB	Net amount RMB	amount RMB	Provision RMB	Net amount RMB	amount RMB	Provision RMB	Net amount RMB
Within one year	5,905,387.83	177,161.64	5,728,226.19	8,530,055.60	255,901.67	8,274,153.93	10,196,305.23	305,889.15	9,890,416.08	24,270,476.46	728,114.29	23,542,362.17
1 to 2 years	4,633,457.94	370,676.64	4,262,781.30	3,876,969.87	310,157.59	3,566,812.28	3,915,153.13	313,212.25	3,601,940.88	3,119,957.86	249,596.63	2,870,361.23
2 to 3 years	503,578.20	100,715.64	402,862.56	1,960,278.46	392,055.69	1,568,222.77	1,643,272.57	328,654.51	1,314,618.06	1,781,799.25	356,359.85	1,425,439.40
More than 3 years	584,496.00	298,248.00	286,248.00	1,083,074.20	719,385.90	363,688.30	2,644,859.46	1,763,251.19	881,608.27	3,850,434.79	2,865,083.26	985,351.53
Total	11,626,919.97	946,801.92	10,680,118.05	15,450,378.13	1,677,500.85	13,772,877.28	18,399,590.39	2,711,007.10	15,688,583.29	33,022,668.36	4,199,154.03	28,823,514.33

The Group did not provide any allowance on those customers within the granted credit period or the receivables are past due as, in the opinion of the directors of the Company, there has not been a significant change in credit quality of the customers and the amounts are still considered recoverable based on the historical experience. However, the Group will recognise provision for accounts receivable according to the aging category which have similar credit risk characteristics. The Group does not hold any collateral over such accounts receivables.

Top five parties with the largest balances of accounts receivable

Name	Relationship with the Group	Amount RMB	Proportion of the amount to the total accounts receivable %
As at 31 December 2011			
Party A	Third party	1,604,940.00	6.34
Party B	Third party	926,047.00	3.66
Party C	Third party	880,868.00	3.48
Party D	Third party	774,180.00	3.06
Party E	Third party	757,422.40	2.99
Total		<u>4,943,457.40</u>	<u>19.53</u>
As at 31 December 2012			
Party D	Third party	2,475,454.00	7.53
Party F	Third party	2,035,061.60	6.19
Party C	Third party	1,660,778.00	5.06
北京高陽物資中心 (Beijing Gaoyang Materials Centre*, "Gaoyang Materials")	Related party	1,608,470.56	4.90
Party G	Third party	1,410,883.72	4.29
Total		<u>9,190,647.88</u>	<u>27.97</u>
As at 31 December 2013			
Party F	Third party	3,653,746.30	9.90
Gaoyang Materials	Related party	2,719,970.98	7.37
Party D	Third party	2,463,900.00	6.67
Party G	Third party	1,832,656.92	4.96
Party H	Third party	1,354,952.60	3.67
Total		<u>12,025,226.80</u>	<u>32.57</u>
As at 30 September 2014			
Gaoyang Materials	Related party	5,543,291.98	9.36
Party F	Third party	4,258,944.90	7.19
Party AF	Third party	3,685,874.00	6.22
Party H	Third party	3,575,199.60	6.03
Party D	Third party	3,045,900.00	5.14
Total		<u>20,109,210.48</u>	<u>33.94</u>

* The English name is for identification purpose only

At the end of each reporting period, there is no accounts receivable due from shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

Receivables due from related parties

Name	As at 31 December 2011		As at 31 December 2012		As at 31 December 2013		As at 30 September 2014	
	Carrying amount	Provision	Carrying amount	Provision	Carrying amount	Provision	Carrying amount	Provision
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Gaoyang Materials	706,463.64	21,193.91	1,608,470.56	48,254.12	2,719,970.98	81,599.13	5,543,291.98	166,298.76

At the end of each reporting period, there are no accounts receivable that have been derecognised.

At the end of each reporting period, there are no accounts receivable pledged as collateral.

4 Prepayments

Aging analysis of prepayments is as follows:

Aging	As at 31 December 2011			As at 31 December 2012			As at 31 December 2013			As at 30 September 2014		
	Carrying amount	Percentage	Provision	Carrying amount	Percentage	Provision	Carrying amount	Percentage	Provision	Carrying amount	Percentage	Provision
	RMB	%	RMB	RMB	%	RMB	RMB	%	RMB	RMB	%	RMB
Within one year	1,014,507.98	75.66	-	968,617.30	95.41	-	552,874.78	70.22	-	2,037,656.70	86.82	-
1 to 2 years	224,142.00	16.72	-	12,500.00	1.23	-	201,890.00	25.65	-	87,732.58	3.74	-
2 to 3 years	76,460.00	5.70	-	34,080.00	3.36	-	12,500.00	1.59	-	189,090.00	8.06	-
More than 3 years	25,746.70	1.92	-	-	-	-	19,980.00	2.54	-	32,480.00	1.38	-
Total	1,340,856.68	100.00	-	1,015,197.30	100.00	-	787,244.78	100.00	-	2,346,959.28	100.00	-

Top five parties with the significant balances of prepayments

Name	Relationship with the Group	Amount RMB
As at 31 December 2011		
Party I	Third party	240,000.00
Party J	Third party	211,542.98
Party K	Third party	140,000.00
Party L	Third party	90,000.00
Party M	Third party	80,000.00
Total		761,542.98

Name	Relationship with the Group	Amount RMB
As at 31 December 2012		
Party N	Third party	182,000.00
Party K	Third party	140,000.00
Party O	Third party	100,000.00
Party P	Third party	97,680.00
Party Q	Third party	<u>86,775.00</u>
Total		<u><u>606,455.00</u></u>
As at 31 December 2013		
Party N	Third party	182,000.00
Party M	Third party	85,000.00
Party R	Third party	82,950.00
Party S	Third party	75,000.00
Party T	Third party	<u>65,000.00</u>
Total		<u><u>489,950.00</u></u>
As at 30 September 2014		
Party BA	Third party	1,500,904.24
Party BB	Third party	274,051.33
Party BC	Third party	109,276.73
Party M	Third party	85,000.00
Party S	Third party	<u>75,000.00</u>
Total		<u><u>2,044,232.30</u></u>

At the end of each reporting period, there are no prepayments due from shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of each reporting period, there are no prepayments due from related parties.

At the end of each reporting period, there is no significant prepayment with aging more than one year.

5 Other receivables

Categories of other receivables:

Item		Individually significant and for which provision is individually assessed	Determining provision for bad debts by grouping basis	By aging group	Sub-total	Not individually significant but for which provision is individually assessed	Total
As at 31 December 2011							
Carrying Amount	Amount (RMB)	-	7,021,390.80	7,021,390.80	7,021,390.80	-	7,021,390.80
	Percentage (%)	-	100.00	100.00	100.00	-	100.00
Provision	Amount (RMB)	-	299,096.83	299,096.83	299,096.83	-	299,096.83
	Percentage (%)	-	4.26	4.26	4.26	-	4.26
Net amount		-	6,722,293.97	6,722,293.97	6,722,293.97	-	6,722,293.97
As at 31 December 2012							
Carrying amount	Amount (RMB)	-	6,081,432.08	6,081,432.08	6,081,432.08	-	6,081,432.08
	Percentage (%)	-	100.00	100.00	100.00	-	100.00
Provision	Amount (RMB)	-	593,288.27	593,288.27	593,288.27	-	593,288.27
	Percentage (%)	-	9.76	9.76	9.76	-	9.76
Net amount		-	5,488,143.81	5,488,143.81	5,488,143.81	-	5,488,143.81
As at 31 December 2013							
Carrying amount	Amount (RMB)	-	837,530.33	837,530.33	837,530.33	-	837,530.33
	Percentage (%)	-	100.00	100.00	100.00	-	100.00
Provision	Amount (RMB)	-	213,455.84	213,455.84	213,455.84	-	213,455.84
	Percentage (%)	-	25.49	25.49	25.49	-	25.49
Net amount		-	624,074.49	624,074.49	624,074.49	-	624,074.49
As at 30 September 2014							
Carrying amount	Amount (RMB)	-	1,096,838.93	1,096,838.93	1,096,838.93	-	1,096,838.93
	Percentage (%)	-	100.00	100.00	100.00	-	100.00
Provision	Amount (RMB)	-	314,561.72	314,561.72	314,561.72	-	314,561.72
	Percentage (%)	-	28.68	28.68	28.68	-	28.68
Net amount		-	782,277.21	782,277.21	782,277.21	-	782,277.21

Grouping of other receivables for which bad debt provision has been assessed using the aging analysis approach:

Aging	As at 31 December 2011			As at 31 December 2012			As at 31 December 2013			As at 30 September 2014		
	Amount RMB	Percentage %	Provision RMB	Amount RMB	Percentage %	Provision RMB	Amount RMB	Percentage %	Provision RMB	Amount RMB	Percentage %	Provision RMB
Within one year	6,529,484.86	92.99	195,884.54	435,222.00	7.16	13,056.66	341,768.00	40.80	10,253.04	500,276.60	45.61	15,008.30
1 to 2 years	233,125.09	3.32	18,650.01	5,383,911.74	88.53	430,712.94	129,785.00	15.50	10,382.80	152,500.00	13.90	12,200.00
2 to 3 years	166,104.00	2.37	33,220.80	31,457.09	0.52	6,291.42	162,878.99	19.45	32,575.80	99,785.00	9.10	19,957.00
3 to 4 years	76,000.00	1.08	38,000.00	144,828.00	2.38	72,414.00	31,457.09	3.76	15,728.55	141,178.99	12.87	70,589.50
4 to 5 years	16,676.85	0.24	13,341.48	76,000.00	1.25	60,800.00	135,628.00	16.19	108,502.40	31,457.09	2.87	25,165.67
More than 5 years	-	-	-	10,013.25	0.16	10,013.25	36,013.25	4.30	36,013.25	171,641.25	15.65	171,641.25
Total	7,021,390.80	100.00	299,096.83	6,081,432.08	100.00	593,288.27	837,530.33	100.00	213,455.84	1,096,838.93	100.00	314,561.72

Top five parties with the largest balances of other receivables

Name	Relationship with the Group	Amount RMB	Proportion of the amount to the total other receivables %
As at 31 December 2011			
Party U	Third party	5,000,000.00	71.21
Party V	Third party	1,256,581.44	17.90
Party W	Third party	128,828.00	1.83
Party X	Third party	59,280.00	0.84
Party Y	Third party	50,000.00	0.71
Total		6,494,689.44	92.49
As at 31 December 2012			
Party U	Third party	5,000,000.00	82.22
Party V	Third party	277,884.99	4.57
Party Z	Third party	128,828.00	2.12
Party AA	Third party	62,045.00	1.02
Party AB	Third party	60,000.00	0.99
Total		5,528,757.99	90.92
As at 31 December 2013			
Party Z	Third party	128,828.00	15.38
Party V	Third party	82,402.24	9.84
Party AA	Third party	62,045.00	7.41
Party AC	Third party	40,000.00	4.78
Party AD	Third party	30,000.00	3.58
Total		343,275.24	40.99
As at 30 September 2014			
Party Z	Third party	128,828.00	11.75
Party V	Third party	82,402.24	7.51
Party AA	Third party	62,045.00	5.66
Party BD	Third party	41,190.00	3.76
Party AC	Third party	40,000.00	3.65
Total		354,465.24	32.33

At the end of each reporting period, there are no other receivables due from shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of each reporting period, there are no other receivables advanced to related parties.

At the end of each reporting period, there are no other receivables that have been derecognised.

At the end of each reporting period, there are no other receivables pledged as collateral.

6 Inventories

Item	As at 31 December 2011			As at 31 December 2012			As at 31 December 2013			As at 30 September 2014		
	Cost RMB	Provision for decline in value RMB	Net amount RMB	Cost RMB	Provision for decline in value RMB	Net amount RMB	Cost RMB	Provision for decline in value RMB	Net amount RMB	Cost RMB	Provision for decline in value RMB	Net amount RMB
Raw materials	5,821,132.09	-	5,821,132.09	5,555,758.65	-	5,555,758.65	6,956,144.55	-	6,956,144.55	10,119,750.05	-	10,119,750.05
Work in progress	2,356,194.31	-	2,356,194.31	3,233,588.64	-	3,233,588.64	6,133,306.34	-	6,133,306.34	6,668,627.68	-	6,668,627.68
Finished goods	9,598,048.38	-	9,598,048.38	10,797,391.53	-	10,797,391.53	9,991,346.55	-	9,991,346.55	13,741,221.69	-	13,741,221.69
Total	<u>17,775,374.78</u>	<u>-</u>	<u>17,775,374.78</u>	<u>19,586,738.82</u>	<u>-</u>	<u>19,586,738.82</u>	<u>23,080,797.44</u>	<u>-</u>	<u>23,080,797.44</u>	<u>30,529,599.42</u>	<u>-</u>	<u>30,529,599.42</u>

At the end of each reporting period, the Group did not capitalise any borrowing costs.

At the end of each reporting period, there are no inventories pledged as collateral.

7 Other current assets

Item	As at 31 December			As at
	2011 RMB	2012 RMB	2013 RMB	30 September 2014 RMB
Payments regarding the Listing	<u>-</u>	<u>-</u>	<u>2,363,584.88</u>	<u>6,447,612.64</u>

8 Fixed assets

Item	Buildings RMB	Machinery and equipment RMB	Motor vehicles RMB	Office equipment RMB	Total RMB
Cost					
As at 1 January 2011	–	16,537,016.14	1,485,517.40	1,774,153.23	19,796,686.77
Additions	8,548,828.27	3,088,752.46	–	79,890.56	11,717,471.29
Disposals	–	–	(136,486.40)	–	(136,486.40)
As at 31 December 2011	8,548,828.27	19,625,768.60	1,349,031.00	1,854,043.79	31,377,671.66
Additions	1,279,794.15	4,129,718.05	201,600.00	120,985.90	5,732,098.10
As at 31 December 2012	9,828,622.42	23,755,486.65	1,550,631.00	1,975,029.69	37,109,769.76
Additions	–	435,948.80	–	65,307.86	501,256.66
Disposals	–	(657,112.85)	–	(4,228.00)	(661,340.85)
As at 31 December 2013	9,828,622.42	23,534,322.60	1,550,631.00	2,036,109.55	36,949,685.57
Additions	5,981,700.24	3,945,295.28	–	140,753.00	10,067,748.52
As at 30 September 2014	15,810,322.66	27,479,617.88	1,550,631.00	2,176,862.55	47,017,434.09
Accumulated depreciation					
As at 1 January 2011	–	3,438,010.35	704,404.49	630,749.53	4,773,164.37
Provided for the year	184,828.29	1,564,661.75	176,222.34	273,826.27	2,199,538.65
Eliminated on disposals	–	–	(129,662.08)	–	(129,662.08)
As at 31 December 2011	184,828.29	5,002,672.10	750,964.75	904,575.80	6,843,040.94
Provided for the year	315,865.15	1,967,960.67	198,566.55	297,754.43	2,780,146.80
As at 31 December 2012	500,693.44	6,970,632.77	949,531.30	1,202,330.23	9,623,187.74
Provided for the year	363,235.49	2,256,614.12	214,503.78	299,452.49	3,133,805.88
Eliminated on disposals	–	(457,573.76)	–	(4,016.60)	(461,590.36)
As at 31 December 2013	863,928.93	8,769,673.13	1,164,035.08	1,497,766.12	12,295,403.26
Provided for the period	270,213.43	1,721,621.17	122,585.37	226,972.70	2,341,392.67
As at 30 September 2014	1,134,142.36	10,491,294.30	1,286,620.45	1,724,738.82	14,636,795.93
Carrying amounts					
As at 31 December 2011	8,363,999.98	14,623,096.50	598,066.25	949,467.99	24,534,630.72
As at 31 December 2012	9,327,928.98	16,784,853.88	601,099.70	772,699.46	27,486,582.02
As at 31 December 2013	8,964,693.49	14,764,649.47	386,595.92	538,343.43	24,654,282.31
As at 30 September 2014	14,676,180.30	16,988,323.58	264,010.55	452,123.73	32,380,638.16

Allocation of depreciation charge for each of the accounting period

Item	Year ended 31 December			Nine months ended 30 September	
	2011	2012	2013	2013	2014
	RMB	RMB	RMB	RMB	RMB
				(Unaudited)	
Administrative expenses	566,252.13	713,666.68	764,593.99	571,692.47	534,068.32
Cost of sales	1,592,861.99	1,919,327.53	2,115,049.85	1,588,695.05	1,610,036.20
General and administrative expenses					
– Research and development expenses	40,424.53	147,152.59	254,162.04	189,659.52	197,288.15
Total	<u>2,199,538.65</u>	<u>2,780,146.80</u>	<u>3,133,805.88</u>	<u>2,350,047.04</u>	<u>2,341,392.67</u>

During the year ended 31 December 2012, the Company had construction in progress amounting to RMB1,150,427.30 which was transferred to fixed assets. During the nine months ended 30 September 2014, the Company had construction in progress amounting to RMB7,438,815.64 which was transferred to fixed assets. During the years ended 31 December 2011 and 31 December 2013, the Company did not have any construction in progress which was transferred to fixed assets.

At the end of each reporting period, there are no temporary idle fixed assets.

At the end of each reporting period, there are no fixed assets leased under finance leases.

At the end of each reporting period, there are no fixed assets leased out under operating leases.

At the end of each reporting period, there are no fixed assets held for sale.

At the end of each reporting period, the Group's has obtained certificates of titles for all of its fixed assets.

At the end of each reporting period, there are no fixed assets pledged as collateral.

9 Construction in progress

Item	As at 31 December 2011			As at 31 December 2012			As at 31 December 2013			As at 30 September 2014		
	Provision for		Net amount	Provision for		Net amount	Provision for		Net amount	Provision for		Net amount
	Cost impairment	RMB		Cost impairment	RMB		Cost impairment	RMB		Cost impairment	RMB	
Construction of Tongzhou factory plant	-	-	-	-	-	-	4,501,347.58	-	4,501,347.58	-	-	-
Expansion of new production plant and facilities in Daxing Biomedicine Industrial Base of Zhongguancun Science Park ("Daxing New Production Base") - First stage construction work	-	-	-	676,333.00	-	676,333.00	1,474,962.00	-	1,474,962.00	1,693,393.00	-	1,693,393.00
Upgrading of factory plant	1,150,427.30	-	1,150,427.30	-	-	-	-	-	-	-	-	-
Construction of factory plant	-	-	-	-	-	-	-	-	-	519,397.99	-	519,397.99
Total	1,150,427.30	-	1,150,427.30	676,333.00	-	676,333.00	5,976,309.58	-	5,976,309.58	2,212,790.99	-	2,212,790.99

The movements of construction in progress are as follows:

Item	Budget amount	At beginning of the year/ period	Addition for the year/ period	Transfer to fixed assets for the year/ period	Other deduction	At end of the year/ period	Percentage of cost incurred over budget amount
	RMB	RMB	RMB	RMB	RMB	RMB	%
Year ended 31 December 2011							
Upgrading of factory plant	(note below)	-	1,150,427.30	-	-	1,150,427.30	-
Year ended 31 December 2012							
Upgrading of factory plant	(note below)	1,150,427.30	-	(1,150,427.30)	-	-	-
Daxing New Production Base - First stage construction work	218,402,800.00	-	676,333.00	-	-	676,333.00	0.31
Total		1,150,427.30	676,333.00	(1,150,427.30)	-	676,333.00	
Year ended 31 December 2013							
Construction of Tongzhou factory plant	(note below)	-	4,501,347.58	-	-	4,501,347.58	-
Daxing New Production Base - First stage construction work	218,402,800.00	676,333.00	798,629.00	-	-	1,474,962.00	0.68
Total		676,333.00	5,299,976.58	-	-	5,976,309.58	
Nine months ended 30 September 2014							
Construction of Tongzhou factory plant	(note below)	4,501,347.58	2,937,468.06	(7,438,815.64)	-	-	-
Daxing New Production Base - First stage construction work	218,402,800.00	1,474,962.00	218,431.00	-	-	1,693,393.00	0.78
Construction of factory plant	(note below)	-	519,397.99	-	-	519,397.99	-
Total		5,976,309.58	3,675,297.05	(7,438,815.64)	-	2,212,790.99	

Note: There was no budget for this construction project.

10 Intangible assets

Item	Land use rights RMB	Software RMB	Total RMB
Cost			
As at 1 January 2011	–	–	–
Additions	<u>2,472,000.00</u>	<u>–</u>	<u>2,472,000.00</u>
As at 31 December 2011	2,472,000.00	–	2,472,000.00
Additions	<u>34,580,810.33</u>	<u>200,000.00</u>	<u>34,780,810.33</u>
As at 31 December 2012	37,052,810.33	200,000.00	37,252,810.33
Additions	<u>–</u>	<u>48,200.00</u>	<u>48,200.00</u>
As at 31 December 2013 and 30 September 2014	<u>37,052,810.33</u>	<u>248,200.00</u>	<u>37,301,010.33</u>
Accumulated amortisation			
As at 1 January 2011	–	–	–
Provided for the year	<u>54,690.27</u>	<u>–</u>	<u>54,690.27</u>
As at 31 December 2011	54,690.27	–	54,690.27
Provided for the year	<u>300,871.96</u>	<u>23,333.31</u>	<u>324,205.27</u>
As at 31 December 2012	355,562.23	23,333.31	378,895.54
Provided for the year	<u>771,359.15</u>	<u>44,819.96</u>	<u>816,179.11</u>
As at 31 December 2013	1,126,921.38	68,153.27	1,195,074.65
Provided for the period	<u>578,519.37</u>	<u>37,229.94</u>	<u>615,749.31</u>
As at 30 September 2014	<u>1,705,440.75</u>	<u>105,383.21</u>	<u>1,810,823.96</u>
Carrying amounts			
As at 31 December 2011	<u>2,417,309.73</u>	<u>–</u>	<u>2,417,309.73</u>
As at 31 December 2012	<u>36,697,248.10</u>	<u>176,666.69</u>	<u>36,873,914.79</u>
As at 31 December 2013	<u>35,925,888.95</u>	<u>180,046.73</u>	<u>36,105,935.68</u>
As at 30 September 2014	<u>35,347,369.58</u>	<u>142,816.79</u>	<u>35,490,186.37</u>

Allocation of amortisation charge for each of the accounting period

Item	Year ended 31 December			Nine months ended 30 September	
	2011	2012	2013	2013	2014
	RMB	RMB	RMB	RMB	RMB
				(Unaudited)	
Administrative expenses	<u>54,690.27</u>	<u>324,205.27</u>	<u>816,179.11</u>	<u>608,519.34</u>	<u>615,749.31</u>

The Group's two pieces of land use rights which were located in the PRC have lease term of 50 years. The Group amortises the land use rights to their remaining useful lives of 37.5 years and 49 years, respectively.

At the end of each reporting period, the Group's has obtained certificates of titles for all of its land use rights.

At the end of each reporting period, there are no intangible assets pledged as collateral.

11 Deferred tax assets

(a) Recognised deferred tax assets

Item	As at 31 December			As at 30 September
	2011	2012	2013	2014
	RMB	RMB	RMB	RMB
<i>Deferred tax assets:</i>				
Provision for impairment losses of assets	<u>253,866.85</u>	<u>421,155.25</u>	<u>523,655.38</u>	<u>799,179.78</u>

(b) Details of deductible differences

Item	As at 31 December			As at 30 September
	2011	2012	2013	2014
	RMB	RMB	RMB	RMB
<i>Deductible temporary differences:</i>				
Provision for impairment losses of assets	<u>1,656,546.95</u>	<u>2,792,881.14</u>	<u>3,480,048.93</u>	<u>5,300,397.78</u>

12 Other non-current assets

Item	As at 31 December			As at
	2011 RMB	2012 RMB	2013 RMB	30 September 2014 RMB
Construction project prepayments	–	–	513,221.96	–
Machinery equipment prepayments	360,000.00	1,388,600.00	155,800.00	1,989,500.00
Land use rights prepayments	33,430,000.00	–	–	–
Total	<u>33,790,000.00</u>	<u>1,388,600.00</u>	<u>669,021.96</u>	<u>1,989,500.00</u>

13 Details of provision for impairment losses of assets

Item	At	Recognised for the year/ period RMB	Decrease for the year/period		At end of the year/ period RMB
	beginning of the year/ period RMB		Reversals RMB	Written-off RMB	
Impairment on accounts receivable:					
Year ended 31 December 2011	<u>951,815.76</u>	<u>405,634.36</u>	<u>–</u>	<u>–</u>	<u>1,357,450.12</u>
Year ended 31 December 2012	<u>1,357,450.12</u>	<u>842,142.75</u>	<u>–</u>	<u>–</u>	<u>2,199,592.87</u>
Year ended 31 December 2013	<u>2,199,592.87</u>	<u>1,067,000.22</u>	<u>–</u>	<u>–</u>	<u>3,266,593.09</u>
Nine months ended 30 September 2014	<u>3,266,593.09</u>	<u>1,719,242.97</u>	<u>–</u>	<u>–</u>	<u>4,985,836.06</u>
Impairment on others receivable:					
Year ended 31 December 2011	<u>48,280.76</u>	<u>250,816.07</u>	<u>–</u>	<u>–</u>	<u>299,096.83</u>
Year ended 31 December 2012	<u>299,096.83</u>	<u>294,191.44</u>	<u>–</u>	<u>–</u>	<u>593,288.27</u>
Year ended 31 December 2013	<u>593,288.27</u>	<u>–</u>	<u>(379,832.43)</u>	<u>–</u>	<u>213,455.84</u>
Nine months ended 30 September 2014	<u>213,455.84</u>	<u>101,105.88</u>	<u>–</u>	<u>–</u>	<u>314,561.72</u>
Total impairments:					
Year ended 31 December 2011	<u>1,000,096.52</u>	<u>656,450.43</u>	<u>–</u>	<u>–</u>	<u>1,656,546.95</u>
Year ended 31 December 2012	<u>1,656,546.95</u>	<u>1,136,334.19</u>	<u>–</u>	<u>–</u>	<u>2,792,881.14</u>
Year ended 31 December 2013	<u>2,792,881.14</u>	<u>1,067,000.22</u>	<u>(379,832.43)</u>	<u>–</u>	<u>3,480,048.93</u>
Nine months ended 30 September 2014	<u>3,480,048.93</u>	<u>1,820,348.85</u>	<u>–</u>	<u>–</u>	<u>5,300,397.78</u>

14 Accounts payable

Item	As at 31 December			As at
	2011	2012	2013	30 September
	RMB	RMB	RMB	2014
				RMB
Purchasing of materials	3,729,242.93	3,059,867.09	4,148,026.53	8,937,466.70
Purchasing of machinery and equipment	338,461.54	1,565,811.96	87,119.96	1,511,938.54
Total	<u>4,067,704.47</u>	<u>4,625,679.05</u>	<u>4,235,146.49</u>	<u>10,449,405.24</u>

Aging analysis of accounts payable is as follows:

Item	As at 31 December			As at
	2011	2012	2013	30 September
	RMB	RMB	RMB	2014
				RMB
Within 1 year	2,320,918.99	4,578,502.85	4,102,731.00	10,162,259.75
1 to 2 years	409,771.71	47,176.20	90,939.29	167,530.00
2 to 3 years	241,653.30	–	41,476.20	78,139.29
3 years or above	1,095,360.47	–	–	41,476.20
Total	<u>4,067,704.47</u>	<u>4,625,679.05</u>	<u>4,235,146.49</u>	<u>10,449,405.24</u>

Top five parties with the largest balances of accounts payable

Name	Relationship with the Group	Amount	Proportion
			of the amount to the total accounts payable
		RMB	%
As at 31 December 2011			
Party AH	Third party	351,266.05	8.64
Party AI	Third party	317,177.33	7.80
Party AJ	Third party	279,502.50	6.87
Party AK	Third party	235,392.00	5.79
Party AL	Third party	233,788.85	5.75
Total		<u>1,417,126.73</u>	<u>34.85</u>
As at 31 December 2012			
Party AM	Third party	250,475.00	5.41
Party AN	Third party	244,823.00	5.29
Party AO	Third party	129,124.90	2.79
Party AH	Third party	120,519.70	2.61
Party AP	Third party	106,260.00	2.30
Total		<u>851,202.60</u>	<u>18.40</u>

Name	Relationship with the Group	Amount RMB	Proportion of the amount to the total accounts payable %
As at 31 December 2013			
Party AQ	Third party	335,688.00	7.93
Party AO	Third party	177,664.59	4.20
Party AH	Third party	164,709.00	3.89
Party AR	Third party	152,180.00	3.59
Party AS	Third party	142,955.00	3.38
Total		<u>973,196.59</u>	<u>22.99</u>
As at 30 September 2014			
Party AL	Third party	548,383.40	5.25
Party AM	Third party	526,780.00	5.04
Party AS	Third party	247,355.00	2.37
Party K	Third party	179,416.65	1.72
Party AR	Third party	152,180.00	1.46
Total		<u>1,654,115.05</u>	<u>15.84</u>

At the end of each reporting period, there are no payables to shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of each reporting period, there are no payables to related parties.

15 Receipts in advance

Item	As at 31 December			As at
	2011 RMB	2012 RMB	2013 RMB	30 September 2014 RMB
Payment of goods	<u>716,130.08</u>	<u>1,771,919.14</u>	<u>1,305,356.35</u>	<u>1,029,671.44</u>

At the end of each reporting period, there are no receipts in advance from shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of each reporting period, there are no significant receipts in advance with aging more than one year.

16 Employee benefits payable

Item	Wages or salaries bonuses allowances and subsidies RMB	Staff welfares RMB	Social security contributions and related costs RMB	Housing funds RMB	Labour union RMB	Total RMB
As at 1 January 2011	798,189.46	-	-	-	-	798,189.46
Increase	10,591,980.14	518,605.20	1,209,532.22	425,115.33	-	12,745,232.89
Decrease	(10,382,787.14)	(518,605.20)	(1,209,532.22)	(425,115.33)	-	(12,536,039.89)
As at 31 December 2011	1,007,382.46	-	-	-	-	1,007,382.46
Increase	14,778,291.73	827,164.93	1,694,944.55	523,558.00	74,635.82	17,898,595.03
Decrease	(14,229,439.38)	(827,164.93)	(1,694,944.55)	(523,558.00)	(74,635.82)	(17,349,742.68)
As at 31 December 2012	1,556,234.81	-	-	-	-	1,556,234.81
Increase	16,718,934.61	887,289.97	2,907,567.95	740,766.00	418,875.22	21,673,433.75
Decrease	(16,898,550.90)	(887,289.97)	(2,593,503.01)	(645,414.00)	(333,871.97)	(21,358,629.85)
As at 31 December 2013	1,376,618.52	-	314,064.94	95,352.00	85,003.25	1,871,038.71
Increase	14,595,207.77	501,482.87	2,369,390.86	532,712.00	188,054.61	18,186,848.11
Decrease	(14,516,421.58)	(501,482.87)	(2,370,995.32)	(533,096.00)	(273,057.86)	(18,195,053.63)
As at 30 September 2014	1,455,404.71	-	312,460.48	94,968.00	-	1,862,833.19

Arrangements on expected timing, amount, etc. of employee benefits payable:

As at 31 December 2011, 31 December 2012 and 31 December 2013, the wages or salaries, bonuses, allowances and subsidies were paid in January for each of the following year. As at 30 September 2014, the wages or salaries, bonuses, allowances and subsidies were paid in October 2014.

17 Taxes payable

Item	As at 31 December			As at
	2011 RMB	2012 RMB	2013 RMB	30 September 2014 RMB
VAT payable	575,080.94	1,872,829.88	2,312,649.41	2,211,267.25
EIT payable	1,084,155.12	1,633,974.99	1,410,590.01	315,917.41
Withholding Individual Income Tax payable	33,105.18	92,470.13	60,837.93	43,514.70
City Construction and Maintenance Tax payable	122,917.54	113,891.83	146,930.71	44,890.08
Education Fee Surcharge payable	60,084.30	68,335.09	88,158.42	26,934.05
Local Education Fee Surcharge payable	-	45,556.74	608.47	17,956.03
Total	1,875,343.08	3,827,058.66	4,019,774.95	2,660,479.52

Details of movements of EIT payable are as follows:

Item	At beginning of the year/period RMB	Recognised for the year/period RMB	Decrease for the year/period RMB	At end of the year/period RMB
Year ended 31 December 2011	<u>(217,712.91)</u>	<u>5,107,092.59</u>	<u>(3,805,224.56)</u>	<u>1,084,155.12</u>
Year ended 31 December 2012	<u>1,084,155.12</u>	<u>5,430,401.11</u>	<u>(4,880,581.24)</u>	<u>1,633,974.99</u>
Year ended 31 December 2013	<u>1,633,974.99</u>	<u>5,553,018.14</u>	<u>(5,776,403.12)</u>	<u>1,410,590.01</u>
Nine months ended 30 September 2014	<u>1,410,590.01</u>	<u>3,744,915.11</u>	<u>(4,839,587.71)</u>	<u>315,917.41</u>

18 Other payables

Item	As at 31 December			As at
	2011 RMB	2012 RMB	2013 RMB	30 September 2014 RMB
Provision for sales rebate	3,208,921.52	2,490,428.59	2,854,862.98	2,370,693.00
Accrual for rentals	331,245.25	–	–	–
Accrual for Listing expenses	–	–	700,141.51	392,370.00
Others	<u>272,991.17</u>	<u>68,764.48</u>	<u>84,487.14</u>	<u>201,443.03</u>
Total	<u>3,813,157.94</u>	<u>2,559,193.07</u>	<u>3,639,491.63</u>	<u>2,964,506.03</u>

At the end of each reporting period, there are no other payables to shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of each reporting period, there are no significant other payables with aging more than one year.

Details of significant other payables are as below:

Item	Details	Amount RMB
As at 31 December 2011	Provision for sales rebate	3,208,921.52
As at 31 December 2012	Provision for sales rebate	2,490,428.59
As at 31 December 2013	Provision for sales rebate Accrual for Listing expenses	2,854,862.98 700,141.51
		3,555,004.49
As at 30 September 2014	Provision for sales rebate Accrual for Listing expenses	2,370,693.00 392,370.00
		2,763,063.00

19 Other non-current liabilities

Item	As at 31 December			As at
	2011 RMB	2012 RMB	2013 RMB	30 September 2014 RMB
Fund on Industrialisation of Ceramic Femoral Head on Ceramic Hip Joint Prostheses (note (a))	-	5,946,000.00	5,673,500.00	5,659,690.76
Fund on Clinical study of PEEK interbody fusion cage (note (b))	-	-	-	1,996,500.00
Total	-	5,946,000.00	5,673,500.00	7,656,190.76

(a) Pursuant to document 《中示區組發[2010]16號 – 陶瓷球頭對陶瓷髖關節假體產業化》 (Zhongshiquzufa [2010] No.16 – Notice regarding Fund on Industrialisation of Ceramic Femoral Head on Ceramic Hip Joint Prostheses*) issued by the Beijing Municipal Science and Technology Commission on 15 July 2010, the Group obtained funds of RMB5,946,000.00 in December 2012 as follows:

- i. Development expenditure grant of RMB272,500.00 – In the opinion of the directors, the grant relating to income in respect of a compensation for related expenses which were incurred for the year ended 31

* The English name is for identification purpose only

December 2013 and accordingly, the amount of RMB272,500.00 was credited to the consolidated income statement for the year ended 31 December 2013; and

- ii. Research and development equipment grant of RMB5,673,500.00 – In the opinion of the directors, the grant relating to the acquisition of an asset and accordingly, the amount is amortised to profit or loss over the useful life of the related assets in the subsequent periods. During the nine months ended 30 September 2014, an amount of RMB13,809.24 was credited to the consolidated income statement.
- (b) Pursuant to document 《北京市科學技術委員會關於下達“弧形PEEK椎間融合器的臨床研究”經費的通知》 (Notice regarding Fund on Clinical study of PEEK interbody fusion cage*) issued by the Beijing Municipal Science and Technology Commission on 3 June 2014, the Group obtained research and development equipment grant of RMB1,996,500.00. In the opinion of the directors, the grant relating to the acquisition of an asset and accordingly, the amount is amortised to profit or loss over the useful life of the related assets in the subsequent periods.

20 Share capital

Name	As at 31 December			As at 30 September	
	2011 RMB	2012 RMB	2013 RMB	2014 RMB	2014 RMB
Mr. Shi Chunbao	22,772,917.00	23,572,917.00	24,237,087.00	24,237,087.00	
Ms. Yue Shujun	18,093,750.00	18,093,750.00	18,762,913.00	18,762,913.00	
Mr. Sun Weiqi	1,733,333.00	1,733,333.00	1,733,333.00	1,733,333.00	
Xin'an Caifu	1,333,333.00	1,333,333.00	–	–	
Mr. Jin Jie	1,333,333.00	1,333,333.00	1,333,333.00	1,333,333.00	
Mr. Lin Yiming	1,160,000.00	1,160,000.00	1,160,000.00	1,160,000.00	
Mr. Gu Changyue	800,000.00	–	–	–	
Ms Wang Haiya	666,667.00	666,667.00	666,667.00	666,667.00	
Mr. Huang Dong	666,667.00	666,667.00	666,667.00	666,667.00	
Mr. He Rongmei	666,667.00	666,667.00	666,667.00	666,667.00	
Mr. Ni Xuezheng	400,000.00	400,000.00	400,000.00	400,000.00	
Ms Zhang Zhaohui	266,666.00	266,666.00	266,666.00	266,666.00	
Mr. Chen Xusheng	106,667.00	106,667.00	106,667.00	106,667.00	
Total	<u>50,000,000.00</u>	<u>50,000,000.00</u>	<u>50,000,000.00</u>	<u>50,000,000.00</u>	

At the end of each reporting period, the share capital of the Company is RMB50,000,000, representing 50,000,000 domestic shares with a nominal value of RMB1.00 each in the Company.

Details of the changes in share capital, the name of certified public accountants firm that performs the verification and the reference number of the capital verification report are as follows:

(a) Year ended 31 December 2011:

There were no movements in the share capital of the Company for the year ended 31 December 2011.

(b) Year ended 31 December 2012:

On 25 June 2012, Mr. Gu Changyue transferred his holding of 800,000 shares in the Company, representing 1.6% equity interest in the Company to Mr. Shi Chunbao. Subsequently, Mr. Shi Chunbao held 23,572,917 shares in the Company, representing approximately 47.1458% equity interest in the Company and details of which are set out in Note A of Section I.

(c) Year ended 31 December 2013:

On 13 December 2013, Xin'an Caifu transferred its holding of 1,333,333 shares in the Company, representing approximately 2.67% equity interest in the Company to Mr. Shi Chunbao and Ms. Yue Shujun. Subsequently, Mr. Shi Chunbao and Ms. Yue Shujun hold 24,237,087 shares and 18,762,913 shares in the Company, representing approximately 48.4742% and 37.5258% equity interest in the Company and details of which are set out in Note A of Section I.

(d) Nine months ended 30 September 2014:

There were no movements in the share capital of the Company for the nine months ended 30 September 2014.

21 Capital reserve

Item	As at 31 December			As at
	2011	2012	2013	30 September
	RMB	RMB	RMB	RMB
Capital premium	61,552,595.15	61,552,595.15	61,552,595.15	61,552,595.15
Other capital reserve	1,800,000.00	1,800,000.00	1,800,000.00	1,800,000.00
Total	<u>63,352,595.15</u>	<u>63,352,595.15</u>	<u>63,352,595.15</u>	<u>63,352,595.15</u>

Pursuant to the notice 《京經信委發[2010]200號 — 北京市經濟和信息化委員會關於下達2010年度第二批中小企業發展專項資金計劃的通知》(Jingjingxinweifa [2010] No 200 – Notice from Beijing Municipal Commission of Economy and Information Technology Regarding Beijing the Second Batch for Small and Medium Enterprises Special Development Funds*) issued by the Beijing Municipal Commission of Economy and Information Technology on 14 December 2010, the Company received a special fund of RMB1,800,000.00 and accordingly, the amount was credited to the other capital reserve for the year ended 31 December 2010.

22 Surplus reserve

Item	As at 31 December			As at 30 September	
	2011 RMB	2012 RMB	2013 RMB	2014 RMB	2014 RMB
Statutory surplus reserve	<u>3,369,103.74</u>	<u>6,572,003.65</u>	<u>9,851,777.79</u>	<u>9,851,777.79</u>	

As stipulated by the relevant laws and regulations for enterprises in the PRC, each of the entities comprising the Group is required to maintain a statutory reserve fund which is non-distributable. The appropriations to such reserve are made out of net profit after taxation of the statutory financial statements of the relevant PRC companies. The statutory reserve fund can be used to make up prior year/period losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

The details, reasons and bases of the changes of surplus reserve are as follows:

(a) For the year ended 31 December 2011:

Pursuant to the Articles of the Company, the Company transferred 10% of net profit for the year ended 31 December 2011, representing RMB3,020,121.44 to statutory reserve fund.

(b) For the year ended 31 December 2012:

Pursuant to the Articles of the Company, the Company transferred 10% of net profit for the year ended 31 December 2012, representing RMB3,202,899.91 to statutory reserve fund.

(c) For the year ended 31 December 2013:

Pursuant to the Articles of the Company, the Company transferred 10% of net profit for the year ended 31 December 2013, representing RMB3,279,774.14 to statutory reserve fund.

* The English name is for identification purpose only

(d) For the nine months ended 30 September 2014:

There was no change of surplus reserve for the nine months ended 30 September 2014.

23 Retained earnings

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB (unaudited)	2014 RMB
Closing balance of the preceding year/period	<u>5,177,188.43</u>	<u>30,562,514.43</u>	<u>47,299,243.39</u>	<u>47,299,243.39</u>	<u>56,684,830.51</u>
Opening balances of the current year/period	5,177,188.43	30,562,514.43	47,299,243.39	47,299,243.39	56,684,830.51
Add: Net profit attributable to equity holders of the Company	30,405,447.44	31,939,628.87	32,665,361.26	17,892,098.40	22,669,205.97
Less: Transfer to statutory reserve fund	(3,020,121.44)	(3,202,899.91)	(3,279,774.14)	-	-
Dividend declared	<u>(2,000,000.00)</u>	<u>(12,000,000.00)</u>	<u>(20,000,000.00)</u>	<u>(20,000,000.00)</u>	<u>(11,000,000.00)</u>
Closing balances of the current year/period	<u><u>30,562,514.43</u></u>	<u><u>47,299,243.39</u></u>	<u><u>56,684,830.51</u></u>	<u><u>45,191,341.79</u></u>	<u><u>68,354,036.48</u></u>

Details of dividends are as follows:

(a) 2010 final dividend

Pursuant to the resolution of the meeting of the Board of Directors on 30 May 2011 and the resolution of the general meeting of the shareholders for the year ended 31 December 2010 on 23 June 2011, the Company declared the 2010 final dividend to the shareholders of the Company at the rate of RMB0.04 per share (including tax charge), amounting to RMB2,000,000.00.

(b) 2011 final dividend

Pursuant to the resolution of the meeting of the Board of Directors on 28 March 2012 and the resolution of the general meeting of the shareholders for the year ended 31 December 2011 on 26 May 2012, the Company declared the 2011 final dividend to the shareholders of the Company at the rate of RMB0.24 per share (including tax charge), amounting to RMB12,000,000.00.

(c) 2012 final dividend

Pursuant to the resolution of the meeting of the Board of Directors on 20 April 2013 and the resolution of the general meeting of the shareholders for the year ended 31 December 2012 on 20 May 2013, the Company declared the 2012 final dividend to the shareholders of the Company at the rate of RMB0.40 per share (including tax charge), amounting to RMB20,000,000.00.

(d) 2013 final dividend

Pursuant to the resolution of the meeting of the Board of Directors on 3 March 2014 and the resolution of the general meeting of the shareholders for the year ended 31 December 2013 on 16 April 2014, the Company declared the 2013 final dividend to the shareholders of the Company at the rate of RMB0.22 per share (including tax charge), amounting to RMB11,000,000.00.

F NOTES TO ITEMS IN THE CONSOLIDATED INCOME STATEMENTS OF THE GROUP

1 Revenue and cost of sales

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
Revenue from principal operation	79,500,582.58	98,094,696.51	110,545,519.29	72,651,850.50	91,346,553.13
Revenue from other operations	759,016.55	-	-	-	-
	<u>79,500,582.58</u>	<u>98,094,696.51</u>	<u>110,545,519.29</u>	<u>72,651,850.50</u>	<u>91,346,553.13</u>
Cost of sales	19,746,968.22	27,536,004.95	30,470,602.37	20,997,462.00	24,441,356.20
	<u>19,746,968.22</u>	<u>27,536,004.95</u>	<u>30,470,602.37</u>	<u>20,997,462.00</u>	<u>24,441,356.20</u>

Revenue and cost of sales (classified by products)

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
Revenue					
Revenue from principal operation:					
– Medical Surgical Implants	79,500,582.58	98,094,696.51	110,545,519.29	72,651,850.50	91,346,553.13
Revenue from other operation:					
– Logistic service fees – net	759,016.55	-	-	-	-
	<u>79,500,582.58</u>	<u>98,094,696.51</u>	<u>110,545,519.29</u>	<u>72,651,850.50</u>	<u>91,346,553.13</u>
Total	80,259,599.13	98,094,696.51	110,545,519.29	72,651,850.50	91,346,553.13
	<u>80,259,599.13</u>	<u>98,094,696.51</u>	<u>110,545,519.29</u>	<u>72,651,850.50</u>	<u>91,346,553.13</u>
Cost of sales					
Cost of sales for principal operation:					
– Medical Surgical Implants	19,746,968.22	27,536,004.95	30,470,602.37	20,997,462.00	24,441,356.20
Cost of sales for other operation:					
Logistic service fees – net	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	19,746,968.22	27,536,004.95	30,470,602.37	20,997,462.00	24,441,356.20
	<u>19,746,968.22</u>	<u>27,536,004.95</u>	<u>30,470,602.37</u>	<u>20,997,462.00</u>	<u>24,441,356.20</u>

Revenue and cost of sales (classified by geographical areas)

The geographical areas of the revenue are based on the location of the customers at which the goods are delivered as follows:

Area	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
The PRC					
North	34,537,721.53	31,805,754.47	33,360,870.76	25,059,464.31	23,898,844.87
West	8,214,705.40	10,389,928.62	11,260,558.89	7,763,446.75	11,799,379.23
Central	13,965,942.91	18,496,490.19	26,064,098.13	17,906,648.17	19,919,016.96
East	11,213,510.04	14,477,241.46	15,726,904.84	8,564,962.10	13,308,184.19
South	9,128,571.58	12,629,038.29	10,784,131.11	6,825,143.33	9,371,106.14
	<u>77,060,451.46</u>	<u>87,798,453.03</u>	<u>97,196,563.73</u>	<u>66,119,664.66</u>	<u>78,296,531.39</u>
Other than the PRC	3,199,147.67	10,296,243.48	13,348,955.56	6,532,185.84	13,050,021.74
	<u>3,199,147.67</u>	<u>10,296,243.48</u>	<u>13,348,955.56</u>	<u>6,532,185.84</u>	<u>13,050,021.74</u>
Total	<u>80,259,599.13</u>	<u>98,094,696.51</u>	<u>110,545,519.29</u>	<u>72,651,850.50</u>	<u>91,346,553.13</u>

Revenue income from the Company's top five customers

Name	Revenue RMB	Percentage to the total sales %
Year ended 31 December 2011		
Party F	4,966,214.79	6.19
Gaoyang Materials	4,750,518.32	5.92
Party G	3,498,053.08	4.36
Party D	3,177,410.26	3.96
Party E	2,217,118.63	2.76
Total	<u>18,609,315.08</u>	<u>23.19</u>
Year ended 31 December 2012		
Gaoyang Materials	5,069,298.15	5.17
Party F	4,798,437.26	4.89
Party AE	3,601,491.87	3.67
Party D	3,415,943.59	3.48
Party AF	3,017,417.44	3.08
Total	<u>19,902,588.31</u>	<u>20.29</u>
Year ended 31 December 2013		
Gaoyang Materials	5,955,245.21	5.39
Party D	5,051,584.62	4.57
Party AG	4,099,133.16	3.71
Party F	3,948,766.92	3.57
Party AF	3,624,959.57	3.28
Total	<u>22,679,689.48</u>	<u>20.52</u>

Name	Revenue RMB	Percentage to the total sales %
Nine months ended 30 September 2014		
Party AX	5,232,295.75	5.73
Party AG	4,859,338.55	5.32
Gaoyang Materials	4,105,672.65	4.49
Party D	3,984,273.50	4.36
Party AF	3,456,805.38	3.78
	<hr/>	<hr/>
Total	21,638,385.83	23.68
	<hr/> <hr/>	<hr/> <hr/>
Nine months ended 30 September 2013 (Unaudited)		
Gaoyang Materials	4,244,853.76	5.84
Party D	3,637,396.58	5.01
Party F	3,027,411.20	4.17
Party AF	2,927,954.36	4.03
Party AZ	2,628,896.75	3.62
	<hr/>	<hr/>
Total	16,466,512.65	22.67
	<hr/> <hr/>	<hr/> <hr/>

2 Business taxes and levies

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
City Construction and Maintenance Tax	561,151.82	546,870.72	614,723.11	340,851.87	381,033.82
Education Fee Surcharge	330,804.44	328,122.44	368,833.86	204,511.12	228,620.27
Local Education Fee Surcharge	-	218,748.29	187,725.42	136,340.74	210,577.33
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	891,956.26	1,093,741.45	1,171,282.39	681,703.73	820,231.42
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Note: The base of the above taxes and levies are set out in Note C of Section I.

3 Selling expenses

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
Staff salaries and related costs	2,086,461.65	2,497,343.75	3,995,403.36	2,998,566.93	3,752,785.61
Travelling expenses	1,672,232.11	2,923,077.61	4,814,890.91	3,608,360.38	5,021,517.88
Office expenses	1,167,147.78	1,358,568.40	1,455,926.23	1,105,589.77	1,305,312.25
Advertising expenses	4,359,777.99	5,248,825.65	4,784,780.35	3,496,574.72	5,898,470.44
Transportation expenses	389,765.34	614,368.27	684,550.96	495,525.70	441,425.16
Rentals	278,385.48	207,252.35	129,479.82	108,759.11	73,858.90
Sale rebates	2,446,422.31	2,717,524.45	2,854,667.61	1,990,645.21	2,261,936.50
Others	621,801.68	777,237.20	1,425,576.51	1,073,939.47	585,786.89
Total	13,021,994.34	16,344,197.68	20,145,275.75	14,877,961.29	19,341,093.63

4 Administrative expenses

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
Staff salaries and related costs	3,585,534.23	4,908,593.20	6,928,769.57	4,582,483.17	5,442,986.12
Travelling expenses	304,317.25	266,848.00	448,846.91	276,604.54	761,966.86
Motor vehicle expenses	174,374.92	70,149.87	370,078.54	306,033.77	336,079.05
Rentals	404,966.88	846,380.83	1,165,112.11	982,424.20	452,822.05
Depreciation	566,252.13	713,666.68	764,593.99	573,893.11	534,068.32
Office expenses	515,540.37	551,077.42	979,067.91	610,477.95	581,910.93
Other tax charges	116,442.55	120,064.10	210,362.39	137,547.39	185,332.15
Expenditure relating to the Company's proposed listing on the Shenzhen Stock Exchange which was terminated in 2012	-	1,997,000.00	-	-	-
Professional and other fees relating to Listing	-	-	2,107,311.32	1,053,655.66	2,655,346.70
Other professional fees	82,055.00	420,588.48	1,013,996.11	882,076.47	223,602.87
Auditor's remuneration	100,000.00	150,000.00	141,509.43	141,509.43	141,509.43
Research and development expenses	4,771,016.56	4,872,544.30	4,807,936.70	3,194,775.38	6,549,899.63
Amortisation of intangible assets	54,690.27	324,205.27	816,179.11	608,519.34	615,749.31
Entertainments	416,335.50	532,581.70	176,735.30	116,084.30	105,104.10
Others	224,100.66	356,832.29	650,799.76	568,315.18	687,106.45
Total	11,315,626.32	16,130,532.14	20,581,299.15	14,034,399.89	19,273,483.97

5 Finance expenses

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
				(Unaudited)	
Interest expenses	-	-	-	-	-
Less: Interest income	(186,509.06)	(165,240.57)	(200,957.33)	(140,278.53)	(99,799.12)
Add: Foreign exchange losses	78,976.94	20,639.22	177,389.33	116,207.15	-
Less: Foreign exchange gains	-	-	-	-	(18,285.92)
Add: Bank charges	17,271.47	30,979.84	46,184.29	26,333.67	43,821.00
Total	<u>(90,260.65)</u>	<u>(113,621.51)</u>	<u>22,616.29</u>	<u>2,262.29</u>	<u>(74,264.04)</u>

6 Impairment losses on assets

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
				(Unaudited)	
Impairment loss recognised on accounts receivable	405,634.36	842,142.75	1,067,000.22	1,788,531.37	1,719,242.97
Impairment loss recognised (reversal) on other receivables	<u>250,816.07</u>	<u>294,191.44</u>	<u>(379,832.43)</u>	<u>16,528.75</u>	<u>101,105.88</u>
Total	<u>656,450.43</u>	<u>1,136,334.19</u>	<u>687,167.79</u>	<u>1,805,060.12</u>	<u>1,820,348.85</u>

7 Investment income

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
				(Unaudited)	
Income from bank structured products	<u>-</u>	<u>-</u>	<u>241,339.26</u>	<u>185,284.47</u>	<u>61,643.84</u>

During the year ended 31 December 2013, the Group has purchased certain bank structured products with the total amount of RMB78,648,000.00 in three listed commercial banks and thus, the Group recognised investment income of RMB241,339.26 for the year ended 31 December 2013. During the nine months ended 30 September 2014, the Group has purchased certain bank structured products with the total amount of RMB10,000,000.00 in three listed commercial banks and thus, the Group recognised investment income of RMB61,643.84 for the nine months ended 30 September 2014.

8 Non-operating income

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
Gains from disposals of fixed assets	3,175.68	–	–	–	–
Government grants	641,506.00	1,225,748.00	588,241.00	588,241.00	360,817.24
Others	49,076.00	15,090.78	5,487.12	4,369.12	1,780.00
Total	693,757.68	1,240,838.78	593,728.12	592,610.12	362,597.24

Details of breakdown of government grants are as follows:

Nature	Amount RMB	Source from	Supporting documents
Year ended 31 December 2011			
Grant for Small and Medium Enterprise In Developing International Market	382,506.00	北京市商務委員會 (Beijing Municipal Commission of Commerce*)	Caiqi [2010] No. 87
Significant Taxpayer Awards	150,000.00	北京市通州區漷縣鎮財政所 (Beijing Tongzhou District Huoxian Town Finance Bureau*)	Beijing Tongzhou District People's Government Significant Taxpayer Award Policy
Advanced Enterprise Tax Incentives	100,000.00	北京市通州區漷縣鎮人民政府 (Beijing Tongzhou District Huoxian Town People's Government*)	Huofa [2011] No. 1
Grant for Application on Patent	9,000.00	北京市通州區科學技術委員會 (Beijing Tongzhou District Science and Technology Commission*)	Tongzhengfa [2010] No. 3
Total	641,506.00		
Year ended 31 December 2012			
Beijing Transfer of the High and New Technology into Application Item Grant	1,000,000.00	Beijing Municipal Science and Technology Commission	Jingkefa [2012] No. 329
Grant for Small and Medium Enterprise In Developing International Market	97,268.00	Beijing Municipal Commission of Commerce	Caiqi [2010] No. 87
Advanced Enterprise Tax Incentives	80,000.00	Beijing Tongzhou District Huoxian Town People's Government	Huofa [2012] No. 1
Beijing Tongzhou District Science and Technology Grant	30,000.00	北京市通州區生產力促進中心 (Beijing Tongzhou District Productivity Promotion Center*)	Tongzhengfa [2012] No. 37
Beijing Tongzhou District Patent Grant	12,000.00	Beijing Tongzhou District Science and Technology Commission	Tongzhengfa [2010] No. 3
Grant for the transfer from Old Vessels	4,000.00	北京市財政局 (Beijing Municipal Finance Bureau*)	Jingzhengbanfa [2011] No. 42
Patent Grant	2,480.00	國家知識產權局 (State Intellectual Property Office)	Jingcaiwen [2006] No. 3101
Total	1,225,748.00		

Nature	Amount RMB	Source from	Supporting documents
Year ended 31 December 2013			
Grant for Industrialisation of Ceramic Femoral head on Ceramic hip prostheses	272,500.00	Beijing Municipal Science and Technology Commission	Zhongshiquzufa [2010] No.16
Grant for Small and Medium Enterprise In Developing International Market	202,741.00	Beijing Municipal Commission of Commerce	Caiqi [2010] No. 87
Advanced Enterprise Tax Incentives	100,000.00	北京市金三角投资管理有限公司 (Beijing Jin San Jiao Investment Management Co., Ltd.*)	Huofa [2013] No. 1
Grant for Outstanding Technology Enterprise in Tongzhou 2012	10,000.00	Beijing Tongzhou District Science and Technology Commission	Tongkelingbanfa [2013] No. 1
Grant for Application on Patent	3,000.00	Beijing Tongzhou District Science and Technology Commission	Tongzhengfa [2010] No. 3
Total	<u>588,241.00</u>		
Nine months ended 30 September 2014			
Advanced Enterprise Tax Incentives	100,000.00	Beijing Jin San Jiao Investment Management Co., Ltd.	Huofa [2013] No. 25
Grant for Small and Medium Enterprise In Developing International Market	236,008.00	Beijing Municipal Commission of Commerce	Caiqi [2010] No. 87
Grant for Industrialisation of Ceramic Femoral head on Ceramic hip prostheses	13,809.24	Beijing Municipal Science and Technology Commission	Zhongshiquzufa [2010] No.16
Grant for Application on Patent	11,000.00	Beijing Tongzhou District Science and Technology Commission	Tongzhengfa [2010] No. 3
Total	<u>360,817.24</u>		
Nine months ended 30 September 2013 (Unaudited)			
Grant for Industrialisation of Ceramic Femoral head on Ceramic hip prostheses	272,500.00	Beijing Municipal Science and Technology Commission	Zhongshiquzufa [2010] No.16
Grant for Small and Medium Enterprise In Developing International Market	202,741.00	Beijing Municipal Commission of Commerce	Caiqi [2010] No. 87
Advanced Enterprise Tax Incentives	100,000.00	Beijing Jin San Jiao Investment Management Co., Ltd.	Huofa [2013] No. 1
Grant for Outstanding Technology Enterprise in Tongzhou 2012	10,000.00	Beijing Tongzhou District Science and Technology Commission	Tongkelingbanfa [2013] No. 1
Grant for Application on Patent	3,000.00	Beijing Tongzhou District Science and Technology Commission	Tongzhengfa [2010] No. 3
Total	<u>588,241.00</u>		

* The English names are for identification purpose only

In the opinion of the directors, all the above government grants related to income and accordingly, the amounts were recognised in respective reporting period.

9 Non-operating expenses

Item	Year ended 31 December			Nine months 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
				(Unaudited)	
Net losses from disposals of fixed assets	-	-	179,173.49	179,173.49	-
Donations	-	3,637.33	6,192.90	3,579.56	2,476.13
Others	200.00	1,967.48	1,097.27	856.71	7,471.37
Total	<u>200.00</u>	<u>5,604.81</u>	<u>186,463.66</u>	<u>183,609.76</u>	<u>9,947.50</u>

10 Income tax expenses

Item	Year ended 31 December			Nine months 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
				(Unaudited)	
Current income tax calculated in accordance with relevant tax laws and regulations	5,107,092.59	5,430,401.11	5,553,018.14	3,225,371.59	3,744,915.11
Deferred income tax	<u>(102,118.14)</u>	<u>(167,288.40)</u>	<u>(102,500.13)</u>	<u>(270,183.98)</u>	<u>(275,524.40)</u>
Total	<u>5,004,974.45</u>	<u>5,263,112.71</u>	<u>5,450,518.01</u>	<u>2,955,187.61</u>	<u>3,469,390.71</u>

Applicable tax rate

Item	Year ended 31 December			Nine months ended 30 September
	2011	2012	2013	2014
<i>Standard tax rates:</i>				
The Company	25%	25%	25%	25%
Zhao Yi Te	25%	25%	25%	25%
<i>Applicable tax rates:</i>				
The Company	15%	15%	15%	15%
Zhao Yi Te	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>

Note: Details of the applicable tax rate of the Company and Zhao Yi Te are set out in Note C of Section I.

Reconciliation of current income tax expenses to the accounting profit is as follows:

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
Profit before tax	<u>35,410,421.89</u>	<u>37,202,741.58</u>	<u>38,115,879.27</u>	<u>20,847,286.01</u>	<u>26,138,596.68</u>
Applicable standard tax rates	<u>15% & 25%</u>	<u>15% & 25%</u>	<u>15% & 25%</u>	<u>15% & 25%</u>	<u>15% & 25%</u>
Current income tax expenses calculated at standard tax rates	5,340,273.04	5,601,075.92	5,745,422.09	3,149,184.83	3,928,364.55
Tax effect on non-deductible expenses	131,766.29	204,355.24	176,268.80	313,533.29	313,247.97
Others – tax effects on deductible research and development costs	<u>(364,946.74)</u>	<u>(375,030.05)</u>	<u>(368,672.75)</u>	<u>(237,346.53)</u>	<u>(496,697.41)</u>
Current income tax expenses	<u>5,107,092.59</u>	<u>5,430,401.11</u>	<u>5,553,018.14</u>	<u>3,225,371.59</u>	<u>3,744,915.11</u>

During the Track Record Period, the deferred income tax was attributable to the provision for impairment losses of assets at the income tax rate of 15%.

The Company and its subsidiary, Zhao Yi Te, did not have any material unutilised tax losses carried forward.

11 Calculation process of basic earnings per share and diluted earnings per share

Calculation result

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
(Unaudited)					
<i>Earnings per share</i>					
Net profit attributable to equity holders of the Company	<u>0.61</u>	<u>0.64</u>	<u>0.65</u>	<u>0.36</u>	<u>0.45</u>
<i>Diluted earnings per share</i>					
Net profit attributable to equity holders of the Company	<u>0.61</u>	<u>0.64</u>	<u>0.65</u>	<u>0.36</u>	<u>0.45</u>

Calculation process of basic earnings per share

Item		Year ended 31 December			Nine months ended 30 September	
		2011	2012	2013	2013 (Unaudited)	2014
Net profit attributable to equity holders of the Company (RMB)	A	<u>30,405,447.44</u>	<u>31,939,628.87</u>	<u>32,665,361.26</u>	<u>17,892,098.40</u>	<u>22,669,205.97</u>
Number of shares at beginning of the year/period	B	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
Number of shares at closing of the year/period	C	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
Number of months	D	12	12	12	9	9
Weighted average number of ordinary shares outstanding	E=(B+C)/2	<u>50,000,000.00</u>	<u>50,000,000.00</u>	<u>50,000,000.00</u>	<u>50,000,000.00</u>	<u>50,000,000.00</u>
Basic earnings per share (RMB)	F=A/E	<u>0.61</u>	<u>0.64</u>	<u>0.65</u>	<u>0.36</u>	<u>0.45</u>

Calculation process of diluted earnings per share

The calculation process of diluted earnings per share is the same as calculation process of earnings per share. As there were no dilutive potential ordinary shares and accordingly, the diluted earnings per share equal to the basic earnings per share.

12 Segment information

The Group is mainly engaged in the manufacture and trading of surgical implants, instruments and related products. Based on the Group's internal organisational structure, management requirements, internal reporting policies, the operation of the Company constitutes one single reportable segment, i.e. manufacture and trading of surgical implants, instruments and related products, which is under the provisions on segment information in business statements of the ASBE No. 35 "Segment Reporting" and Accounting Standards for Business Enterprises Bulletin No. 3 and accordingly, no separate segment information is prepared.

At the end of each reporting period, the Group's assets and liabilities were mainly located in the PRC.

The Group's revenue of top five customers and the geographical areas of the revenue of the Group during the Track Record Period are set out in Note F(1) of Section I.

G NOTES TO ITEMS IN THE CONSOLIDATED CASH FLOW STATEMENTS OF THE GROUP

1 Other cash receipts relating to operating activities

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
				(Unaudited)	
Government grants	641,506.00	1,225,748.00	315,741.00	315,741.00	347,008.00
Deposit receipts	–	100,000.00	–	–	–
Others	3,660.00	53,650.78	15,722.66	–	–
Total	<u>645,166.00</u>	<u>1,379,398.78</u>	<u>331,463.66</u>	<u>315,741.00</u>	<u>347,008.00</u>

2 Other cash payments relating to operating activities

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
				(Unaudited)	
Advertising expenses	4,359,777.99	5,248,825.65	4,784,780.35	3,496,574.72	5,898,470.44
Travelling expenses	1,976,549.36	3,189,925.61	5,263,737.82	3,884,964.92	5,783,484.74
Office expenses	1,682,688.15	1,909,645.82	2,434,994.14	1,716,067.72	1,887,223.18
Research and development expenses	3,651,522.11	3,002,734.83	2,771,034.52	1,712,698.87	4,590,629.44
Professional fees	182,055.00	2,567,588.48	3,262,816.86	2,014,717.99	3,118,923.38
Others	4,242,689.91	5,496,748.33	4,739,406.20	4,006,437.35	4,090,386.10
Total	<u>16,095,282.52</u>	<u>21,415,468.72</u>	<u>23,256,769.89</u>	<u>16,831,461.57</u>	<u>25,369,117.28</u>

3 Other cash receipts relating to investing activities

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
Interest income	186,509.06	165,240.57	200,957.33	140,278.53	99,799.12
Refund of construction deposits	–	–	5,000,000.00	–	–
Government grants	–	5,946,000.00	–	–	1,996,500.00
Total	<u>186,509.06</u>	<u>6,111,240.57</u>	<u>5,200,957.33</u>	<u>140,278.53</u>	<u>2,096,299.12</u>

4 Other cash payments relating to investing activities

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
Payment of construction deposit	<u>5,000,000.00</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

5 Other cash payments relating to financing activities

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
Deposit paid regarding the Listing	<u>–</u>	<u>–</u>	<u>2,363,584.88</u>	<u>2,363,584.87</u>	<u>4,290,094.33</u>

6 Supplementary information to the consolidated cash flow statements

Item	Year ended 31 December			Nine months ended 30 September	
	2011	2012	2013	2013	2014
	RMB	RMB	RMB	RMB	RMB
				(Unaudited)	
Reconciliation of net profit to cash flow from operating activities:					
Net profit	30,405,447.44	31,939,628.87	32,665,361.26	17,892,098.40	22,669,205.97
Add: Impairment losses on assets	656,450.43	1,136,334.19	687,167.79	1,805,060.12	1,820,348.85
Depreciation	2,199,538.65	2,780,146.80	3,133,805.88	2,352,247.68	2,341,392.67
Amortisation of intangible assets	54,690.27	324,205.27	816,179.11	608,519.34	615,749.31
Loss on disposals of fixed assets	(3,175.68)	–	179,173.49	179,173.49	–
Finance expenses	(90,260.65)	(113,621.51)	22,616.29	2,262.29	(74,264.04)
Income from bank structured products	–	–	(241,339.26)	(185,284.47)	(61,643.84)
Decrease in deferred income tax assets	(102,118.14)	(167,288.40)	(102,500.13)	(270,183.98)	(275,524.40)
Decrease in inventories	7,089,374.55	(1,811,364.04)	(3,494,058.62)	(6,222,071.32)	(7,448,801.98)
Decrease accounts receivable	(5,522,632.94)	(6,877,735.96)	(7,272,988.37)	(27,174,999.16)	(21,714,680.84)
Increase in accounts payable	(2,224,123.45)	1,617,665.31	1,809,109.96	(253,017.66)	2,431,924.38
Net cash flows from operating activities	<u>32,463,190.48</u>	<u>28,827,970.53</u>	<u>28,202,527.40</u>	<u>(11,266,195.27)</u>	<u>303,706.08</u>
Significant investing and financing activities that do not involve cash receipts and payments:	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net changes in cash and cash equivalents:					
Cash balances at end of the year/period	44,729,547.85	61,258,695.24	65,856,195.97	34,503,569.42	46,827,861.29
Less: Cash balances at beginning of the year/period	(61,861,285.36)	(44,729,547.85)	(61,258,695.24)	(61,258,695.24)	(65,856,195.97)
Add: Balances of cash and cash equivalent at end of the year/period	–	–	–	–	–
Balances of cash and cash equivalent at beginning of the year/period	–	–	–	–	–
Changes in cash and cash equivalent	<u>(17,131,737.51)</u>	<u>16,529,147.39</u>	<u>4,597,500.73</u>	<u>(26,755,125.82)</u>	<u>(19,028,334.68)</u>

7 Composition of cash and cash equivalents

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
Cash	44,729,547.85	61,258,695.24	65,856,195.97	34,503,569.42	46,827,861.29
Including:					
– Cash on hand	89,080.63	50,508.93	189,527.69	685,145.65	749,333.33
– Bank balances that can be readily withdrawn on demand	44,640,467.22	61,208,186.31	65,666,668.28	33,818,423.77	46,078,527.96
– Other cash that can be readily drawn on demand	–	–	–	–	–
Cash equivalents	–	–	–	–	–
Closing balance of cash and cash equivalents	44,729,547.85	61,258,695.24	65,856,195.97	34,503,569.42	46,827,861.29

H NOTES TO ITEMS IN THE BALANCE SHEETS OF THE COMPANY

1 Cash and bank deposits

Item	As at 31 December 2011			As at 31 December 2012			As at 31 December 2013			As at 30 September 2014		
	Foreign currency	Exchange rate	Amount RMB	Foreign currency	Exchange rate	Amount RMB	Foreign currency	Exchange rate	Amount RMB	Foreign currency	Exchange rate	Amount RMB
Cash on hand:												
RMB	–	–	57,796.58	–	–	14,481.40	–	–	4,891.48	–	–	407,356.25
USD	2,972.78	6.3009	18,731.19	5,009.55	6.2855	31,487.53	28,466.93	6.0969	173,560.05	53,914.46	6.1525	331,708.72
EUR	1,537.87	8.1625	12,552.86	545.83	8.3176	4,540.00	1,315.63	8.4189	11,076.16	1,315.63	7.8049	10,268.36
Subtotal			89,080.63			50,508.93			189,527.69			749,333.33
Bank deposits:												
RMB	–	–	42,229,653.41	–	–	54,510,444.98	–	–	62,326,597.77	–	–	41,859,195.07
USD	63,461.45	6.3009	399,864.25	579,522.56	6.2855	3,642,589.05	170,697.72	6.0969	1,040,726.93	293,586.13	6.1525	1,806,288.66
EUR	0.73	8.1625	5.96	0.73	8.3176	6.07	–	–	–	–	–	–
Subtotal			42,629,523.62			58,153,040.10			63,367,324.70			43,665,483.73
Total			42,718,604.25			58,203,549.03			63,556,852.39			44,414,817.06

2 Other receivables

Categories of other receivables:

Item		Individually	Due from a	By aging	Sub-total	Not	Total
		significant and for which provision is individually assessed				individually significant but for which provision is individually assessed	
As at 31 December 2011							
Carrying amount	Amount (RMB)	-	644,321.23	5,758,145.76	6,402,466.99	-	6,402,466.99
	Percentage (%)	-	10.06	89.94	100.00	-	100.00
Provision	Amount (RMB)	-	-	256,068.51	256,068.51	-	256,068.51
	Percentage (%)	-	-	4.45	4.00	-	4.00
Net amount		-	644,321.23	5,502,077.25	6,146,398.48	-	6,146,398.48
As at 31 December 2012							
Carrying amount	Amount (RMB)	-	680,383.82	5,803,547.09	6,483,930.91	-	6,483,930.91
	Percentage (%)	-	10.49	89.51	100.00	-	100.00
Provision	Amount (RMB)	-	-	571,057.47	571,057.47	-	571,057.47
	Percentage (%)	-	-	9.84	8.81	-	8.81
Net amount		-	680,383.82	5,232,489.62	5,912,873.44	-	5,912,873.44
As at 31 December 2013							
Carrying amount	Amount (RMB)	-	57,055.65	755,128.09	812,183.74	-	812,183.74
	Percentage (%)	-	7.02	92.98	100.00	-	100.00
Provision	Amount (RMB)	-	-	196,975.39	196,975.39	-	196,975.39
	Percentage (%)	-	-	26.09	24.25	-	24.25
Net amount		-	57,055.65	558,152.70	615,208.35	-	615,208.35
As at 30 September 2014							
Carrying amount	Amount (RMB)	-	150,889.21	1,014,436.69	1,165,325.90	-	1,165,325.90
	Percentage (%)	-	12.95	87.05	100.00	-	100.00
Provision	Amount (RMB)	-	-	273,360.60	273,360.60	-	273,360.60
	Percentage (%)	-	-	26.95	23.46	-	23.46
Net amount		-	150,889.21	741,076.09	891,965.30	-	891,965.30

Grouping of other receivable, other than amount due from a subsidiary, for which bad debt provision has been assessed using the aging analysis approach:

Aging	As at 31 December 2011			As at 31 December 2012			As at 31 December 2013			As at 30 September 2014		
	Carrying amount RMB	Percentage %	Provision RMB	Carrying amount RMB	Percentage %	Provision RMB	Carrying amount RMB	Percentage %	Provision RMB	Carrying amount RMB	Percentage %	Provision RMB
Within one												
year	5,272,903.42	91.57	158,187.10	435,222.00	7.50	13,056.66	341,768.00	45.25	10,253.04	500,276.60	49.32	15,008.30
1 to 2 years	233,125.09	4.05	18,650.01	5,106,026.75	87.98	408,482.14	129,785.00	17.19	10,382.80	152,500.00	15.03	12,200.00
2 to 3 years	166,104.00	2.88	33,220.80	31,457.09	0.54	6,291.42	80,476.75	10.66	16,095.35	99,785.00	9.84	19,957.00
3 to 4 years	76,000.00	1.32	38,000.00	144,828.00	2.50	72,414.00	31,457.09	4.17	15,728.55	58,776.75	5.79	29,388.38
4 to 5 years	10,013.25	0.18	8,010.60	76,000.00	1.31	60,800.00	135,628.00	17.96	108,502.40	31,457.09	3.10	25,165.67
More than 5 years	-	-	-	10,013.25	0.17	10,013.25	36,013.25	4.77	36,013.25	171,641.25	16.92	171,641.25
Total	5,758,145.76	100.00	256,068.51	5,803,547.09	100.00	571,057.47	755,128.09	100.00	196,975.39	1,014,436.69	100.00	273,360.60

The movements of provision for bad debts of other receivable are as follows:

Item	At beginning of the year/period RMB	Recognised for the year/period RMB	Decrease for the year/period		At end of the year/period RMB
			Reversals RMB	Written off RMB	
Impairment on others receivable:					
Year ended 31 December 2011	44,948.96	211,119.55	-	-	256,068.51
Year ended 31 December 2012	256,068.51	314,988.96	-	-	571,057.47
Year ended 31 December 2013	571,057.47	-	(374,082.08)	-	196,975.39
Nine months ended 30 September 2014	196,975.39	76,385.21	-	-	273,360.60

Top five parties with the largest balances of other receivables

Name	Relationship with the Group	Amount RMB	Proportion of the amount to the total other receivables %
As at 31 December 2011			
Party U	Third party	5,000,000.00	78.09
Zhao Yi Te	Subsidiary	644,321.23	10.06
Party W	Third party	128,828.00	2.01
Party X	Third party	59,280.00	0.93
Party Y	Third party	50,000.00	0.78
Total		<u>5,882,429.23</u>	<u>91.87</u>
As at 31 December 2012			
Party U	Third party	5,000,000.00	77.11
Zhao Yi Te	Subsidiary	680,383.82	10.49
Party Z	Third party	128,828.00	1.99
Party AA	Third party	62,045.00	0.96
Party AB	Third party	60,000.00	0.93
Total		<u>5,931,256.82</u>	<u>91.48</u>
As at 31 December 2013			
Party Z	Third party	128,828.00	15.86
Party AA	Third party	62,045.00	7.64
Zhao Yi Te	Subsidiary	57,055.65	7.02
Party AC	Third party	40,000.00	4.92
Party AD	Third party	30,000.00	3.69
Total		<u>317,928.65</u>	<u>39.13</u>
As at 30 September 2014			
Zhao Yi Te	Subsidiary	150,889.21	12.95
Party Z	Third party	128,828.00	11.06
Party AA	Third party	62,045.00	5.32
Party BD	Third party	41,190.00	3.53
Party AC	Third party	40,000.00	3.43
Total		<u>422,952.21</u>	<u>36.29</u>

At the end of each reporting period, there are no other receivables due from shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of each reporting period, there are no other receivables advanced to related parties.

At the end of each reporting period, there are no other receivables that have been derecognised.

At the end of each reporting period, there are no other receivables pledged as collateral.

3 Investment in a subsidiary

Name	Accounting method	At beginning of the year/period		Movements	At end of the year/period	Percentage of shareholding	Percentage of voting rights	Provision for impairment	Impairment recognised for the year/period	Dividend paid for the year/period
		Investment cost	of the year/period							
		RMB	RMB	RMB	RMB	%	%	RMB	RMB	RMB
As at 31 December 2011										
Zhao Yi Te	Cost	665,263.00	665,263.00	-	665,263.00	100	100	-	-	-
As at 31 December 2012										
Zhao Yi Te	Cost	665,263.00	665,263.00	-	665,263.00	100	100	-	-	-
As at 31 December 2013										
Zhao Yi Te	Cost	665,263.00	665,263.00	-	665,263.00	100	100	-	-	-
As at 30 September 2014										
Zhao Yi Te	Cost	665,263.00	665,263.00	-	665,263.00	100	100	-	-	-

4 Fixed assets

Item	Buildings RMB	Machinery and equipment RMB	Motor vehicles RMB	Office equipment RMB	Total RMB
Cost					
As at 1 January 2011	–	16,537,016.14	1,485,517.40	1,734,653.23	19,757,186.77
Additions	8,548,828.27	3,088,752.46	–	79,890.56	11,717,471.29
Disposals	–	–	(136,486.40)	–	(136,486.40)
As at 31 December 2011	8,548,828.27	19,625,768.60	1,349,031.00	1,814,543.79	31,338,171.66
Additions	1,279,794.15	4,129,718.05	201,600.00	120,985.90	5,732,098.10
As at 31 December 2012	9,828,622.42	23,755,486.65	1,550,631.00	1,935,529.69	37,070,269.76
Additions	–	435,948.80	–	65,307.86	501,256.66
Disposals	–	(657,112.85)	–	(4,228.00)	(661,340.85)
As at 31 December 2013	9,828,622.42	23,534,322.60	1,550,631.00	1,996,609.55	36,910,185.57
Additions	5,981,700.24	3,945,295.28	–	140,753.00	10,067,748.52
As at 30 September 2014	15,810,322.66	27,479,617.88	1,550,631.00	2,137,362.55	46,977,934.09
Accumulated depreciation					
As at 1 January 2011	–	3,438,010.35	704,404.49	604,806.45	4,747,221.29
Provided for the year	184,828.29	1,564,661.75	176,222.34	271,950.01	2,197,662.39
Eliminated on disposals	–	–	(129,662.08)	–	(129,662.08)
As at 31 December 2011	184,828.29	5,002,672.10	750,964.75	876,756.46	6,815,221.60
Provided for the year	315,865.15	1,967,960.67	198,566.55	290,249.41	2,772,641.78
As at 31 December 2012	500,693.44	6,970,632.77	949,531.30	1,167,005.87	9,587,863.38
Provided for the year	363,235.49	2,256,614.12	214,503.78	297,251.85	3,131,605.24
Eliminated on disposals	–	(457,573.76)	–	(4,016.60)	(461,590.36)
As at 31 December 2013	863,928.93	8,769,673.13	1,164,035.08	1,460,241.12	12,257,878.26
Provided for the period	270,213.43	1,721,621.17	122,585.37	226,972.70	2,341,392.67
As at 30 September 2014	1,134,142.36	10,491,294.30	1,286,620.45	1,687,213.82	14,599,270.93
Carrying amounts					
As at 31 December 2011	8,363,999.98	14,623,096.50	598,066.25	937,787.33	24,522,950.06
As at 31 December 2012	9,327,928.98	16,784,853.88	601,099.70	768,523.82	27,482,406.38
As at 31 December 2013	8,964,693.49	14,764,649.47	386,595.92	536,368.43	24,652,307.31
As at 30 September 2014	14,676,180.30	16,988,323.58	264,010.55	450,148.73	32,378,663.16

Allocation of depreciation charge for each accounting period

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
Administrative expenses	564,375.87	706,161.66	762,393.35	571,692.47	534,068.32
Cost of sales	1,592,861.99	1,919,327.53	2,115,049.85	1,588,695.05	1,610,036.20
General and administrative expenses - Research and development expenses	40,424.53	147,152.59	254,162.04	189,659.52	197,288.15
Total	<u>2,197,662.39</u>	<u>2,772,641.78</u>	<u>3,131,605.24</u>	<u>2,350,047.04</u>	<u>2,341,392.67</u>

During the year ended 31 December 2012, the Company had construction in progress amounting to RMB1,150,427.30 which was transferred to fixed assets. During the nine months ended 30 September 2014, the Company had construction in progress amounting to RMB7,438,815.64 which was transferred to fixed assets. During the years ended 31 December 2011 and 31 December 2013, the Company did not have any construction in progress which was transferred to fixed assets.

At the end of each reporting period, there are no temporary idle fixed assets.

At the end of each reporting period, there are no fixed assets leased under finance leases.

At the end of each reporting period, there are no fixed assets leased out under operating leases.

At the end of each reporting period, there are no fixed assets held for sale.

At the end of each reporting period, the Company's has obtained certificates of titles for all of its fixed assets.

At the end of each reporting period, there are no fixed assets pledged as collateral.

5 Deferred tax assets

(a) Recognised deferred tax assets

Item	As at 31 December			As at 30 September
	2011 RMB	2012 RMB	2013 RMB	2014 RMB
<i>Deferred tax assets:</i>				
Provision for impairment losses of assets	<u>240,404.84</u>	<u>415,597.55</u>	<u>519,535.27</u>	<u>788,879.50</u>

(b) Details of deductible differences

Item	As at 31 December			As at
	2011	2012	2013	30 September
	RMB	RMB	RMB	2014
				RMB
Deductible temporary differences:				
Provision for impairment losses of assets	1,602,698.93	2,770,650.33	3,463,568.48	5,259,196.66

6 Employee benefits payables

Item	Wages or salaries bonuses allowances and subsidies	Staff welfares	Social security contributions and related costs	Housing funds	Labour union	Total
	RMB		RMB			
As at 1 January 2011	793,581.40	-	-	-	-	793,581.40
Increase	10,531,012.17	517,086.70	1,207,145.24	422,822.97	-	12,678,067.08
Decrease	(10,323,233.54)	(517,086.70)	(1,207,145.24)	(422,822.97)	-	(12,470,288.45)
As at 31 December 2011	1,001,360.03	-	-	-	-	1,001,360.03
Increase	14,692,663.16	826,689.43	1,678,775.19	519,490.00	74,635.82	17,792,253.60
Decrease	(14,146,053.81)	(826,689.43)	(1,678,775.19)	(519,490.00)	(74,635.82)	(17,245,644.25)
As at 31 December 2012	1,547,969.38	-	-	-	-	1,547,969.38
Increase	16,619,318.90	887,164.47	2,882,535.11	736,374.00	418,875.22	21,544,267.70
Decrease	(16,798,985.51)	(887,164.47)	(2,570,074.63)	(641,406.00)	(333,871.97)	(21,231,502.58)
As at 31 December 2013	1,368,302.77	-	312,460.48	94,968.00	85,003.25	1,860,734.50
Increase	14,514,756.45	501,482.87	2,354,446.22	529,112.00	188,054.61	18,087,852.15
Decrease	(14,427,654.51)	(501,482.87)	(2,354,446.22)	(529,112.00)	(273,057.86)	(18,085,753.46)
As at 30 September 2014	1,455,404.71	-	312,460.48	94,968.00	-	1,862,833.19

Arrangements such as expected timing, amount, etc. of employee benefits payable:

As at 31 December 2011, 31 December 2012 and 31 December 2013, the wages or salaries, bonuses, allowances and subsidies were paid in January for each of the following year. As at 30 September 2014, the wages or salaries, bonuses, allowances and subsidies were paid in October 2014.

7 Tax payable

Item	As at 31 December			As at
	2011	2012	2013	30 September
	RMB	RMB	RMB	RMB
VAT payable	672,778.63	2,067,419.00	2,702,742.27	2,474,955.61
EIT payable	1,071,816.08	1,633,974.99	1,410,590.01	315,917.41
Withholding Individual Income				
Tax payable	33,097.08	92,470.13	60,837.93	43,480.46
City Construction and				
Maintenance Tax payable	122,917.54	113,891.83	146,930.71	44,890.08
Education Fee Surcharge payable	60,084.30	68,335.09	88,158.42	26,934.05
Local Education Fee Surcharge				
payable	–	45,556.74	608.47	17,956.03
Total	<u>1,960,693.63</u>	<u>4,021,647.78</u>	<u>4,409,867.81</u>	<u>2,924,133.64</u>

Details of movements of EIT payable are as follows:

Item	At beginning of the year/period RMB	Recognised for the year/period RMB	Decrease for the year/period RMB	At end of the year/period RMB
Year ended 31 December 2011	<u>(217,712.91)</u>	<u>5,027,790.91</u>	<u>(3,738,261.92)</u>	<u>1,071,816.08</u>
Year ended 31 December 2012	<u>1,071,816.08</u>	<u>5,429,765.23</u>	<u>(4,867,606.32)</u>	<u>1,633,974.99</u>
Year ended 31 December 2013	<u>1,633,974.99</u>	<u>5,553,018.14</u>	<u>(5,776,403.12)</u>	<u>1,410,590.01</u>
Nine months ended 30 September 2014	<u>1,410,590.01</u>	<u>3,744,915.11</u>	<u>(4,839,587.71)</u>	<u>315,917.41</u>

8 Other payables

Item	As at 31 December			As at
	2011	2012	2013	30 September
	RMB	RMB	RMB	RMB
Provision for sales rebate	3,208,921.52	2,490,428.59	2,854,862.98	2,370,693.00
Accrual for rentals	331,245.25	-	-	-
Accrual for Listing expenses	-	-	700,141.51	392,370.00
Others	244,037.80	58,764.48	74,487.14	179,398.91
Total	<u>3,784,204.57</u>	<u>2,549,193.07</u>	<u>3,629,491.63</u>	<u>2,942,461.91</u>

At the end of each reporting period, there are no other payables to shareholders holding at least 5% (including 5%) of the Company's shares with voting power.

At the end of each reporting period, there are no significant other payables with aging more than one year.

Details of significant other payables are as below:

Item	Details	Amount RMB
As at 31 December 2011	Provision for sales rebate	<u>3,208,921.52</u>
As at 31 December 2012	Provision for sales rebate	<u>2,490,428.59</u>
As at 31 December 2013	Provision for sales rebate	2,854,862.98
	Accrual for Listing expenses	700,141.51
		<u>3,555,004.49</u>
As at 30 September 2014	Provision for sales rebate	2,370,693.00
	Accrual for Listing expenses	392,370.00
		<u>2,763,063.00</u>

9 Retained earnings

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
Closing balance of the preceding year/period	3,140,840.67	28,321,933.63	45,148,032.78	45,148,032.78	54,666,000.03
Opening balances of the current year/period	3,140,840.67	28,321,933.63	45,148,032.78	45,148,032.78	54,666,000.03
Add: Net profit attributable to equity owners of the Company	30,201,214.40	32,028,999.06	32,797,741.39	17,984,823.39	22,796,058.03
Less: Transfer to statutory reserve fund	(3,020,121.44)	(3,202,899.91)	(3,279,774.14)	-	-
Dividend declared	(2,000,000.00)	(12,000,000.00)	(20,000,000.00)	(20,000,000.00)	(11,000,000.00)
Closing balances of the current year/period	<u>28,321,933.63</u>	<u>45,148,032.78</u>	<u>54,666,000.03</u>	<u>43,132,856.17</u>	<u>66,462,058.06</u>

As at 30 September 2014, the aggregate amount of reserves available for distribution amounted to RMB66,462,058.06.

Details of the Company's dividend declared during the Track Record Period are set out in Note E(23) of Section I.

I NOTES TO ITEMS IN THE INCOME STATEMENTS OF THE COMPANY

1 Revenue and cost of sales

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB	2014 RMB
Revenue from principal operation					
- External sales	79,500,582.58	98,094,696.51	110,545,519.29	72,651,850.50	91,346,553.13
- Internal sales	-	238,034.17	940,170.94	683,760.80	427,350.49
	<u>79,500,582.58</u>	<u>98,332,730.68</u>	<u>111,485,690.23</u>	<u>73,335,611.30</u>	<u>91,773,903.62</u>
Revenue from other operation					
- External sales	220,362.03	-	-	-	-
	<u>79,720,944.61</u>	<u>98,332,730.68</u>	<u>111,485,690.23</u>	<u>73,335,611.30</u>	<u>91,773,903.62</u>
Cost of sales	<u>19,746,968.22</u>	<u>27,774,039.10</u>	<u>31,410,773.36</u>	<u>21,681,222.80</u>	<u>24,868,706.73</u>

J NOTES TO ITEMS IN THE CASH FLOW STATEMENTS OF THE COMPANY

1 Supplementary information to cash flow statements of the Company

Item	Year ended 31 December			Nine months ended 30 September	
	2011 RMB	2012 RMB	2013 RMB	2013 RMB (Unaudited)	2014 RMB
Reconciliation of net profit to cash flow from operating activities:					
Net profit	30,201,214.40	32,028,999.06	32,797,741.39	17,984,823.39	22,796,058.03
Add: Impairment losses on assets	619,944.74	1,167,951.42	692,918.14	1,810,810.47	1,795,628.18
Depreciation	2,197,662.39	2,772,641.78	3,131,605.24	2,350,047.04	2,341,392.67
Amortisation of intangible assets	54,690.27	324,205.27	816,179.11	608,519.34	615,749.31
Loss on disposals of fixed assets	(3,175.68)	-	179,173.49	179,173.49	-
Finance expenses	(74,950.69)	(101,160.38)	34,187.10	8,074.81	(67,684.62)
Income from bank structured products	-	-	(241,339.26)	(185,284.47)	(61,643.84)
Decrease in deferred income tax assets	(92,991.71)	(175,192.71)	(103,937.72)	(271,621.57)	(269,344.23)
Decrease in inventories	6,521,123.62	(1,811,364.04)	(3,494,058.62)	(6,222,071.32)	(7,448,801.98)
Decrease in accounts receivable	(2,216,742.99)	(8,223,547.51)	(6,845,142.95)	(27,462,755.02)	(21,808,514.40)
Increase in accounts payable	(2,885,163.61)	1,813,901.66	2,002,915.46	(52,443.78)	2,304,145.73
Net cash flows from operating activities	<u>34,321,610.74</u>	<u>27,796,434.55</u>	<u>28,970,241.38</u>	<u>(11,252,727.62)</u>	<u>196,984.85</u>
Significant investing and financing activities that do not involve cash receipts and payments:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in cash and cash equivalents:					
Cash balances at end of the year/period	42,718,604.25	58,203,549.03	63,556,852.39	31,455,948.34	44,414,817.06
Less: Cash balances at beginning of the year/period	(56,856,980.16)	(42,718,604.25)	(58,203,549.03)	(58,203,549.03)	(63,556,852.39)
Add: Balances of cash and cash equivalent at end of the year/period	-	-	-	-	-
Balances of cash and cash equivalent at beginning of the year/period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in cash and cash equivalent	<u>(14,138,375.91)</u>	<u>15,484,944.78</u>	<u>5,353,303.36</u>	<u>(26,747,600.69)</u>	<u>(19,142,035.33)</u>

K RELATED PARTIES AND RELATED PARTY TRANSACTIONS**1 Information about related parties**

(a) Name of controlling shareholders

Name	Nationality	Position in the Group	Percentage of shareholding in the Group	Percentage of voting rights in the Group
Mr. Shi Chunbao	PRC	Chairman and General Manager	48.4742%	48.4742%
Ms. Yue Shujun	PRC	Executive Director and Deputy General Manager	37.5258%	37.5258%

Mr. Shi Chunbao and Ms. Yue Shujun are couple and the changes in their percentage of shareholdings in the Company are set out in Note A of Section I.

(b) The information of the Company and its subsidiary are set out in Note D of Section I.

(c) Information of the related parties:

Name	Relationship with the Group
Gaoyang Materials	Mr. Guo Fuxiang is the husband of the cousin of Mr. Shi Chunbao and who is responsible for the day to day management and decision making of Gaoyang Materials.
北京惠康鑫諾科技開發有限公司 (Beijing Huikangxinnuo Technology Development Co., Ltd.*, "Beijing Huikangxinnuo")	Prior to 21 March 2011, Mr. Shi Chunbao, a controlling shareholder of the Company who owned approximately 23.34% equity interest in the company. On 21 March 2011, Mr. Shi Chunbao disposed of his equity interest in Beijing Huikangxinnuo and the company ceased to be a related party of the Company.

* The English name is for identification purpose only

Item	Directors' fees RMB	Salary and allowances RMB	Social insurance housing funds and related pension costs RMB	Performance related bonus RMB	Total RMB
Year ended 31 December 2012					
Executive directors:					
Mr. Shi Chunbao	-	288,000.00	15,624.00	-	303,624.00
Ms. Yue Shujun	-	211,200.00	15,624.00	-	226,824.00
Mr. Ding Gang	-	300,000.00	23,436.00	-	323,436.00
Supervisors:					
Mr. Qi Yi	-	84,541.04	-	-	84,541.04
Mr. Xie Fengbao	-	73,501.52	8,394.39	-	81,895.91
Ms. Zhang Lanlan	-	40,982.44	7,698.59	-	48,681.03
Non-executive director:					
Mr. Lin Yiming	-	-	-	-	-
Independent non-executive directors:					
Ms. Xu Hong	100,000.00	-	-	-	100,000.00
Mr. Tong Xiaobo	100,000.00	-	-	-	100,000.00
	<u>200,000.00</u>	<u>998,225.00</u>	<u>70,776.98</u>	<u>-</u>	<u>1,269,001.98</u>

Item	Directors' fees RMB	Salary and allowances RMB	Social insurance housing funds and related pension costs RMB	Performance related bonus RMB	Total RMB
Year ended 31 December 2013					
Executive directors:					
Mr. Shi Chunbao	-	288,000.00	15,648.00	-	303,648.00
Ms. Yue Shujun	-	211,200.00	15,648.00	-	226,848.00
Mr. Ding Gang	-	300,000.00	23,472.00	-	323,472.00
Supervisors:					
Mr. Qi Yi	-	86,314.00	-	-	86,314.00
Mr. Xie Fengbao	-	85,309.90	9,203.76	-	94,513.66
Ms. Zhang Lanlan	-	43,796.23	9,203.76	-	52,999.99
Non-executive director:					
Mr. Lin Yiming	-	-	-	-	-
Independent non-executive directors:					
Ms. Xu Hong	100,000.00	-	-	-	100,000.00
Mr. Tong Xiaobo	100,000.00	-	-	-	100,000.00
	<u>200,000.00</u>	<u>1,014,620.13</u>	<u>73,175.52</u>	<u>-</u>	<u>1,287,795.65</u>

Item	Directors' fees RMB	Salary and allowances RMB	Social insurance housing funds and related pension costs RMB	Performance related bonus RMB	Total RMB
Nine months ended 30 September 2014					
Executive directors:					
Mr. Shi Chunbao	-	215,664.00	15,440.00	-	231,104.00
Ms. Yue Shujun	-	158,344.00	15,440.00	-	173,784.00
Mr. Ding Gang	-	224,944.00	26,760.00	-	251,704.00
Supervisors:					
Mr. Qi Yi	-	68,654.00	-	-	68,654.00
Mr. Xie Fengbao	-	75,097.20	10,532.54	-	85,629.74
Ms. Zhang Lanlan	-	33,051.71	10,388.54	-	43,440.25
Non-executive director:					
Mr. Lin Yiming	-	-	-	-	-
Independent non-executive directors:					
Ms. Xu Hong	75,000.00	-	-	-	75,000.00
Mr. Tong Xiaobo	75,000.00	-	-	-	75,000.00
	<u>150,000.00</u>	<u>775,754.91</u>	<u>78,561.08</u>	<u>-</u>	<u>1,004,315.99</u>
Nine months ended 30 September 2013 (Unaudited)					
Executive directors:					
Mr. Shi Chunbao	-	216,000.00	11,736.00	-	227,736.00
Ms. Yue Shujun	-	158,400.00	11,736.00	-	170,136.00
Mr. Ding Gang	-	225,000.00	17,604.00	-	242,604.00
Supervisors:					
Mr. Qi Yi	-	64,814.00	-	-	64,814.00
Mr. Xie Fengbao	-	62,919.40	6,797.07	-	69,716.47
Ms. Zhang Lanlan	-	32,464.20	6,797.07	-	39,261.27
Non-executive director:					
Mr. Lin Yiming	-	-	-	-	-
Independent non-executive directors:					
Ms. Xu Hong	75,000.00	-	-	-	75,000.00
Mr. Tong Xiaobo	75,000.00	-	-	-	75,000.00
	<u>150,000.00</u>	<u>759,597.60</u>	<u>54,670.14</u>	<u>-</u>	<u>964,267.74</u>

Ms. Yue Shujun resigned as supervisor and was appointed as executive director of the Company on 28 August 2010.

Mr. Ding Gang was appointed as executive director of the Company on 22 December 2010.

Mr. Lin Yiming was appointed as executive director of the Company on 28 August 2010.

Ms. Xu Hong was appointed as executive director of the Company on 28 August 2010.

Mr. Tong Xiaobo was appointed as executive director on 28 August 2010.

Mr. Qi Yi was appointed as supervisor on 28 August 2010.

Mr. Xie Fengbao was appointed as supervisor on 28 August 2010.

Ms. Zhang Lanlan was appointed as supervisor on 28 August 2010.

(ii) Five highest paid individuals

Number of five highest paid individuals involved directors or supervisors and other employee are set out as follows:

Item	Year ended 31 December			Nine months ended 30 September	
	2011	2012	2013	2013	2014
				(Unaudited)	
	<i>Number of person</i>				
Directors or supervisors	3	3	3	3	3
Other than directors or supervisor	2	2	2	2	2

The emolument of the directors are set out in Note K(2)(b)(i) of Section I above. The emoluments of the remaining highest paid individuals are as follows:

Item	Year ended 31 December			Nine months ended 30 September	
	2011	2012	2013	2013	2014
	RMB	RMB	RMB	RMB	RMB
	(Unaudited)				
Salary and allowances	177,505.41	354,621.64	357,362.35	270,000.00	269,888.00
Social insurance housing funds and related pension costs	12,636.00	39,060.00	39,120.00	29,340.00	50,517.00
Performance related bonus	180,000.00	180,000.00	180,000.00	42,362.35	45,000.00
Total	370,141.41	573,681.64	576,482.35	341,702.35	365,405.00

Numbers of emoluments of the remaining the highest paid individuals were as follows:

Item	Year ended 31 December			Nine months ended 30 September	
	2011	2012	2013	2013 (Unaudited)	2014
	<i>Number of person</i>				
Nil to HK\$1,000,000	2	2	2	2	2

- (iii) None of the directors has waived or agreed to waive any emoluments during the Track Record Period. No emolument was paid to the directors, supervisors or the five highest paid as an inducement to join or upon joining the Group or as the compensation for loss of office, during the Track Record Period.

3 Receivables from and payable to related parties

Receivables from related parties

Item	2011		As at 31 December 2012		2013		As at 30 September 2014	
	Amount RMB	Provision RMB	Amount RMB	Provision RMB	Amount RMB	Provision RMB	Amount RMB	Provision RMB
<i>Receivable from:</i>								
Gaoyang Materials	706,463.64	21,193.91	1,608,470.56	48,254.12	2,719,970.98	81,599.13	5,543,291.98	166,298.76

4 Usage of assets without any charge

During the period from April 2011 to May 2012, Ms. Yue Shujun, a controlling shareholder of the Company, leased a building with gross floor area 239.98 square meters to the Company as temporary office without any charge.

L CONTINGENCIES

At the end of each reporting period, there are no significant contingencies should be disclosed.

M COMMITMENTS**1 Operating lease commitments**

Item	As at 31 December			As at
	2011	2012	2013	30 September
	RMB	RMB	RMB	2014
				RMB
Within one year	929,434.00	423,981.15	1,335,272.53	1,624,199.33
Second to fifth years, inclusive	138,433.33	139,500.00	2,438,818.30	1,696,090.33
Total	<u>1,067,867.33</u>	<u>563,481.15</u>	<u>3,774,090.83</u>	<u>3,320,289.66</u>

2 Capital commitments

Item	As at 31 December			As at
	2011	2012	2013	30 September
	RMB	RMB	RMB	2014
				RMB
Contracted for but not yet recognised	-	-	2,495,136.04	14,025,500.67
Authorised but not yet contracted for				
- <i>Daxing New Production Base</i>				
- First stage construction work	-	184,296,467.00	183,497,838.00	174,168,172.87
- Second stage construction work	-	260,112,700.00	260,112,700.00	260,112,700.00
	<u>-</u>	<u>444,409,167.00</u>	<u>443,610,538.00</u>	<u>434,280,872.87</u>
Total	<u>-</u>	<u>444,409,167.00</u>	<u>446,105,674.04</u>	<u>448,306,373.54</u>

At the end of each reporting period, other than disclosed in above, there are no other significant commitment should be disclosed.

N OTHERS**1 Business combination**

There is no business combination during the Track Record Period.

2 Capital risk management

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged for the Track Record Period.

The capital structure of the Group and the Company consists of bank balances, cash and cash equivalents and equity attributable to shareholders of the Company, comprising share capital, reserves and retained profits.

The directors of the Company review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through new share issues as well as issue of new debts or redemption of existing debts.

3 Financial risk management

(a) Financial risk management objectives and policies

The Group's and the Company's major financial instruments include cash and bank deposits, notes receivable, accounts receivable, other receivables, accounts payable, employee benefits payable and other payables, etc. and details of these financial instruments are disclosed in respective notes to this report. The major risks arising from the Group's financial instruments are: (i) interest rate risk; (ii) foreign currency risk; (iii) credit risk; and (iv) liquidity risk. The Group currently does not use any derivative contracts to hedge against its exposure to the risks listed above. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the Group's and the Company's exposures to these market risks or the manner in which it manages and measures the risks for the Track Record Period.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

(i) Interest rate risk

The Group and the Company have limited exposure to interest rate risk because the Group has no significant interest bearing financial assets and liabilities as at 31 December 2011, 31 December 2012, 31 December 2013 and 30 September 2014, other than the interest bearing bank deposits and balances. The future variations in interest rates will not have a significant impact on the results of the Group, as the Group's and the Company's variable rates bank deposits and balances are all short-term in nature and at the prevailing market interest rates. The Group currently does not have an interest rate hedging policy. However, the directors monitor interest rate exposure and will consider hedging significant interest rate risk should the need arise. The directors of the Company considered the Group's and the Company's exposure to interest rate risk is not material. Hence, no interest rate risks sensitively analysis is presented.

There are no bank borrowings during the Track Record Period. The future increase in interest rates will have an impact in the interest expenses if the Group makes a bank borrowing in the future, but the management of the Group will consider to implement a hedging policy to manage the interest rate risk according to the market situation.

(ii) Foreign currency risk

The Group collects most of its revenue in RMB and incurs most of its expenditures as well as capital expenditures in RMB. As at end of each reporting period, certain of the Group's and the Company's cash on hand and bank deposits are denominated in foreign currencies, which expose the Group and the Company to foreign currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk. However the Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate. As the directors of the Company consider that the Group's and the Company's financial assets that are denominated in foreign currencies are insignificant as at the end of the reporting period and accordingly, no sensitivity analysis of foreign currencies against RMB has been presented.

(iii) Credit risk

The Group's credit risk mainly arises from cash at bank, notes receivable and accounts receivable etc. The Group expects that there is no significant credit risk associated with cash at bank and notes receivable since they are deposited at state-owned banks and other medium or large size listed banks.

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the directors of the Company review the recoverability of each trade debt at the balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Because the Group's trade receivable risks were diversified into a range of partners and customers mainly in PRC, 19.53%, 27.97%, 32.57% and 33.94% of the Group's revenue came from the top 5 customers as of 31 December 2011, 31 December 2012 and 31 December 2013 and 30 September 2014 respectively and details of which are set out in Note E(5) of Section I. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts. The Group has no

significant concentration of credit risk on the remaining trade receivables, with exposure spread over a number of counterparties and customers.

(iv) Liquidity risk

Ultimate responsibility for liquidity risk rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and continuously monitoring forecast and actual cash flows.

The following table details the Group's remaining contractual maturities for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is calculated by interest rate curve at the end of the reporting period.

Item	Less than 3 months RMB	3 months to 1 year RMB	Total undiscounted cash flows RMB	Carrying amount RMB
The Group				
As at 31 December 2011				
Accounts payable	4,067,704.47	–	4,067,704.47	4,067,704.47
Employee benefits payable	1,007,382.46	–	1,007,382.46	1,007,382.46
Other payables	3,813,157.94	–	3,813,157.94	3,813,157.94
	<u>8,888,244.87</u>	<u>–</u>	<u>8,888,244.87</u>	<u>8,888,244.87</u>
As at 31 December 2012				
Accounts payable	4,625,679.05	–	4,625,679.05	4,625,679.05
Employee benefits payable	1,556,234.81	–	1,556,234.81	1,556,234.81
Other payables	2,559,193.07	–	2,559,193.07	2,559,193.07
	<u>8,741,106.93</u>	<u>–</u>	<u>8,741,106.93</u>	<u>8,741,106.93</u>
As at 31 December 2013				
Accounts payable	4,235,146.49	–	4,235,146.49	4,235,146.49
Employee benefits payable	1,871,038.71	–	1,871,038.71	1,871,038.71
Other payables	3,639,491.63	–	3,639,491.63	3,639,491.63
	<u>9,745,676.83</u>	<u>–</u>	<u>9,745,676.83</u>	<u>9,745,676.83</u>

Item	Less than 3 months RMB	3 months to 1 year RMB	Total undiscounted cash flows RMB	Carrying amount RMB
As at 30 September 2014				
Accounts payable	10,449,405.24	–	10,449,405.24	10,449,405.24
Employee benefits payable	1,862,833.19	–	1,862,833.19	1,862,833.19
Other payables	2,964,506.03	–	2,964,506.03	2,964,506.03
	<u>15,276,744.46</u>	<u>–</u>	<u>15,276,744.46</u>	<u>15,276,744.46</u>
The Company				
As at 31 December 2011				
Accounts payable	4,065,854.47	–	4,065,854.47	4,065,854.47
Employee benefits payable	1,001,360.03	–	1,001,360.03	1,001,360.03
Other payables	3,784,204.57	–	3,784,204.57	3,784,204.57
	<u>8,851,419.07</u>	<u>–</u>	<u>8,851,419.07</u>	<u>8,851,419.07</u>
As at 31 December 2012				
Accounts payable	4,625,679.05	–	4,625,679.05	4,625,679.05
Employee benefits payable	1,547,969.38	–	1,547,969.38	1,547,969.38
Other payables	2,549,193.07	–	2,549,193.07	2,549,193.07
	<u>8,722,841.50</u>	<u>–</u>	<u>8,722,841.50</u>	<u>8,722,841.50</u>
As at 31 December 2013				
Accounts payable	4,235,146.49	–	4,235,146.49	4,235,146.49
Employee benefits payable	1,860,734.50	–	1,860,734.50	1,860,734.50
Other payables	3,629,491.63	–	3,629,491.63	3,629,491.63
	<u>9,725,372.62</u>	<u>–</u>	<u>9,725,372.62</u>	<u>9,725,372.62</u>
As at 30 September 2014				
Accounts payable	10,449,405.24	–	10,449,405.24	10,449,405.24
Employee benefits payable	1,862,833.19	–	1,862,833.19	1,862,833.19
Other payables	2,942,461.91	–	2,942,461.91	2,942,461.91
	<u>15,254,700.34</u>	<u>–</u>	<u>15,254,700.34</u>	<u>15,254,700.34</u>

(b) Fair value of financial instruments

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values at the end of the reporting period.

II. DIRECTORS EMOLUMENTS

Saved as disclosed in this report, no other remuneration has been paid or is payable by the Company or any of its subsidiaries to the Company's directors in respect of the Track Record Period.

Under the arrangement currently in force, the aggregate amount of the directors' fees and emoluments for the year ending 31 December 2014 is estimated to be approximately RMB1.3 million.

III. EVENTS AFTER THE REPORTING PERIOD

The Group did not have any other discloseable events occurring after the balance sheet date and up to the date of this report.

IV. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements of the Company or any of the companies now comprising the Group have been prepared in respect of any period subsequent to 30 September 2014.

Yours faithfully,

Pan-China Certified Public Accountants LLP
Hangzhou, China

CICPA: Mr. Zhang Kai

CICPA: Mr. Yu Bocheng

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountants' Report prepared by Pan-China Certified Public Accountants LLP, Certified Public Accountants, the PRC, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets (the "Unaudited Pro Forma NTA") 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 consolidated net tangible assets of the Group attributable to the equity owners of the Company as of 30 September 2014 as if the Global Offering had taken place on that date.

The Unaudited Pro Forma NTA has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as of 30 September 2014 or at any future dates.

The Unaudited Pro Forma NTA is prepared based on the audited consolidated net tangible assets of the Group attributable to the equity owners of the Company as at 30 September 2014 as set out in the Accountants' Report of the Company, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to equity owners of the Company as of 30 September 2014 ^(note 1) RMB'000	Estimated net proceeds from the Global Offering ^(note 2) RMB'000	Unaudited pro forma adjusted net tangible assets attributable to the equity owners of the Company RMB'000	Unaudited pro forma adjusted net tangible assets per Share ^(note 3) RMB	HK\$
Based on the Offer Price of HK\$12.53 per Share	191,415	141,916	333,331	5.00	6.25
Based on the Offer Price of HK\$14.10 per Share	191,415	162,476	353,891	5.31	6.64

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

1. The audited consolidated net tangible assets of the Group attributable to the equity owners of the Company as at 30 September 2014 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity owners of the Company as at 30 September 2014 of approximately RMB191,558,000 with an adjustment for the intangible assets as at 30 September 2014 of approximately RMB143,000. Accordingly, the audited consolidated net tangible assets of the Group attributable to the equity owners of the Company as at 30 September 2014 was approximately RMB191,415,000.
2. The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$12.53 and HK\$14.10 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option.
3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 66,670,000 Shares were in issue assuming that the Global Offering has been completed on 30 September 2014 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option.
4. No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 September 2014.
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 RMB0.80.

B. UNAUDITED PRO FORMA ESTIMATED EARNINGS PER SHARE

The following unaudited pro forma estimated earnings per Share for the year ended 31 December 2014 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2014. The unaudited pro forma estimated earnings per Share had been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Group for the year ended 31 December 2014 or for any future period following the Global Offering.

For the year ended 31 December 2014

Estimated consolidated profit attributable to equity owners of the Company ^(Note 1)	not less than RMB36.5 million (approximately HK\$45.6 million)
Unaudited pro forma estimated earnings per Share ^(Note 2)	not less than RMB0.55 (approximately HK\$0.68)

Notes:

- (1) The basis on which the profit estimate has been prepared are set out in Appendix III to this prospectus. The estimated consolidated net profit attributable to equity owners of the Company for the year ended 31 December 2014 is based on the actual consolidated results of the Group for the nine months ended 30 September 2014 and our estimate of the consolidated results of the Group based on the unaudited management accounts of the Group for the remaining three months ended 31 December 2014.
- (2) The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to equity owners of the Company for the year ended 31 December 2014, assuming the Global Offering had been completed on 1 January 2014 and a total of 66,670,000 Shares in issue during the entire period without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) For the purpose of this unaudited pro forma estimated earnings per Share, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.80.

**C. REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO
FORMA FINANCIAL INFORMATION RELATING TO THE UNAUDITED PRO
FORMA ADJUSTED NET TANGIBLE ASSETS AND UNAUDITED PRO FORMA
ESTIMATED EARNINGS PER SHARE**

The following is the text of report, prepared for the purpose of incorporation in this prospectus, received from our reporting accountants, Pan-China Certified Public Accountants LLP, Certified Public Accountants, the PRC.



Add: 128XixiRd.Hangzhou
P c: 310007
Tel: (0571) 8821 6888
Fax: (0571) 8821 6999

27 February 2015

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION TO THE DIRECTORS OF BEIJING CHUNLIZHENGDA MEDICAL
INSTRUMENTS CO., LTD.**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of 北京市春立正達醫療器械股份有限公司 (Beijing Chunlizhengda Medical Instruments Co., Ltd.*, the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma adjusted consolidated net tangible assets of the Group as at 30 September 2014 and the unaudited pro forma estimated earnings per share for the year ended 31 December 2014 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-3 of the Company's prospectus dated 27 February 2015 (the "Prospectus"), in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-3 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Company to illustrate the impact of the proposed initial public offering on the Group's financial position as at 30 September 2014; and the estimated earnings per share of the Group for the year ended 31 December 2014 as if the proposed initial public offering had taken place at 30 September 2014 and 1 January 2014, respectively. As part of this process, information about the Group's financial position as at 30 September 2014 has been extracted by the directors of the Company from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus. Information about the Group's estimate of the consolidated profit attributable to the equity owners of the Company for the year ended 31 December 2014 has been

* The English name is for identification purpose only

extracted by the directors of the Company from the section headed “Financial Information — Profit Estimate for the year ended 31 December 2014” in the Prospectus on which a letter from us has been published as set out in Appendix III to the Prospectus.

DIRECTORS’ RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

REPORTING ACCOUNTANTS’ RESPONSIBILITIES

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

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

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

The purpose of Unaudited Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 30 September 2014 or 1 January 2014 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria

involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Company, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

OPINION

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Pan-China Certified Public Accountants LLP
Hangzhou, China

The estimate of the consolidated profit attributable to equity owners of our Company for the year ended 31 December 2014 is set out in the section headed “Financial Information — Profit Estimate for the year ended 31 December 2014” to this prospectus.

A. BASES

The directors of the Company have prepared the unaudited estimate of the consolidated profit attributable to the equity owners of the Company for the year ended 31 December 2014 (the “Profit Estimate”) based on the audited consolidated results of the Group for the nine months ended 30 September 2014 and the unaudited consolidated results based on the management accounts of the Group for the remaining three months ended 31 December 2014.

The Profit Estimate has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as set out in the Accountants’ Report, the text of which is set forth in Appendix I to the prospectus.

B. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of report received from our reporting accountants, Pan-China Certified Public Accountants LLP, Certified Public Accountants, the PRC, in respect of the Group's profit estimate and for the purpose of incorporation in this prospectus.



Add: 128Xixi Rd, Hangzhou
P. o: 310007
Tel: (0571) 8821 6888
Fax: (0571) 8821 6999

27 February 2015

The Directors
Beijing Chunlizhengda Medical Instruments Co., Ltd.

China Everbright Capital Limited

Dear Sirs,

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2014

We refer to the estimate of the consolidated profit attributable to equity owners of 北京市春立正達醫療器械股份有限公司 (Beijing Chunlizhengda Medical Instruments Co. Ltd.*, the "Company") for the year ended 31 December 2014 (the "Profit Estimate") set forth in the section headed "Financial Information — Profit Estimate for the year ended 31 December 2014" in the prospectus of the Company dated 27 February 2015 (the "Prospectus").

RESPONSIBILITIES

The Profit Estimate has been prepared by the directors of the Company based on the audited consolidated results of the Company and its subsidiary (hereinafter collectively referred to as the "Group") for the nine months ended 30 September 2014 and the unaudited consolidated results based on the management accounts of the Group for the remaining three months ended 31 December 2014.

The Company's directors are solely responsible for the Profit Estimate. It is our responsibility to form an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

* The English name is for identification purpose only

BASIS OF OPINION

We carried out our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Profit Estimate in accordance with the bases made by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

OPINION

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors of the Company as set out in Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our Accountants’ Report dated 27 February 2015, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,

Pan-China Certified Public Accountants LLP
Hangzhou, China

C. LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus by the Sole Sponsor in connection with the profit estimate for the year ended 31 December 2014.



China Everbright Capital Limited
17th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

27 February 2015

The Directors
Beijing Chunlizhengda Medical Instruments Co., Ltd.

Dear Sirs,

We refer to the estimate of the consolidated profit attributable to equity owners of Beijing Chunlizhengda Medical Instruments Co., Ltd. (the “**Company**”, together with its subsidiary, the “**Group**”) for the year ended 31 December 2014 (the “**Profit Estimate**”) as set out in the prospectus of the Company dated 27 February 2015 (the “**Prospectus**”).

The Profit Estimate, for which the directors of the Company (the “**Directors**”) are solely responsible, has been prepared by the Directors based on the audited consolidated results of the Group for the nine months ended 30 September 2014 and the results shown in the unaudited management accounts of the Group for the three months ended 31 December 2014.

We have discussed with you the bases, as set out in Part A of Appendix III to the Prospectus, upon which the Profit Estimate has been made. We have also considered and relied upon the letter dated 27 February 2015 addressed to you and us from Pan-China Certified Public Accountants LLP regarding the calculations and accounting policies upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the bases made by you and the accounting policies and calculations adopted by you and reviewed by Pan-China Certified Public Accountants LLP, we are of the opinion that the Profit Estimate, for which you as the Directors are solely responsible, has been made by the Directors after due and careful enquiry.

Yours faithfully,

For and on behalf of
China Everbright Capital Limited

Richard Chu
Executive Director

TAXATION

Taxation in the PRC

Taxes Applicable to our Company

In accordance with the *Enterprise Income Tax Law of the People's Republic of China* (the "EIT Law") (中華人民共和國企業所得稅法) promulgated on 16 March 2007 and the *Regulations for the Implementation of the Enterprise Income Tax Law* (企業所得稅法實施條例) promulgated on 6 December 2007, domestic enterprises and foreign-invested enterprises are subject to enterprise income tax at a uniform rate of 25%. As a qualified high and new technology enterprise, is entitled to enjoy preferential income tax rate of 15%.

Value-added Tax (VAT)

According to the *Provisional Regulations of the People's Republic of China on Value-added Tax* (中華人民共和國增值稅暫行條例) amended on 5 November 2008 and with effect from 1 January 2009 and the *Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax* (中華人民共和國增值稅暫行條例實施細則) amended on 28 October 2011 and with effect from 1 November 2011, all taxpayers selling goods or providing processing, repairing or replacement services and import of goods within the PRC shall pay VAT. The tax rate of 17% shall be levied on general taxpayers selling or importing various goods unless otherwise provided for. The rate applicable the export of goods by taxpayers shall be nil, unless otherwise stipulated. However, where otherwise stipulated by the State Council shall not be included.

Furthermore, pursuant to the *Pilot Scheme for the Conversion of Business Tax to VAT* (營業稅改徵增值稅試點方案) promulgated by the Ministry of Finance and the State Administration of Taxation (SAT) on 16 November 2011, the State started to introduce taxation reforms in a gradual manner with effect from 1 January 2012, whereby the collection of VAT in lieu of business tax items was implemented on a trial basis in regions showing significant radiating effects in economic development and providing strong cases as examples of reform, beginning with production service industries such as transportation and certain modern service industries.

Stamp duty

According to the *Provisional Regulations of the People's Republic of China on Stamp Duty* (中華人民共和國印花稅暫行條例) enacted on 1 October 1988 and amended on 8 January 2011 and the *Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Stamp Tax* (中華人民共和國印花稅暫行條例施行細則) enacted on 2 October 1988, all entities and individuals executing or receiving taxable documents within the PRC shall pay stamp duty. The list of taxable documents includes purchase and sale contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other documents in the nature of contracts, title transfer deeds, business account books, certificates of rights, licenses and other documents confirmed to be taxable by the Ministry of Finance.

Taxes Applicable to Shareholders of Companies

Dividend-related Tax

Individual Investors

Pursuant to the *Individual Income Tax Law of the PRC* (中華人民共和國個人所得稅法), as amended on 30 June 2011, dividends paid by PRC companies are generally subject to a PRC withholding tax levied at a rate of 20%. For PRC individuals, the dividends received from a PRC company shall be subject to withhold individual income tax at a rate of 20%.

For a foreign individual who is not resident of the PRC, the receipt of dividends from a company in the PRC is subject to a withholding tax of 20% unless reduced under an applicable tax treaty or specially exempted by the tax authority of the State Council.

Generally, a tax rate of 10% shall apply to the dividends paid by the company on shares listed in Hong Kong that are sold by foreign individuals without application to applicable tax authorities according to the treaties. When a tax rate of 10% is not applicable, the withholding company shall (i) return the excessive tax amount if the applicable tax rate is lower than 10%, (ii) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%, and (iii) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

Enterprise

Pursuant to the *Enterprise Income Tax Law of the People's Republic of China* (the "EIT Law") (中華人民共和國企業所得稅法) effective from 1 January 2008 and its implementation regulations, a non-resident enterprise which has not established a representative office or other premises or whose established representative office or premises is not actually related to dividends and bonus received shall be subject to a 10% enterprise income tax on its revenues sourced in China. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty. On the other hand, income from equity investment such as dividend and bonus between qualified resident enterprises are exempted from enterprise income tax. The aforesaid tax-exempted income shall exclude the income from tradable shares issued publicly by Tax Resident Enterprises and traded on stock exchanges where the continuing holding period is less than 12 months.

Pursuant to the *SAT Notice on Issues concerning the Withholding and Payment of Enterprise Income Tax on the Dividends Paid by PRC Resident Enterprises to Overseas Non-resident Corporate H-share Holders* (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) promulgated by the SAT which became effective on 6 November 2008, a PRC resident enterprise shall withhold and pay the enterprise income tax at a uniform rate of 10% in respect of dividend distributions made to overseas non-resident corporate H Share holders for the year 2008 and beyond. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty.

Pursuant to the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Tax on Income* (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on 21 August 2006, the PRC Government may impose tax on dividends paid to a Hong Kong resident including natural person and legal entity from a PRC company, but such tax shall not exceed 10% of the total sum of the dividends payable. If a Hong Kong resident company holds 25% or more of equity interest in a PRC company, such tax shall not exceed 5% of the total sum of dividends payable by that PRC company.

Furthermore, pursuant to the *Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements* (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated and with effect from 20 February 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (a) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (b) owner's equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (c) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the 12 months prior to the obtainment of the dividends, reach a percentage specified in the tax agreement.

In addition, according to the *Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (for Trial Implementation)* (非居民享受稅收協定待遇管理辦法(試行)) ("**Administrative Measures**") which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the favourable tax benefits under the tax arrangements, it shall submit an application for approval or filing to the competent tax authority. Without being approved or filed, the non-resident enterprise may not enjoy the favourable tax treatments provided in the tax treaties.

Tax Treaties

Investors who are not PRC residents but either reside in countries which have entered into double taxation treaties with the PRC or reside in Hong Kong SAR or Macau SAR may be entitled to a reduction of the withholding tax imposed on the dividends paid to such investors by a PRC company. The PRC currently has signed double-taxation avoidance arrangements with Hong Kong SAR and Macau SAR respectively, and has double-taxation avoidance treaties with a number of other countries, including but not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore and the United Kingdom, etc. Under each of such double taxation avoidance treaties or arrangements, the rate of withholding tax imposed by PRC's taxation authorities may be generally reduced.

Share transfer-related tax*Individual Investors*

According to the *Individual Income Tax Law of the PRC* (中華人民共和國個人所得稅法) and its implementation regulations, for individual holders of our Company's shares who have domicile in the PRC or though without domicile but have resided one year or more in the PRC, their gains realized on the sale of our Company's shares shall be subject to individual income tax at a rate of 20%.

For individual holders of our Company's H shares who are neither domiciled nor resident in China, or who are not domicile and reside for less than one year in the PRC, their gains realized on the sale of our Company's shares outside the PRC as income derived from source outside the PRC shall not be subject to any individual tax under the PRC laws.

Enterprise

Pursuant to the EIT Law (中華人民共和國企業所得稅法) and its implementation regulations and the *SAT Notice on Certain Taxation Issues relating to the Persistent Implementation of Enterprise Income Tax Law* (國家稅務總局關於貫徹落實企業所得稅法若干稅收問題的通知) (Guo Shui Han [2010] No. 79) (國稅函[2010] 79號), revenue of an enterprise arising from the transfer of equity interests shall be recognised upon the transfer agreement becoming effective and the completion of formalities relating to the change in equity interests. The amount of revenue generated from the transfer of equity interests less costs incurred for the acquisition of such equity interests shall be deemed as income arising from the transfer of equity interest. In computing its income arising from the transfer of equity interests, an enterprise should not deduct the amount of retained earnings (unallocated profit) of the investee that might be attributable to the equity interests transferred. The final computation of enterprise income tax shall be based on such income.

Pursuant to the EIT Law (中華人民共和國企業所得稅法) and its implementation regulations, for resident enterprise, capital gains realized on the sale of shares of our Company shall be subject to enterprise income tax at a rate of 25%; on the other hand, for non-resident enterprise which has not established a representative office or other premises or whose established representative office or premises is not actually related to gains realized shall be subject to a 10% enterprise income tax on its capital gains realized from the transfer of shares of our Company. For non-resident enterprise holders of our Company's H shares, their gains realized on the sale of our Company's H shares outside the PRC shall not be subject to enterprise income tax under the PRC laws.

Estate duty or inheritance tax

There is no estate duty or inheritance tax levied in China at present.

Stamp duty

According to the terms of the *Provisional Regulations of the People's Republic of China on Stamp Duty* (中華人民共和國印花稅暫行條例), the applicable stamp tax of the PRC on transfers of shares of PRC public companies shall not apply to purchases and disposals of H Shares that take place outside the PRC. Such provisional regulations provide that PRC stamp tax shall be only levied on various types of documents executed or received and legally bound within the territory of the PRC and protected under PRC laws.

Taxation in Hong Kong***Tax on dividends***

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Taxation on capital gains and profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H Shares. Trading gains generated from the sale of H Shares by persons who carry out trade, professional services and businesses carried in Hong Kong will be subject to Hong Kong profit tax, if such gains are derived or sourced from such trade, professional services and businesses carried out in Hong Kong. Currently, the profit tax rate is 16.5% for corporations and no more than 15% for unincorporated businesses. Gains from sales of the H Shares effected on the Hong Kong Stock Exchange will be deemed to be derived from or sourced in Hong Kong. Therefore, persons engaged in securities trading or dealing businesses in Hong Kong are liable to paying Hong Kong profit tax for trading gains received from the sale of H Shares on the Hong Kong Stock Exchange.

Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical transaction for the sale and purchase of H Shares. In addition, a fixed duty of HK\$5.00 is chargeable on each instrument of transfer (if required). Where a sale or purchase of H Shares is effected by a person who is not a resident of Hong Kong and who has not paid any stamp duty payable on the instrument of transfer, the transferee shall be liable to the payment of such duty and other duties payable in respect of relevant instrument of transfers (if any).

Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H Shares who die on or after 11 February 2006.

PRC LAWS AND REGULATIONS CONCERNING FOREIGN EXCHANGE CONTROL**Regulations for the Administration of Foreign Exchange of the People's Republic of China (中華人民共和國外匯管理條例)**

To strengthen foreign exchange administration, maintain balance in international payments and facilitate the stable development of national economy, the PRC Government continues to exercise foreign exchange control. *The Regulations for Foreign Exchange Control of the People's Republic of China* (中華人民共和國外匯管理條例), amended on 1 August 2008, are among the major foreign exchange control laws and regulations of China.

Under the said regulations, there are two categories of foreign exchange transactions: those under the current account and those under the capital account. Current account items refer to transactions conducted on a recurrent basis by way of international payments, such as trade income and expenditure, labour service income and expenditure and one-off transfer of funds; Capital account items refer to transactions involving capital inflow or outflow of international payments that will result in the increase/decrease of assets and liabilities, such as direct investments, various types of loans and securities investments.

Articles 12 to 15 in Chapter Two of the said regulations provides for the administration of foreign exchange activities for current account items. Article 12 stipulates that foreign exchange income and expenditure for current account items should be based on true and legal transactions. Financial institutions engaged in the business of foreign exchange settlement and sales should conduct reasonable examination as to the authenticity of receipts evidencing the transaction and its consistency with foreign exchange income and expenditure. Moreover, the SAFE is authorised to carry out supervision and inspection over the aforesaid matters.

Article 16 to 23 in Chapter Three of the said regulations provide for the administration of foreign exchange activities for capital account items, including but not limited to direct overseas investments, foreign debt and the provision of security to foreign entities.

Clarification and Explanation of Issues relating to Regulations for the Settlement, Sale and Payment of Foreign Exchange (關於結匯、售匯及付匯管理規定中有關問題的解釋和說明)

According to the *Clarification and Explanation of Issues relating to Regulations for the Settlement, Sale and Payment of Foreign Exchange* (關於結匯、售匯及付匯管理規定中有關問題的解釋和說明) issued by the SAFE on 4 July 1996, the outbound remittance of profit by foreign-invested enterprises is considered a current account item. Procedures for the remittance of profit by foreign-invested enterprises shall include:

- Obtaining a tax certificate from the SAT and local tax bureau to certify compliance with relevant tax rules, before remitting profit to overseas locations;
- Processed at designated foreign exchange banks.

According to the relevant provisions of the *Circular of SAFE on Printing and Forwarding the Regulations on Foreign Exchange Administration for Trade in Services* (國家外匯管理局關於印發服務貿易外匯管理法規的通知) (匯發[2013]30號) issued by the SAFE on 18 July 2013 and came into effect on 1 September 2013 and the *Guidance for Foreign Exchange Management of Service Trade* (服務貿易外匯管理指引), the remitting of the profits, dividends and bonuses of foreign-invested enterprises abroad falls into the category of the foreign exchange of service trade. For an individual payment of foreign exchange of service trade with an equivalent of US\$50,000 above, the financial institutions shall review and keep the transaction receipts of the payment of profits, dividends and bonuses abroad in accordance with the following provisions: the financial audit report for relevant years issued by the accounting firms, the board resolutions on the distribution of profits and the latest capital verification report. It shall conduct the taxation filing procedures at the local authorities responsible for state taxes in accordance with the provisions of the *Announcement on Relevant Issues Concerning the Filing of Tax for External Payments for Trade in Services and Other Accounts* (關於服務貿易等項目對外支付稅務備案有關問題的公告) (Announcement of the State Administration of Foreign Exchange and the State Administration of Taxation (2013 No. 40)) (國家稅務總局、國家外匯管理局公告(2013年第40號)).

For an individual payment of foreign exchange of service trade with an equivalent of US\$50,000 or below, the financial institutions generally will not verify the transaction receipts. But if the nature of funds is uncertain, the financial institution shall request the local enterprises and individuals to submit the transaction receipts for inspection.

Provided that if a foreign exchange transaction is considered an activity under the capital account, it must be registered with SAFE authorities and approved by the SAFE and relevant government authorities depending on the business nature of the enterprise making the application.

In the event of violation of relevant foreign exchange control regulations, orders may be given for the underlying assets to be transferred back to China and a penalty, normally no more than 30% of the amount concerned, will be imposed. In case of serious violations, personnel in-charge may be subject to criminal prosecution.

REGISTRATION CERTIFICATE OF OVERSEAS LISTING

Pursuant to the *Circular of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Control for Overseas Listing* (國家外匯管理局關於境外上市外匯管理有關問題的通知) promulgated with effect on 28 January 2013, a domestic company shall, within 15 working days upon initial offerings of overseas listing, go through relevant registration formalities by presenting the required materials to the forex bureau at the place of registration. Upon verification of all required materials presented, the forex bureau shall issue a registration certificate of overseas listing to the domestic company. Based on its registration certificate of overseas listing, the domestic company shall open respective special domestic account for the initial offerings (or additional offerings) and buy-back business at the bank where it is located so as to handle corresponding funds remittance and transfer.

Where any domestic shareholder of a domestic company intends to increase or reduce overseas holdings upon overseas listing, he/she shall go through relevant registration formalities by presenting the required materials to the forex bureau at his/her place. Upon verification of all the required materials, the forex bureau shall issue a registration certificate of overseas holdings to the domestic shareholder. Based on his/her registration certificate of overseas holdings, a domestic shareholder of a domestic company shall open respective special domestic account for increasing (or reducing) overseas holdings business at the bank where his/her domicile is located so as to handle corresponding funds remittance and transfer.

Also pursuant to the Circular, a domestic company's collected funds of overseas listing may be transferred back to corresponding special domestic accounts or kept in special overseas accounts, provided that the use of such funds shall comply with the prospectus or corporate bonds collection documents, shareholders' circulars, resolutions of the shareholders' meetings and other publicly disclosed documents. Where the funds as collected by issuing corporate bonds convertible into stocks need to be transferred back, such funds shall be transferred to the special foreign debt account and used pursuant to relevant regulations on foreign debt administration; in the event of the funds as collected by issuing other forms of securities, such funds shall be transferred to corresponding special domestic accounts with respect to overseas listing.

The domestic shareholder's capital income obtained due to reducing or transferring overseas holdings or the domestic company's withdrawing from overseas securities market etc. shall be transferred back to the special domestic account with respect to reducing holdings within 2 years upon acquirement of the aforesaid income. The settlement of the above-mentioned transferred funds (if any) may be handled at banks by submitting the registration certificate of overseas holdings.

This Appendix sets out summaries of certain aspects of PRC laws and regulations which are relevant to the Group's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix IV — Taxation and Foreign Exchange" to this prospectus. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, and certain requirements of the Listing Rules.

PRC LAWS AND REGULATIONS

The PRC Judicial System

Under the PRC Constitution and the Law of Organisation of the People's Courts of the PRC (中華人民共和國人民法院組織法), the PRC judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels.

The people's court shall apply the system whereby the second instance is final, i.e., the judgement or ruling of the second instance at a people's court is final. A party to the case concerned may appeal to the people's court at the next higher level against the judgement or ruling of the first instance. The people's procuratorate may appeal to the people's court at the next higher level in accordance with procedures stipulated by the laws. In the absence of any appeal by any parties to the case and any appeal by the people's procuratorate within the stipulated period, the judgement or ruling of the people's court shall be the final judgement or rulings. Judgements or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court are final. Judgements or rulings of the first instance of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgement which has taken effect in any people's court at a lower level, or the president of a people's court finds an error in a final and binding judgement which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the adjudication supervision procedures.

The Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) (the "Civil Procedure Law") adopted on 9 April 1991 and amended on 28 October 2007 and 31 August 2012 prescribes the provisions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, and the procedures for enforcement of a civil judgement or ruling. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The competent court may also be selected by express agreement amongst the parties to a contract provided that the court selected is located at the plaintiff's or the defendant's place of domicile, the place of

performing the contract or the place of executing the contract or the object of the action, provided that the provisions of the Civil Procedure Law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or foreign enterprise is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a juridical system of a foreign country limit the litigation rights of PRC citizens and enterprises, subject to the principle of reciprocity, the PRC courts may apply the same limitations to the citizens and enterprises (in China) of that foreign country. If any party to a civil action refuses to comply with a judgement or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within a stipulated period. Should anyone be not able to execute the judgement of the people's court within a stipulated period, as a result of a party's application, the people's court shall enforce such a judgement in accordance with the law.

A party seeking to enforce a judgement or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgement or ruling. Similarly, if the PRC has entered into a treaty relating to judicial recognition and enforcement with the relevant foreign country or a relevant international treaty, a foreign judgement or ruling may also be recognised and enforced according to PRC enforcement procedures by a PRC court based on the equity principle unless the people's court considers that the recognition or enforcement of a judgement or ruling will violate the basic legal principles of the PRC or its sovereignty or national security, or social and public interest.

The PRC Company Law, Special Regulations and Mandatory Provisions

The PRC Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Meeting on 29 December 1993 and came into effect on 1 July 1994. It was amended on 25 December 1999 and on 28 August 2004, and revised on 27 October 2005. The revised PRC Company Law took effect on 1 January 2006, and it was amended again on 28 December 2013. The latest revised PRC Company Law came into effect on 1 March 2014.

The Special Regulations were passed at the 22nd Standing Committee Meeting of the State Council on 4 July 1994 and promulgated and implemented on 4 August 1994. The Special Regulations are formulated in respect of the overseas offering and listing of shares by joint stock limited companies registered within China.

The Mandatory Provisions jointly promulgated by Securities Commission of the State Council (merged with CSRC in 1998) and the State Restructuring Commission (a former subordinate department of the State Council) on 27 August 1994 prescribe provisions which must be incorporated in the articles of association of joint stock limited companies to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association as our Company is a joint stock limited company registered within the PRC that seeks to be listed overseas.

General

A joint stock limited company (the “company”) is a corporate legal person incorporated under the PRC Company Law with independent legal person properties and entitlements to such legal person properties. Its registered capital is divided into shares of equal par value. The liability of the company is limited to the full amount of its assets owned by it and the liability of its shareholders is limited to the extent of the shares held by them.

Incorporation

The company may be incorporated by promotion or subscription. Incorporation by promotion refers to the incorporation in which the entire share capital to be issued by the company is subscribed by the promoters. If the company is established by the public subscription method, parts of the shares to be issued by the company must be subscribed by its promoters while the remaining shares must be offered for subscription by the public or by specified persons.

The company may be incorporated by a minimum of two but not more than 200 promoters, among which at least half of them must reside within the PRC.

A company incorporated by promotion is a company with its registered capital entirely subscribed for by the promoters. Share in the company shall not be offered to other persons unless the registered capital has been fully paid up. For a company incorporated by public subscription, the registered capital is the amount of its total paid up capital as registered with the registration authorities.

As specified in the PRC Company Law, the registered capital of a company incorporated by promotion is the total share capital subscribed for by all promoters as registered with the company registration authorities; the registered capital of a company incorporated by public subscription is the amount of its total paid up capital as registered with the company registration authorities, except for the joint stock limited company whose paid-up registered capital and minimum registered capital are otherwise provided under the laws, administrative regulations and State Council decisions, in which case the joint stock limited company should follow the relevant requirements.

For companies incorporated by way of promotion, the promoters shall subscribe in full in writing for shares required to be subscribed by them under the articles of association and pay up their capital contributions under the articles of association. Promoters who fail to pay up their capital contributions in accordance with the provision shall assume liabilities for breach of contract in accordance with the covenants laid down in the promoters’ agreement. After the promoters have paid up the capital contribution under the articles of association, a board of directors and a board of supervisors shall be elected and the board of directors shall apply for registration of incorporation by filing the articles of association with the company registration authorities, together with other documents required by the law or administrative regulations.

Where the company is incorporated by subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder can be subscribed for by the public or particular persons, unless otherwise provided for by the law or administrative regulations. A promoter who offers shares to the public must publish a prospectus, such offer shall be underwritten by securities firms established by law, in relation to which underwriting agreements shall be signed.

The company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoter shall collectively or individually be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription moneys to the subscribers together with interest at bank rates for a deposit for the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Under the PRC Securities Law, a company proposed to be listed on a stock exchange within PRC (excluding Hong Kong, Macau and Taiwan) must have a total share capital of not less than RMB30 million.

Share capital

Shares of the same class in every offer shall be issued on the same terms and at the same price. The company may issue shares at par value or premium, but may not below the par value.

The promoters may make a capital contribution in cash, or in kind, that can be valued in currency and transferable according to law such as intellectual property rights or land use rights.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares.

Share certificates will be issued for the shares of our Company. Share certificates are certificates issued by our Company as evidence of the Shareholders' shares of our Company. The company may issue registered or bearer share certificates. However, shares issued to promoters or legal persons shall be in the form of registered share and shall be registered under the name of such promoters or legal persons and shall not be registered under a different name or the name of a representative.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Special measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of foreign shares to be listed overseas, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

Under the PRC laws, the H shares of the company shall be denominated in RMB and subscribed for in foreign currency. It may only be subscribed for, and traded by, qualified domestic institutional investors within the PRC, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC (“foreign investors”).

Shares issued to foreign investors and listed overseas by the company must be in registered form, denominated in RMB and subscribed for in foreign currencies. Shares subscribed for by foreign investors (including Hong Kong, Macau and Taiwan) and listed in Hong Kong are classified as “overseas listed foreign invested shares”, shares issued to domestic investors within the PRC (except the above places) are classified as “domestic shares”.

Increase in Share Capital

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

Besides the approval of the shareholders for the issuance of new shares as set out above, the PRC Securities Law additionally stipulated that any company that makes a public offer of new shares within the PRC shall: (i) have a sound corporate governance structure and be well-operated; (ii) have a profitable outlook and be of sound financial status; (iii) have no record of having filed any misleading financial and accounting statement in the previous three years or any other major legal irregularity; and (iv) meet any other State Council-approved requirement prescribed by the securities regulatory authority under the State Council.

Public Offering is conditional upon the approval of the securities regulatory authority under the State Council.

After the new share issued has been paid up, the company must register the change with the relevant state bureau for the administration industry and commence and a public notice must be made accordingly.

Reduction of Share Capital

Subject to the minimum registered capital requirements, our Company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and an inventory of assets;
- (ii) the reduction of registered capital must be approved by shareholders in a shareholders’ general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;

- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commence for registration of the reduction in registered capital.

Repurchase of Shares

The company may not purchase its own shares other than for one of the following purposes:

- (i) to reduce its registered share capital;
- (ii) to merge with another company that holds its shares;
- (iii) to grant shares to its employees as incentives;
- (iv) to purchase its own shares from its shareholders who are against the resolution regarding the merger and demerger with other company in a shareholders' general meeting;
- (v) such other purposes permitted by law and administrative regulations.

The company's acquisition of its own shares on the grounds set out in (i) to (iii) above shall require approval by way of a resolution passed in a shareholders' general meeting. Following the company's acquisition of its shares in accordance with the foregoing, such shares shall be cancelled within ten days from the date of acquisition in the case of (i) and transferred or cancelled within six months in the case of (ii) or (iv). Shares acquired by the company in accordance with (iii) shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the employees of the company within one year. The Mandatory Provisions provide that upon obtaining approvals from the relevant authorities and in accordance with the articles of association of the company, a company may repurchase its issued shares for the foregoing purposes by way of a general offer to its shareholders or purchase on a stock exchange or an off-market contract.

Transfer of Shares

Upon obtaining the approval from the State Council's securities regulatory authority, our Shareholders may list and trade their unlisted Shares in an overseas stock exchange. The listing and trading of such Shares shall comply with the procedures, regulations and requirements prescribed by the relevant overseas stock market. No class shareholder voting is required for such listing and trading of Shares on an overseas stock exchange.

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law or by other ways as required by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by the law or administrative regulations. Following the transfer, the company shall enter the name of the transferee and its address into the share register. The transfer of bearer's share certificate shall become effective upon the delivery of such share certificate to the transferee by the shareholder. Subject to the PRC Company Law, no changes of registration in the share register provided in the foregoing shall be effected during a period of 20 days prior to the convening of the shareholders' general meeting or five days prior to the record day for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies.

Subject to the Mandatory Provisions, the shareholders' register may not be modified within the 30 days preceding the shareholder's general meeting or within the five days preceding any ex-dividend date fixed by the company.

Shares held by a promoter may not be transferred within one year after the company's establishment. Shares of the company issued prior to the public issue of shares shall not be transferred within one year from the date of the company's listing on a stock exchange.

Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in the company and any changes of such shareholdings. During their term of office, they shall transfer no more than 25% of the total shares they hold in the company. They shall not transfer the shares they hold within one year from the date of the company's listing on a stock exchange, nor within six months after they have resigned from their positions with the company. The articles of association may lay down other restrictive provisions in respect of the transfer of shares in the company held by the directors, supervisors and the senior management of the company. Company shares held by any director, supervisor or senior manager shall not be transferred within one year of the date on which the shares are first listed and traded on a stock exchange.

Shareholders

The shareholder's rights and duties are all stipulated in the company's articles of association, which is binding on all the shareholders. Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend a shareholders' general meeting and exercise the voting rights on the basis of the number of the shares held by such shareholder personally or appoint an agent to attend the meeting and exercise the rights referred to hereinabove;
- (ii) to transfer the shares held by such shareholder subject to the applicable laws, regulations and the company's articles of association;

- (iii) to bring an action in the people's court to rescind the resolution when any law or administrative regulation or any legal right or interest of any shareholder is violated by a resolution passed by the shareholders' general meeting or the board of directors;
- (iv) to inspect the articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the board of supervisors and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- (v) to receive dividends in respect of the number of shares held;
- (vi) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and
- (vii) any other shareholders' rights provided for in the articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him, not to abuse shareholders' rights to damage the interests of the company or other shareholders of the company; not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders' general meeting exercises the following principle powers in accordance with the PRC Company Law and the Special Regulations:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and supervisors (that are not staff representative) and to decide on matters relating to the remuneration of directors and supervisors;
- (iii) to examine and approve reports of the board of directors;
- (iv) to examine and approve reports of the board of supervisors or supervisor;
- (v) to examine and approve the company's proposed annual financial budget and final accounts;

- (vi) to examine and approve the company's proposals for profit distribution plans and recovery of losses;
- (vii) to decide on any increase or reduction of the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- (x) to decide on the appointment, dismissal or non-renewal of the appointment of the accounting firm;
- (xi) to amend the company's articles of association; and
- (xii) other authorities as provided for in the articles of association.

Shareholders' general meetings are required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following:

- (i) the number of directors is less than the number stipulated by the law or less than two-thirds of the number specified in the articles of association;
- (ii) the aggregate losses of the company which are not recovered reach one third of the company's total paid in share capital;
- (iii) when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- (iv) whenever the board of directors deems necessary;
- (v) when the board of supervisors so requests; or
- (vi) other circumstances as provided for in the articles of associations.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the board of supervisors shall convene and preside over such meeting in a timely manner.

In case the board of supervisors fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

Subject to the PRC Company Law, notice of the shareholders' general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. Notice of extraordinary general meetings shall be given to all shareholders 15 days prior to the meeting. Notice of the issuance of bearer's share shall be announced 30 days before the meeting. Subject to the Special Regulations and the Mandatory Provisions, such notice shall be delivered to all the shareholders 45 days in advance, and the matters to be considered at the meeting shall be specified. Subject to the Special Regulations and the Mandatory Provisions, the confirmation letter of the shareholders planning to attend the meeting shall be delivered to the company 20 days in advance of the meeting. Moreover, subject to the Special Regulations, the shareholders holding more than 5% of the company's shares may put forward a new proposal in writing for the meeting to discuss at the shareholder's annual meeting, and if the proposal falls within the purview of the meeting, it shall be placed in the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division, dissolution of a company or amendments to the articles of association, which must be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by a company must be approved by way of resolution of the shareholders' general meeting, the directors shall convene a shareholders' general meeting promptly to vote on the above matters. The accumulative voting system may be adopted pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to votes equivalent to the number of directors or supervisors to be elected at the shareholders' general meeting and shareholders may consolidate their voting rights when casting a vote.

Minutes shall be prepared in respect of matters considered at the shareholders' general meeting and the president of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

Shareholders may entrust a proxy to attend shareholders' general meeting on his or her behalf by a power of attorney which sets out the scope of exercising the voting rights.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of shares of any class, warrants or other similar securities, and bonds or debentures, the division, merger, dissolution, liquidation of the company, amendment of the article of association of the company and any other matters in respect of which the shareholders by ordinary resolution of the shareholder's general meeting, may have a significant impact on the company and require adoption by way of a special resolution, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting, although the Special Regulations and the Mandatory Provisions provide that a company's general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holder of H shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of five to 19 members. Members of the board of directors may include staff representatives of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- (ii) to implement the resolutions passed in general meetings;
- (iii) to decide on the company's business plans and investment proposals;
- (iv) to formulate the company's proposed annual financial budget and final accounts;

- (v) to formulate the company's profit distribution proposals and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of the corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's general manager and based on the general manager's recommendation, to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) to exercise any other power under the articles of association.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors ten days before the meeting. Interim board meetings may be convened by shareholders representing more than 10% of voting rights, more than one third of the directors or the board of supervisors. The chairman shall convene and preside over such meeting within ten days after receiving such proposal. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

Under the PRC Company Law and the Mandatory Provisions, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;

- (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and has been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;
- (v) persons who have a relatively large amount of debts due and outstanding;
- (vi) a person who is under criminal investigation or prosecution by a judicial organisation for violation of the criminal law where the said investigation or prosecution is not yet concluded;
- (vii) a person who is not eligible for enterprise leadership according to the laws and administrative regulations;
- (viii) not a natural person; and
- (ix) a person convicted of contravention of provisions of relevant securities regulations by a relevant competent authority, and such conviction involves a finding that he has acted fraudulently or dishonestly, where less than five years have elapsed since the date of the conviction.

The election, appointment or engagement of directors elected or appointed by the company in violation of the aforesaid provisions shall be null and void. If one of these restrictions becomes applicable to a director during his term of office, such director shall be released of his duties by the company.

The board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions.

The vice chairman shall assist in the work of the chairman. In the event that the chairman is not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by the majority of directors shall perform his duties.

Supervisors

A company shall have a board of supervisors composed of not less than three members. The board of supervisors is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one third of the supervisors. Directors and senior management may not act as supervisors. Representatives of the company's staff and workers at the board of supervisors shall be democratically elected at the staff representative assembly, general staff meeting or otherwise. The board of supervisors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the board of supervisors are elected with approval of more than half of all the supervisors. The chairman of the board of supervisors shall convene and preside over board of supervisors meetings. In the event that the chairman of the board of supervisors is incapable of performing or not performing his duties, the vice chairman of the board of supervisors shall convene and preside over board of supervisors meetings. In the event that the vice chairman of the board of supervisors is incapable of performing or not performing his duties, a supervisor nominated by more than half of supervisors shall convene and preside over board of supervisors meetings.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisors results in the number of supervisor being less than the quorum.

The board of supervisors exercises the following powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and officers in their performance of their duties and to propose the removal of directors and officers who have violated laws, regulations, the articles of association or shareholders' resolution;
- (iii) when the acts of a directors and managers are in a harm to the company's interests, to require correction of these acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' meeting under this law;

- (v) to make proposals for resolutions in a general meeting;
- (vi) to initiate proceedings against directors and officers; and
- (vii) other powers specified in the articles of association.

Supervisors may be in attendance at board meetings and make enquiries or proposals in respect of board resolutions. The board of supervisors or (where there is no board of supervisors) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in his work at the company's expense.

Managers and Officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager shall report to the board of directors and may exercise the following powers:

- (i) supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and financial controller;
- (vii) decide on the appointment or dismissal of other administration officers (other than those required to be appointed or dismissed by the board of directors); and
- (viii) other powers conferred by the board of director.

Other provisions of the articles of association on the manager's powers shall also be complied with. The manager shall be in attendance at board meetings.

According to the PRC Company Law and the Special Regulations, officers shall mean the manager(s), deputy manager(s), financial controller, board secretaries (in case of a listed company) of a company and other personnel as stipulated in the articles of association.

Duties of the Directors, Supervisors, Managers and Officers

Directors, supervisors, managers and officers of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties honestly and diligently. Directors, supervisors, managers and officers are prohibited from abusing their powers to accept bribes or other unlawful income and from appropriating the company's properties. Directors and officers are prohibited from:

- (i) misappropriation of company funds;
- (ii) deposit of company funds into accounts under his own name or the name of other individuals;
- (iii) loaning company funds to others or providing guarantees in favour of others supported by the company properties in violation of the articles of association or without prior approval of the shareholders' meeting, shareholders' general meeting or board of directors;
- (iv) entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' meeting, shareholders' general meeting or board of directors;
- (v) using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or managing on behalf of other businesses similar to that of the company without prior approval of the shareholders' meeting or the shareholders' general meeting;
- (vi) accepting for one's own benefit commission from a third party dealing with the company;
- (vii) unauthorised divulgence of confidential business information of company; or
- (viii) other acts in violation of the fiduciary duty to the company.

Income generated by directors or officers in violation of the foregoing provisions shall be reverted to the company. A director, supervisor or officer who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

Where the attendance of a director, supervisor or officer is requested by the shareholders' general meeting, such director, supervisor or officer shall attend the meeting as requested and answer enquiries of shareholders. Directors and officers should furnish with all truthful facts and information to the board of supervisors or the supervisors (for companies with limited liability that do not have board of supervisors) without obstructing the discharge of duties by the supervisory board or the supervisors.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general managers and other officers shall have fiduciary duties towards the company. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions contains detailed stipulations on these duties.

Finance and Accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited by an accountant as provided by law. The financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of financial department of the State Council.

The financial report of a liability limited company shall be delivered to all the shareholders within the time limit stipulated in the articles of association of the company. A company shall deposit its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. A company issuing its shares in public must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory surplus common reserve fund (except where the fund has reached 50% of the company's registered capital). When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocating such profits.

After the company has made appropriations to the statutory common reserve fund from its after-tax profit, it may, with the approval of the shareholders' meeting or the shareholders' general meeting by way of resolution, make further appropriations from its after-tax profit to the discretionary common reserve fund. After the company has made good its losses and made allocations to its common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, or in other manners. Profit distributed to shareholders by the shareholders' meeting or shareholders' general meeting or the board of directors before losses have been made good and appropriations have been made to the statutory commons reserve fund in violation of the foregoing provisions must be returned to the company. Company shares held by the company shall not be entitled to any distribution of profit.

The premium over the nominal value of the shares of the company in issue and other amounts required by the relevant governmental authority to be treated as the capital reserve shall be accounted for as capital reserve. The capital common reserve of a company shall be applied to make up the company's losses, expand the business operations of the company or increase the company's capital. The capital reserve shall not be used to make good the company's losses. Upon the conversion of statutory common reserve into capital, the balance of the statutory common reserve shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

Appointment and Retirement of Auditors

Pursuant to the PRC Company Law, the appointment or dismissal of accountants responsible for the company's auditing shall be determined by the shareholders' general meeting or the board of directors in accordance with the articles of association. The accountant should be allowed to make representations when the shareholders' general meeting or board of directors is going to conduct a vote on the dismissal of the accountant. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accountant it hires without any refusal, withholding and false information.

The Special Regulations require a company to employ an independent firm of accountants which is qualified under the relevant regulations of the State to audit the company's annual report and review and check other financial reports. The accountant's term of office shall commence from the end of the annual general meeting of the company's shareholders and it shall expire on the end of the next annual general meeting of the company's shareholders.

If a company removes or ceases to continue to appoint the accounting firm, it is required by the Special Regulations to give prior notice to the accounting firm and the accounting firm is entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of accounting firm shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

Distribution of Profits

According to the PRC Company Law, the company shall not distribute profits before losses are covered and the statutory common reserve is drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of H shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendment of Articles of Association

Any amendments to the articles of association must be made in accordance with the procedures set forth in applicable laws, regulations and the articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after approval by the company's approval department authorised by the CSRC and the State Council and filed with the SAIC or any of its local bureaus for registration. If the amendment to the articles of association needs to be registered and filed and has been adopted, the company must process registration of changes in accordance with applicable laws and regulations.

Dissolution and Liquidation

According to the PRC Company Law, a company shall be dissolved by reason of the following:

- (i) the term of its operations set down in the company's articles of association has expired or other events of dissolution specified in the company's articles of association have occurred;
- (ii) the shareholders in a general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the business license is invalidated; the operation is suspended or the company is dissolved as ordered; or
- (v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation of the company experiences serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a source of significant losses for shareholders.

In the event of (i) above, the company may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out in the previous paragraph shall require approval of shareholders holding more than two-thirds of voting rights in the case of companies with limited liability and more than two-thirds of voting rights of shareholders attending a shareholders' general meeting in the case of a joint stock limited company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) or (v) above, a liquidation committee shall be established and liquidation shall commence within 15 days after the occurrence of an event of dissolution. Members of the liquidation committee of a company shall be composed of its directors or the persons appointed by the shareholders in a shareholders' general meeting. If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the

people's court, requesting the court to appoint relevant personnel to form the liquidation committee. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

Upon liquidation of the company's property and the preparation of the balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient property to meet its abilities, it must immediately apply to the people's court for a declaration of bankruptcy. Following such declaration by the people's court, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with any outstanding businesses related to liquidation;
- (iv) to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- (v) to claim credits and pay off debts;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue public notices in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification or within 45 days of the public notice if he does not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation committee shall register such creditor rights. The liquidation committee shall not make any debt settlement to creditors during the period of claim. Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan to be submitted to the shareholders' meeting, shareholders' general meeting or people's court for endorsement.

The remaining assets of the company after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debt shall be distributed to shareholders according to their proportion of capital contribution in the case of companies with limited liability and according to

shareholding proportion in the case of joint stock limited companies. The company shall continue to exist during the liquidation period, although it can only engage in any operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before repayment are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' meeting, shareholders' general meeting or the court for verification. Thereafter, the report shall be submitted to the company's registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation committee shall be prohibited from making of their powers to accept bribes or other unlawful income and from appropriating the company's properties. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from CSRC and the listing must be arranged in accordance with procedures specified by the State Council.

According to Rule 2(6) of the Regulatory Guidelines for the Application Documents and Examination Procedures for the Overseas Share Issuance and Listing by Joint Stock Companies (關於股份公司境外發行股票和上市申報檔及審核程式的監管指引) promulgated by CSRC (effective from 1 January 2013), the approval documents for overseas stock issuance and listing by the company granted by CSRC shall be valid for a period of 12 months.

Loss of Share Certificates

A shareholder may issue announcement and notice in accordance with the procedures set out in the PRC Civil Procedure Law (中華人民共和國民事訴訟法), and apply to a people's court in the event that share certificates in registered form are either stolen, lost or destroyed, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issuance of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates, which has been incorporated in the Articles of Association.

Suspension and Termination of Listing

The revised PRC Company Law has deleted provisions governing suspension and termination of listing in 2005; such provisions have been incorporated into the revised PRC Securities Law after certain adjustments. The PRC Securities Law states that, in any of the following circumstances, the stock exchange may determine to suspend the trading of the relevant stock:

- (i) the registered capital or shareholding distribution no longer comply with the necessary requirements for a listed company;
- (ii) where the company fails to make a public its financial position in accordance with the requirements, or there is false information in the company's financial statements with the possibility of misleading investors;
- (iii) where the company has committed a major breach of the law;
- (iv) where the company has incurred losses for three consecutive years; or
- (v) under any other circumstances as required by the listing rules of the relevant stock exchange(s).

Under the Securities Law, the relevant stock exchange shall have the right to terminate the listing of the shares of the company where the conditions for listing requirements are not satisfied within the period stipulated by the relevant stock exchange in the case described in (i) above, or the company refuses to rectify the situation in the case described in (ii) above, or the company fails to become profitable in the subsequent year in the case described in (iv) above.

Merger and Demerger

In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving company or the new company.

In case of a demerger, the company's assets must be divided and a balance sheet and inventory of assets shall be prepared. Unless an agreement in writing is reached with creditors in respect of the settlement of debts, the liabilities which have accrued prior to the demerger of the company shall be jointly and severally borne by the demerged companies.

Changes in registrable particulars of the companies caused by merger or demerger must be registered with company's registration authorities. Cancellation of a company should be registered in accordance with the law when a company is dissolved and incorporation of a company shall be registered when a new company is incorporated.

Securities Law and Regulations

Since 1992, the PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. In October 1992, the Securities Commission and the CSRC were established under the State Council. The Securities Commission is responsible for coordinating the drafting of the securities, formulating policies on securities affairs, planning the development of securities markets and guiding, coordinating and regulating all PRC institutions involved in securities affairs and supervising the CSRC. The CSRC is the regulatory and execution arm of the Securities Commission and is responsible for drafting regulations governing the securities market, supervising securities companies, regulating the domestic and overseas public issue of securities by PRC companies, supervising securities trading, compiling securities related statistics and conducted research and analysis. In 1998, the State Council decided to cancel the Securities Commission of the State Council and the functions of the Securities Commission was assumed by the CSRC.

The CSRC is a ministry level unit directly under the State Council. The CSRC is the supervisory institution for securities in China. It is responsible for supervision and management of the securities and future market of the PRC and for maintaining the order thereof, and to secure their lawful operations in accordance with the laws, regulations and the authorities of the State Council. The main duties of the CSRC include: the formulation of policies relating to securities, the drafting of securities laws and regulations, the supervision of the securities markets, market intermediaries and participants, the supervision of the domestic and overseas public offerings of securities by PRC companies, as well as the supervision and regulation of securities transactions.

On 29 December 1998, the Standing Committee of the NPC promulgated the PRC Securities Law which came into effect on 1 July 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities market. On 28 August 2004, 27 October 2005, 29 June 2013 and 31 August 2014, the PRC Securities Law was respectively revised for four times. The latest revised PRC Securities Law was effective from 1 January 2006. The PRC Securities Law is applicable to the issuance and trading of shares in the PRC, company bonds and other securities designated by the State Council according to law, and provisions of the issuance and transaction of securities, acquisitions of listed companies, stock exchanges, security companies and the duties of securities regulatory authority under the State Council, etc. PRC Securities Law provides that the overseas issuance or listing of our Company's stock shall be subject to the prior approval of the CSRC.

Currently, the overseas issuance and listing of foreign listed shares (including H shares) are mainly governed by the rules and regulations promulgated by the State Council and the CSRC. An overseas issuance and listing of our Company's shares must comply with the relevant regulations and rules of the Special Regulations.

Arbitration and Enforcement of Arbitration

The Arbitration Law of the People's Republic of China (中華人民共和國仲裁法) (the "PRC Arbitration Law") was enacted by the Standing Committee of the NPC on 31 August 1994, which came into effect on 1 September 1995. It is applicable to contract disputes or other property disputes where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration institution constituted in accordance with the Arbitration Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the people's court will refuse to handle the case if one party institutes legal proceedings in a people's court.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a Chinese company listed in Hong Kong and, in the case of the Listing Rules, also in a contract between the company and each director or supervisor, to the effect that the parties shall submit the dispute or claim for arbitration for any dispute or claims arises between (i) a holder of H shares and the company; (ii) a holder of H shares and a holder of domestic shares; or (iii) a holder of H shares and the directors, supervisors or other officers of the company, or from any rights or obligations provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of a company.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Center ("HKIAC") for arbitration. CIETAC is an economic and trade arbitration organ in the PRC. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply to have such arbitration to take place in Shenzhen according to the securities arbitration rules of the HKIAC.

Under the Arbitration Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Likewise, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties thereto subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public

policy of that state. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and China was signed on 18 June 1999. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitral authorities pursuant to the Arbitration Law can be enforced in Hong Kong. Awards by Hong Kong arbitral authorities are also enforceable in the PRC.

Foreign Exchange Control

Foreign exchange control in China is mainly governed by the PRC Foreign Exchange Control Regulations (中華人民共和國外匯管理條例), which were promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996, and were amended on 14 January 1997 and 1 August 2008, and the PRC Foreign Exchange Control Regulations, which were promulgated by PBOC on 20 June 1996 and took effect on 1 July 1996.

The lawful currency of the PRC is Renminbi, or RMB, is currently subject to foreign exchange control and is not freely convertible into foreign exchange. The RMB is subject to a regulated floating exchange rate system. The SAFE is the government authority responsible for administering all matters relating to foreign exchange.

The PRC Foreign Exchange Control Regulations classify all international payments and transfers into current account items and capital account items. PRC enterprises which require foreign exchange for transactions relating to current account items may effect payment from their foreign exchange accounts or at the designated foreign exchange banks, on the strength of valid receipts and proof of the relevant transactions. Conversion of foreign exchange under capital account items for the purchase of foreign exchange for transactions such as direct investments and capital contributions requires prior approval of the SAFE.

Since the implementation of The Announcement of the People's Bank of China on Reforming the RMB Exchange Rate Regime (關於完善人民幣匯率形成機制改革的公告) on 21 July 2005, China has reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The People's Bank of China will announce the closing price of a foreign currency such as the U.S. dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against the RMB on the following working day.

Control of revenue and spending of foreign exchange is relaxed. Enterprises within the PRC which require foreign exchange for their ordinary trading and non-trading activities, import activities and repayment of foreign debts may purchase foreign exchange from designated banks if the application is supported by relevant documents. While foreign exchange control on current account transactions has been relaxed, the direct investment by foreign investors, the drawdown of foreign currency loans by onshore companies, the provision of foreign exchange guarantees, overseas investments and any other types of capital account transactions that involve the purchase of foreign exchange remain subject to the approval of the SAFE or the registration in accordance with the laws. When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the People's Bank of China and subject to certain limits, freely determine the applicable exchange rate.

In addition, pursuant to Notice of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Control of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) promulgated on 28 January 2013, a domestic company shall observe the following regulations when issuing securities overseas upon the approval of the CSRC and announcing matters on foreign exchange concerning its listing on a foreign stock exchange:

- (i) a company shall, within 15 working days upon initial offerings of overseas listing, go through relevant foreign exchange registration formalities by presenting the relevant materials to the forex bureau at the place of registration; where any domestic shareholder of a domestic company intends to increase or reduce overseas holdings upon overseas listing according to the relevant regulations, he/she shall go through relevant registration formalities by presenting the relevant materials to the forex bureau at his/her place.
- (ii) Based on its foreign exchange registration certificate of overseas listing, the company shall open respective special domestic account for the initial offerings (or additional offerings) and buy-back business at the bank where it is located so as to handle corresponding funds remittance and transfer. Based on his/her foreign exchange registration certificate of overseas holdings, a domestic shareholder of the company shall open respective special domestic account for increasing or reducing overseas holdings business at the bank where his/her domicile is located so as to handle corresponding funds remittance and transfer.
- (iii) a company's collected funds of overseas listing may be transferred back to corresponding special domestic accounts or kept in special overseas accounts, provided that the use of such funds shall comply with the prospectus or corporate bonds collection documents, shareholders' circulars, resolutions of the Shareholders' Meetings and other publicly disclosed documents.
- (iv) a domestic shareholder's capital income obtained due to reducing or transferring overseas holdings or the domestic company's withdrawing from overseas securities market etc. shall be transferred back to the special domestic account with respect to reducing holdings within 2 years upon acquirement of the aforesaid income.

Regulations and Rules on Establishing Overseas Business

According to the Measures for the Administration of Overseas Investment (境外投資管理辦法) promulgated by Ministry of Commerce of China on 16 March 2009 and came into effect on 1 May 2009, the enterprises' overseas investment stipulation in such measures shall require the ratification of the departments in charge of commerce. If there is any change to be made to the application items of the original overseas investment after ratification, the enterprise concerned shall apply to the original ratifying organ for going through the procedure of alteration ratification.

According to the Provisions on the Foreign Exchange Administration of Overseas Investment of Domestic Institutions (境內機構境外直接投資外匯管理規定) stipulated by the SAFE and came into effect on 1 August 2009, Chinese enterprises that have been permitted to make investment abroad shall handle with the department for control of foreign exchange the procedures of registration about the foreign exchange for investment abroad.

According to the Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects (境外投資項目核准暫行管理辦法) promulgated by the NDRC, the direct or indirect overseas investment projects of resource development and the overseas investment projects using large amount of foreign exchange shall be subject to the examination and approval of the NDRC or the State Council. The investors should apply to the NDRC for alteration in case the alteration of the investors or their stock rights occurs to the approved projects.

HONG KONG LAWS AND REGULATIONS

Material Differences between the PRC and Hong Kong company law

The Hong Kong law applicable to a company with share capital incorporated in Hong Kong is based on the Hong Kong Companies Ordinance and the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance, and is supplemented by common law. Our Company, which is a joint stock limited liability company established in the PRC, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law applicable to a joint stock limited liability company established in the PRC.

Set out below is a summary of the material differences between the Hong Kong Companies Ordinance applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited liability company incorporated and existing under the PRC Company Law. The term "articles of association" below refers to Articles of Association of the company. This summary is, however, not intended to be an exhaustive comparison.

Corporate subsisting

Under Hong Kong Companies Ordinance, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company.

Under the PRC Company Law, a joint stock limited liability company may be incorporated by either the promotion method or the subscription method. There is no restriction on the minimum registered capital of a joint stock limited liability company except for the minimum requirements of paid-in registered capital and registered capital as may otherwise be required by the laws and regulations. There is no such restriction on a Hong Kong company under Hong Kong law.

Share capital

Under Hong Kong law, the authorised share capital of a Hong Kong company is the amount of share capital which the company is authorised to issue and a company is not bound to issue the entire amount of its authorised share capital. The authorised share capital of a Hong Kong company may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not recognise the concept of authorised share capital. The registered capital of a joint stock limited liability company is the amount of the issued share capital.

Under the PRC Laws, a company which is authorised by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the capital contributions may be in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and regulations). For non-monetary assets to be used as capital contributions, appraisals must be carried out. There is no such restriction on a Hong Kong company under Hong Kong law.

Restriction on shareholding and transfer of shares

The PRC Company Law makes no reference to the class of shares which may be subscribed for or traded by overseas investors but has provisions that shares of a company to be listed overseas must comply with the Special Regulations. The Special Regulations and the Mandatory Provisions provide, among other things, that H shares must be in registered form and include other matters some of which are referred to below. There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality. Under the PRC Company Law, shares in a joint stock limited company held by its promoters, directors or managers may not be

transferred within certain periods of time. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the “six-month lock up period” on our Company’s issue of shares ending on the date which is six months from the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange, and the “12-month lock up period” on the Controlling Shareholder’s disposal of shares ending on the date which is 12 months from the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange.

Financial assistance for acquisition of shares

The Mandatory Provisions contain provisions restricting a joint stock limited liability company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company’s shares. The provisions are similar to those under Hong Kong Companies Ordinance that restricts the provision of such financial assistance by a company and its subsidiaries.

Variation of class rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variation of class rights. These provisions have been incorporated in the Articles of Association, which are summarised in Appendix VI.

Under the Hong Kong Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting; (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question; (iii) by agreement of all members of the company; or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Our Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed shares and domestic listed shares are defined in the Articles of Association as different classes of shareholders.

Directors

The PRC Company Law, unlike the Hong Kong Companies Ordinance, does not contain any requirements relating to the declaration of interests in material contracts by a director; restrictions on directors’ authority in making major dispositions; restrictions on companies providing certain benefits such as guarantees in respect of directors’ liability; and prohibition against compensation for loss of office without shareholders’ approval. The Mandatory Provisions, however, contain requirements and restrictions in relation to the foregoing matters similar to those applicable under Hong Kong law.

Board of Supervisors

Under the PRC Company Law, the board of directors and managers of a joint stock limited liability company are subject to the supervision and inspection of a board of supervisors. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

Derivative action by shareholders

Hong Kong law permits shareholders, with the permission of a court, to start a derivative action on behalf of and under the name of a company against directors who have committed a wrong which is actionable by our Company. The PRC Company Law gives shareholders the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed in a general meeting, or by the board of directors, that violates any law, administrative rules or articles of association or if the directors or management personnel violate laws, administrative rules or articles of association when performing their duties and cause losses to the company. The Mandatory Provisions provide remedies against the directors, supervisors and officers who breach their duties to company. In addition, as a condition to the listing of our H shares on the Hong Kong Stock Exchange, each of our Directors and Supervisors is required to give an undertaking in favours of us acting as agent for each of our Shareholders. This allows minority shareholders to act against our Directors and Supervisors in default.

Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders, to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or a supervisor of the company's assets or the individual rights of other shareholders.

Notice of shareholders' meetings

Under the PRC Company Law, notice of a shareholders' general meeting must be given 20 days before the meeting, while notice of an extraordinary meeting must be given 15 days before the meeting or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made 30 days prior to it being

held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for considering an ordinary resolution and a special resolution are 14 days and 21 days, respectively; and the notice period for an annual general meeting is 21 days.

Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provided. For one member companies, one member will be a quorum. The PRC Company Law does not specify any quorum requirement for shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify shareholders by public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited liability company or changes to the form of the company, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

Financial disclosure

A joint stock limited liability company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, changes in financial position and other relevant annexures 20 days before an annual general meeting. In addition, under the PRC Company Law, a joint stock limited company established by way of public subscription must publish its financial situation. The Hong Kong Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be tabled before the company in its annual general meeting not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC GAAP, have its accounts prepared and audited in accordance with

IFRS or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP. The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on directors and shareholders

The PRC Company Law gives shareholders the right to inspect the articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Receiving agent

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years while that under the PRC law is two years.

The Mandatory Provisions require the appointment by the company of a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited liability company in respect of such foreign shares.

Corporate reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 673 of the Hong Kong Companies Ordinance which requires the sanction of the court. Under the PRC laws, the merger, demerger, dissolution or change to the form of a joint stock limited liability company has to be approved by shareholders in general meeting.

Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions and the Articles of Association of our Company provide that dispute between a holder of H Shares and our Company and its directors, supervisors, managers or other members of

senior management or a holder of domestic listed shares, arising from the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations which concerns the affairs of our Company should, with certain exceptions, be submitted to arbitration at either the HKIAC or the CIETAC.

Mandatory transfers

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no such requirements under Hong Kong law.

Remedies of a company

Under the PRC Company Law, if a director, supervisor or management personnel in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or management personnel should be responsible to the company for such damages. In addition, in compliance with the Mandatory Provisions, the Articles of Association set out remedies to our Company similar to those available under Hong Kong law (including recovery of profits made by a director, supervisor or officer).

Dividends

Pursuant to the relevant PRC laws and regulations, the company shall withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder.

Under PRC law and Hong Kong law, declared dividends become debts payable to Shareholders. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years.

Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, officers, and management personnel owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

Closure of register of shareholders

The Hong Kong Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the PRC Company Law and the Mandatory Provisions, that share transfers may not be registered within 30 days

before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

Listing Rules

The Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited liability company and seeks a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to our Company:

(i) Compliance Adviser

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance adviser acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of publishing the annual report for the first full year's financial results, to provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorised representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorised representatives of the company are expected to be frequently outside Hong Kong.

(ii) Accountants' report

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under International Standards on Auditing or China Auditing Standards. Such report will normally be required to conform to either Hong Kong or international standards on accounting or China Accounting Standards for Business Enterprises.

(iii) Process agent

Our Company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and

must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) Public shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Listing Rules require that the aggregate amount of foreign shares held by the public must constitute not less than 25% of the issued share capital and that the foreign shares for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalization at the time of listing of not less than HK\$50 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalisation at the time of listing of over HK\$10,000 million.

(v) Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, our Company may repurchase our own H Shares on the Hong Kong Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, our Company is required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Codes on Takeovers and Mergers and any similar PRC law of which they are aware, if any. Any general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares.

(vii) Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the board of supervisors

of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix VI of this prospectus.

(viii) Redeemable Shares

Our Company must not issue any redeemable Shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

(ix) Right of First Refusal

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of Shareholders in general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to (i) authorising, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (ii) any major subsidiaries of our Company making any such authorisation, allotment, issue or grant so as materially to dilute the percentage equity interests of the company and its Shareholders in such subsidiary.

No such approval will be required, but only to the extent that, the existing Shareholders of the Company have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing Domestic Shares and H shares as of the date of the passing of the relevant special resolution or of such shares that are part of the Company's plan at the time of our establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC; or where upon approval by securities supervision or administration authorities of State Counsel, the shareholders of domestic invested shares of our Company transfer its shares to overseas investors and such shares are listed and traded in foreign markets.

(x) Supervisors

Our Company is required to adopt rules governing dealings by the Supervisors in securities of our Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Hong Kong Stock Exchange.

(xi) Amendment to the Articles of Association

Our Company is required not to permit or cause any amendment to be made to the Articles of Association which would cause the same to cease to comply with the Listing Rules, the Mandatory Provisions and the mandatory provisions of the PRC Company Law.

(xii) Documents for inspection

Our Company is required to make available in Hong Kong for inspection by the public and shareholders free of charge, and for copying by Shareholders at reasonable charges of the following:

- a complete duplicate register of Shareholders;
- a report showing the state of the issued share capital of our Company;
- our Company's latest audited financial statements and the reports of the Board, auditors and Board of Supervisors (if any) thereon;
- special resolutions of our Company;
- reports showing the number and nominal value of securities repurchased by our Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return filed with Administration for Industry and Commerce of Beijing; and
- for Shareholders only, copies of minutes of meetings of Shareholders.

(xiii) Receiving agents

Our Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares, pending payment, in trust for the holders of such H Shares.

(xiv) Statements in listing documents and H share certificates

Our Company is required to ensure that all of our listing documents and H share certificates include the statements stipulated below and to instruct and cause each of our Share registrars not to register the subscription, purchase or transfer of any of our Shares in the name of any particular holder unless and until such holder delivers to such Share registrar a signed form in respect of such Shares bearing statements to the following effect that the acquirer of the Shares:

- agrees with our Company and each Shareholder of our Company, and our Company agrees with each Shareholder of our Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;

- agrees with our Company, each Shareholder, Director, Supervisor, manager and officer of our Company, and our Company acting for itself and for each Director, Supervisor, manager and officer of our Company agrees with each Shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with our Company and each Shareholder of our Company that the H Shares are freely transferable by the holder thereof; and
- authorises our Company to enter into a contract on his behalf with each Director, supervisors, managers and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligation to Shareholders as stipulated in the Articles of Association.

(xv) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

Our Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

(xvi) Contract between our Company and its Directors, officers and Supervisors

Our Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to our Company to observe and comply with the PRC Company law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement with our Company that remedies shall be provided in accordance with the Articles of Association and that neither their contract nor their office are capable of assignment;
- an undertaking by each of the Director or officer, acting as agent for each Shareholder, to our Company to observe and comply with his obligations to Shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other

relevant law and administrative regulations concerning the affairs of our Company between our Company and the Directors or officers and between a holder of H Shares and a Director or officer of our Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its securities arbitration rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitration body elected by the claimant. Such arbitration will be final and conclusive;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitration body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or officer with our Company on our own behalf and on behalf of each Shareholder; and
- any reference to arbitration shall be deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

Our Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

(xvii) Subsequent listing

Our Company must not apply for the listing of any of the H shares of its own on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of foreign Shares are adequately protected.

(xviii) English translation

All notices or other documents required under the Listing Rules to be sent by our Company to the Hong Kong Stock Exchange or the holders of H shares are required to be in the English language, or accompanied by a certified English translation.

(xix) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Listing Rules to impose additional requirement and make special conditions in respect of the Listing.

Other Legal and Regulatory Provisions

Upon Listing, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Buy-backs and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to our Company.

Securities arbitration rules

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic communications. For the purpose of the securities arbitration rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

This Appendix contains a summary of the principal provisions of the Articles of Association, which was adopted on 23 February 2015 by the Company and will become effective on the date that our H Shares are listed on the Stock Exchange. The principal objective is to provide potential investors with an overview of the Articles of Association. As the information contained below is in summary form, it does not contain all the information that may be important to potential investors. A copy of the full Chinese text of the Articles of Association is available for inspection as mentioned in "Appendix VIII — Documents Delivered to the Registrar of Companies and Available for Inspection".

DIRECTORS AND BOARD OF DIRECTORS

Power to allot and issue shares

There is no provision in the Articles of Association empowering the Board to allot or issue shares. In order to allot or issue shares, the Board shall prepare a proposal for approval by shareholders in general meeting by way of special resolution. Any such allotment or issue must be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.

Power to dispose of the fixed assets of the Company or any subsidiary

When the Board is disposing the Company's fixed asset, it shall not, without the prior approval or consent of shareholders' general meeting, dispose or agree to dispose of, any fixed assets of the Company where the anticipated value of the assets to be disposed, together with the value of fixed assets that have been disposed in the period of four months preceding the proposed disposition, exceeds 33% of the value of the Company's fixed assets as shown in the last balance sheet audited by the shareholders in the general meeting.

For the purposes of this provision, a disposition of fixed assets includes certain acts of transfer of interests in assets but does not include the provision of fixed assets as security.

The validity of a disposition transaction by the Company of fixed assets shall not be affected by the breach of the above provisions as set out in the Articles of Association.

Emoluments, compensation or payments for loss of office

The Company shall, with the prior approval of shareholders' general meeting, enter into a contract in writing with each of the Directors and Supervisors wherein his emoluments are stipulated. The aforesaid emoluments include:

- (1) emoluments in respect of his service as a Director, Supervisor or senior management personnel of the Company;
- (2) emoluments in respect of his service as a Director, Supervisor or senior management personnel of any subsidiary of the Company;
- (3) emoluments in respect of other service in relation to the management of the Company and any subsidiary of the Company; and

- (4) payment by way of compensation for loss of office or retirement from office of a Director or Supervisor.

Except under the contract in accordance with the foregoing, no proceedings may be brought by a Director and Supervisor against the Company for any benefit due to him in respect of the above matters.

The contracts concerning the emoluments between the Company and its Directors or Supervisors shall provide that, when an acquisition of the Company is about to happen, the Directors and Supervisors shall, subject to the prior approval of the shareholders' general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. The acquisition of the Company mentioned above means either:

- (1) an offer made on all shareholders of the Company; or
- (2) an offer having the effect that the offeror will become the controlling shareholder of the Company (as defined in the Articles of Association).

If the relevant Director or Supervisor does not comply with the above, any sum so received by him shall belong to those persons who have sold their Shares as a result of the offer made. The expenses incurred in distributing such sum pro rata shall be borne by the relevant Director or Supervisor and not paid out of that sum.

LOANS TO DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT PERSONNEL / OR THEIR RELATED PERSONS

The Company shall not directly or indirectly make any loan to, or provide any guarantee to a Director, Supervisor, general manager and other senior management personnel of the Company and of the Company's parent company. The Company shall not make any loan to, or provide any guarantee in connection with the making of a loan to a related person of such a Director, Supervisor, general manager and other senior management personnel. A loan made by the Company in breach of the above provisions shall be forthwith repayable by the recipient of the payment regardless of the terms of the loan.

A guarantee provided by the Company in breach of the above provisions shall be unenforceable against the Company, but except in the following situations:

- (1) the loan was provided to a related person of any of the Directors, Supervisors, general manager and other senior management personnel of the Company or of the Company's parent company and at the time the loan was advanced the lender did not know the relevant circumstances; or
- (2) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

The following transactions are not subject to the foregoing prohibition:

- (1) the provision by the Company of a loan or a guarantee of a loan to a company which is a subsidiary of the Company;
- (2) the provision of a loan or a guarantee for a loan or any other funds by the Company to any of its Directors, Supervisors, general manager, or other senior management personnel to meet expenditures incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of an employment contract approved by the shareholders' general meeting; and
- (3) our Company may make a loan to or provide a guarantee in connection with a loan by another person to any of its Directors, Supervisors, general manager, or other senior management personnel or other related persons where the ordinary course of its business includes the making of loans or the giving of guarantees and provided that the making of such loans or the giving of such guarantees is on normal commercial terms.

Financial assistance for the acquisition of shares in the Company or any subsidiary

Subject to the Articles of Association, the Company and its subsidiaries shall not, by any means at any time, provide any kind of financial assistance to a person who is acquiring or is proposing to acquire shares of the Company. The said acquirer of shares of the Company includes a person who directly or indirectly assumes any obligations (as defined below) due to the acquisition of the shares; the Company and its subsidiaries shall not, by any means at any time, provide financial assistance to the said acquirer as referred to above for the purpose of reducing or discharging the obligations assumed by that person.

The following conducts shall not be deemed to be prohibited conducts as referred to in the paragraphs above:

- (1) the provision of financial assistance by the Company where the financial assistance is given honestly in the interest of the Company, and the principal purpose in giving the financial assistance is not for the acquisition of shares in the Company, or the giving of the financial assistance is an incidental part of some larger plans of the Company;
- (2) the distribution of the Company's assets by way of dividend in accordance with laws;
- (3) a distribution of dividends by way of bonus shares;
- (4) a reduction of share capital, repurchase of Shares of the Company or a reorganisation of the share capital effected in compliance with the Articles of Association;

- (5) the provision of loans by the Company in the ordinary course of its business, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are reduced, the assistance is provided out of distributable profits; and
- (6) the Company's contribution to employees' share schemes provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, the assistance is provided out of distributable profits.

For these purposes:

- (1) "Financial assistance" includes (without limitation) the following means:
 - (a) gift;
 - (b) guarantee (including the provision of any undertaking or property to secure the performance of obligations by the obligor), or compensation (other than compensation caused by the Company's own default) or release or waiver of rights;
 - (c) provision of a loan or entering into an agreement under which the Company needs to perform its obligations ahead of the other contracting parties; or entering into an agreement for the change of contracting parties or the assignment of rights arising under such loan or such agreement; or
 - (d) any other form of financial assistance given by the Company when the Company is unable to pay its debts or has no net assets or when its net assets would thereby be reduced to a material extent; and
- (2) "Assuming an obligation" includes obligations assumed by the obligor that change its financial position by way of contract or the making of an arrangement (whether enforceable or not, and whether made on its own account or with any other persons), or by any other means.

Disclosure of interests in and voting on contracts with the Company or any of its Subsidiaries

Where a Director, Supervisor, general manager or other senior management personnel of the Company is directly or indirectly materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than the employment contracts the Company entered into with its Directors, Supervisors, general manager or other senior management personnel), he shall declare the nature and extent of his interests to the Board at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefore is otherwise subject to the approval of the Board under normal circumstances.

A Director shall not vote on a board resolution that approves a contract, transaction, arrangement or any other proposals in which he or his connected persons (refer to the definition in applicable securities listing requirements from time to time) is materially interested; the relevant director shall refrain from voting and not be counted in the quorum for the meeting. Unless the interested Director, Supervisor, general manager or other senior management personnel discloses his interests to the Board in accordance with the aforesaid provisions and the Board approved that matter at a meeting in which the interested person is not counted in the quorum and refrains from voting, the Company has a right to void the contract, transaction or arrangement, except as against a bona fide party thereto acting without notice of the breach of duty by the interested Director, Supervisor, general manager or other senior management personnel.

A Director, Supervisor, general manager or other senior management personnel of the Company is deemed to be materially interested in a contract, transaction or arrangement in which an associate of his/hers is materially interested.

Where a Director, Supervisor, general manager or other senior management personnel of the Company gives to the Board a notice in writing stating that, by reason of the content specified in the notice, he is interested in contracts, transactions or arrangements of any description, which may subsequently be made by the Company, such notice shall be deemed for the purposes of this paragraph to be a sufficient declaration of his interests, so far as the content stated in such notice is concerned, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of the Company.

Retirement, appointment and removal

Directors shall be elected by the shareholders' general meeting with a three-year term of office. Upon the expiration of a director's term of appointment, he may be re-elected and re-appointed.

Provided that relevant laws and administrative regulations have been complied with, the shareholders' general meeting may remove any of its directors whose term of office may not expire from office by way of an ordinary resolution; the removal of an independent Director must be subject to relevant rules (but it will not affect any claim for damages that may arise from any contract).

A written notice of the intention to nominate a person for election as a director and a notice in writing by that person indicating his acceptance of such election is required to be given to the Company seven days prior to the day of meeting. The period for such nomination and such acceptance shall be not less than seven days (the beginning date of the seven-day notice period shall be not earlier than the second day after the notice of designed meeting of the nomination is dispatched and the ending date shall be not later than seven days before the shareholders' general meeting is convened).

The Board shall consist of seven Directors, of which three shall be Directors, one shall be worker director and three shall be independent non-executive Directors. The Board shall have one chairman. The chairman shall be elected and removed by more than half of all of the Directors. A Director is not required to hold shares of the Company.

The following persons may not serve as a Director, Supervisor, general manager or other senior management personnel of the Company:

- (1) an individual who has no civil capacity or has restricted civil capacity;
- (2) a person who has committed an offence of corruption, bribery, infringement of property, misappropriation of property or sabotaging the social economic order and has been punished because of committing such offence; or who has committed crimes and has been deprived of their political rights due to such crimes, in each case where no more than five years has elapsed since the date of the completion of implementation of such punishment or deprivation;
- (3) a person who is a former director, factory manager or manager of a company or enterprise which has entered into insolvent liquidation because of mismanagement and he is personally liable for the insolvency of such company or enterprise, where no more than three years has elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;
- (4) a person who is a legal representative of a company or enterprise which had its business license revoked due to a violation of the law and who incurred personal liability, where no more than three years has elapsed since the date of the revocation of the business license;
- (5) a person who has failed to pay a relatively large debt when due and outstanding;
- (6) a person who has committed criminal offences and are still under investigation by law administration authorities;
- (7) a person who is not a natural person;
- (8) persons who have been convicted of offences of violating provisions of the relevant securities laws and regulations or offences of fraud or acting in bad faith, where less than 5 years have lapsed since the date of conviction;
- (9) a person who is penalised by the China securities regulatory committee by being denied access to the securities market and the penalty remains in effect;
- (10) a person who is not eligible for enterprise leadership according to laws and administrative regulations; and
- (11) other situations stipulated by laws and regulations of the place where our Company's shares are listed.

The election, appointment or delegation of Directors in violation of the aforesaid provisions shall be null and void. Directors committing the above during his term of office shall be released of his duties by the Company.

There is no provision in the Articles of Association that imposes any age limit for Directors beyond which retirement of a Director is mandatory.

The validity of an act of a Director, a general manager or other senior management personnel on behalf of the Company is not, vis-a-vis a bona fide third party, affected by any irregularity in his office, election or any defect in his qualification.

Borrowing powers

On condition of compliance with the laws and administrative regulations of the State, the Company is entitled to raise capital and borrow money, including (without limitation) the issue of bonds, the mortgage or pledge of part or all of the Company's properties and other rights permitted by the laws and administrative regulations of the State provided that such action does not damage or abrogate rights of any shareholder.

The Articles of Association do not contain any special provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any special provision in respect of the manner in which such power may be raised, other than: (1) provisions which give the Board the power to formulate proposals for the issuance of debentures by the Company; and (2) provisions which provide that the issuance of debentures must be approved by the shareholders' general meeting by way of a special resolution.

Duties

The Directors, Supervisors, general manager and other senior management personnel of the Company owe fiduciary duties and duties of diligence to the Company.

In addition to obligations imposed by laws, administrative regulations or required by listing rules of the stock exchanges on which Shares are listed, each of the Company's Directors, Supervisors, general manager and other senior management personnel owes a duty to each shareholder, in the exercise of the functions and powers of the Company entrusted to him:

- (1) not to cause the Company to exceed the scope of the business stipulated in its business license;
- (2) to act honestly in the best interest of the Company;
- (3) not to expropriate in any guise the Company's property, including (without limitation) usurpation of opportunities advantageous to the Company; and

- (4) not to expropriate the individual rights of shareholders, including (without limitation) rights to distribution and voting rights, save pursuant to a restructuring of the Company submitted to shareholders' general meeting for approval in accordance with the Articles of Association.

The Board shall carry out its duties in compliance with the laws and administrative regulations, the Articles of Association and resolutions of the shareholders' general meetings. Each Director, Supervisor, general manager and other senior management personnel of the Company should abide by his fiduciary principles in the discharge of his duties, and not place himself in a position where his duty and his own interests may conflict. Such principles include (but are not limited to) the performance of the following:

- (1) to act honestly in the best interests of the Company;
- (2) to exercise powers within the scope of his powers and not to exceed those powers;
- (3) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders' general meeting, not to delegate the exercise of his discretion;
- (4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (5) except in accordance with the Articles of Association or with the informed consent of shareholders' general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (6) without the informed consent of shareholders' general meeting, not to use our Company's property for his own benefit;
- (7) not to exploit his position to accept bribes or other illegal income or expropriate the Company's assets by any means, including (without limitation) opportunities advantageous to the Company;
- (8) without the informed consent of shareholders' general meeting, not to accept commissions in connection with the Company's transactions;
- (9) to abide by the Articles of Association, faithfully execute his duties and protect the Company's interests, and not to exploit his position and power in the Company to advance his own private interests;
- (10) not to compete with the Company in any form unless with the informed consent of shareholders' general meeting not to use their connected relations to damage the interests of the Company;

- (11) not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a shareholder of the Company or other individual(s) with the Company's assets; and
- (12) unless otherwise permitted by informed shareholders' general meeting, to keep in confidential information acquired by him in the course of and during his tenure and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authorities is permitted if: (i) disclosure is required under mandatory provisions of law; (ii) the interests of the public require disclosure; (iii) the interests of the relevant Director, Supervisor, general manager or other senior management personnel require disclosure.

A Director, Supervisor, general manager or other senior management personnel of the Company shall not direct persons connected to him to do what he is not permitted to do. A person is connected to a Director, Supervisor, general manager or other senior management personnel if he is:

- (i) the spouse or minor child of that Director, Supervisor, general manager or other senior management personnel;
- (ii) the trustee of that Director, Supervisor, general manager or other senior management personnel or any person referred to in the preceding paragraph;
- (iii) the partner of that Director, Supervisor, general manager or other senior management personnel or any person referred to in paragraphs (i) and (ii) above;
- (iv) a company in which that Director, Supervisor, general manager or other senior management personnel, alone or jointly with one or more persons referred to in above (i), (ii) and (iii) or with any of other Directors, Supervisors, general manager or other senior management personnel of the Company, have a de facto controlling interests;
- (v) the Directors, Supervisors, general manager and other senior management personnel of the controlled company referred to in (iv) above.

The fiduciary duties of the Directors, Supervisors, general managers and other senior management personnel of the Company do not necessarily cease with the termination of their tenure. The duty of confidence in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairness may require depending on the time lapse between the termination and the act concerned and any circumstance and condition under which the relationships between them and the Company are terminated.

Each of the Directors, Supervisors, general managers and other senior management personnel of the Company owes a duty, in the exercise of his powers and discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise under the similar circumstances.

In addition to any rights and remedies provided by the laws and administrative regulations, where a Director, Supervisor, general managers and other senior management personnel of the Company is in breach of his duties to the Company, the Company has a right to adopt the following measures:

- (1) claim damages from the Director, Supervisor, general manager or other senior management personnel in compensation for losses sustained by the Company as a result of such a breach of duties;
- (2) rescind any contract or transaction entered into by the Company with relevant Director, Supervisor, general manager or other senior management personnel or with a third party (where such third party knows or should know that there is such a breach of duties by such Director, Supervisor, general manager or other senior management personnel);
- (3) demand an account of the profits made by the Director, Supervisor, general manager or other senior executive officer in breach of his duties;
- (4) recover any funds received by the Director, Supervisor, general manager or other senior management personnel that should have been received by the Company, including (without limitation) commissions;
- (5) demand payment of the interest earned or which may have been earned by the Director, Supervisor, general manager or other senior management personnel on the funds that should have been paid to the Company;
- (6) adopt legal proceedings to decide that the property obtained by the director, supervisor, general manager and other senior management personnel as result of breach of his duties shall belong to the Company.

ALTERATIONS TO CONSTITUTIONAL DOCUMENTS

The Company may amend its Articles of Association in accordance with the requirements of law, administrative regulation and the Articles of Association.

Any alteration or rectification to the Articles of Association resolved by the shareholders' general meeting subject to approvals of the authorities shall be approved by the original authorities. Where the amendment of the Articles of Association involves the company's registration, it shall be necessary to carry out the lawfully prescribed procedures for registration change.

VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

Holders of Domestic Shares and holders of overseas listed foreign Shares of our Company shall be considered as different classes of shareholders. Rights conferred on any class of shareholders in the capacity of shareholders excluding other classes of Shareholders (“**class rights**”) may not be varied or abrogated unless approved by a special resolution of shareholders’ general meeting and by holders of Shares of that class at a separate meeting conducted in accordance with the Articles of Association.

The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class of shareholders:

- (1) to increase or decrease the number of Shares of such class, or to increase or decrease the number of Shares of a class having voting or equity rights or any other privileges equal or superior to those of the Shares of such class;
- (2) to effect an exchange of all or part of the Shares of such class into Shares of another class or to effect an exchange or grant a right of exchange of all or part of the Shares of another class into the Shares of such class;
- (3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to Shares of such class;
- (4) to reduce or remove a dividend preference or a liquidation preference attached to Shares of such class;
- (5) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to obtain securities of the Company;
- (6) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to Shares of such class;
- (7) to create a new class of Shares having voting or equity rights or privileges equal or superior to those of the Shares of such class;
- (8) to restrict the transfer or ownership of the Shares of such class or add to such restriction;
- (9) to issue rights to subscribe for, or convert into, shares of such class or another class;
- (10) to increase the rights and privileges of Shares of another class;
- (11) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of proposed of the Company;
- (12) to vary or abrogate provisions set out in Chapter 9 of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (2) to (8), (11) and (12) above, but interested Shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

For the purposes of the class rights provisions of the Articles of Association, the meaning of "interested Shareholder(s)" is as following:

- (1) in the case of a repurchase of Shares by offers to all Shareholders pro rata in accordance with Article 30 of the Articles of Associations, or public dealing on a stock exchange, an "interested Shareholder" means a "controlling Shareholder" as defined in the Article 58 of the Articles of Association;
- (2) in the case of a repurchase of Shares by an off-market agreement in accordance with Article 31 of the Articles of Associations, an "interested Shareholder" means a holder of the Shares to which the proposed agreement relates; and
- (3) in the case of a restructuring of the Company, an "interested shareholder" means a Shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed restructuring plan or who has an interest different from the interest of Shareholders of that class.

Resolutions of a class of Shareholders shall be made only if it has been passed by votes representing more than two-thirds of the voting rights of Shareholders represented at the class meeting who are entitled to vote at class meeting.

Written notice of a class meeting shall be given 45 days before the date of the class meeting to notify all of the Shareholders in the share register of the class of the matters proposed to be considered in the class meeting and the date and the place of the class meeting. A Shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to the Company 20 days before the date of the class meeting. When the Company calculates the above period, it shall not include the day when the meeting is convened.

If the number of Shares carrying voting rights at the meeting represented by the Shareholders who intend to attend the class meeting reaches one half or more of the voting Shares of such class at the class meeting, the Company may hold the class meeting; if not, the Company shall within five days notify the Shareholders of the class, again by public notice, of the matters proposed to be considered, the date and the place for the class meeting. The Company may then hold the class meeting after publication of such notice. If the region in which Shares of the Company are listed has other specific requirements in respect of public listing, they shall be complied with.

Notice of class meetings need only be served on Shareholders entitled to vote thereat.

Meetings of any class of Shareholders shall be conducted in procedures as similar as possible to those of general meetings of Shareholders. The provisions of the Articles of Association relating to the procedures of conducting shareholders' general meeting shall apply to the meeting of a class of Shareholders.

The special procedures for voting at a class of Shareholders shall not apply in the following circumstances:

- (1) where our Company issues, upon the approval by a special resolution of its shareholders' general meeting, either separately or concurrently once every 12 months, not more than 20% of each of its existing issued Domestic Shares and overseas-listed foreign Shares;
- (2) where upon the approval from the securities regulatory authority of the State Council, the Domestic Shareholders of the company convert the Domestic Shares held thereby to H-Shares and such converted shares are listed and traded in the Hong Kong Stock Exchange.

RESOLUTIONS — MAJORITY REQUIRED

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution by a shareholders' general meeting, more than half of the voting rights represented by the shareholders (including proxies of shareholders) present at the meeting shall be exercised to pass the resolution.

To adopt a special resolution by a shareholders' general meeting, more than two-thirds of the voting rights represented by the Shareholders (including proxies of shareholders) present at the meeting shall be exercised to pass the resolution.

Voting Rights (generally, on a poll and right to demand a poll)

The ordinary Shareholders of our Company have the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat. A Shareholder (including proxy) when voting at a shareholders' general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote. Except as otherwise provided by the applicable listing rules or other securities laws, a resolution of a Shareholders' meeting shall be decided on a show of hands. At any general meeting of Shareholders a resolution shall be decided on a show of hands, unless before or after any vote by show of hands, a poll is demanded by the following persons:

- (1) the chairperson of the meeting;
- (2) at least two Shareholders entitled to vote or proxies of such Shareholders; or
- (3) one or more Shareholders (including proxies of such shareholders) who individually or collectively representing more than 10% (including 10%) of Shares carrying the right to vote at the meeting.

Unless a poll be so demanded by some person, a declaration by the chairperson that a resolution has on a show of hands been carried out and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution. The demand for a poll may be withdrawn by the person who makes such demand.

A poll demanded on the election of the chairperson of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other questions shall be taken at such time as the chairperson of the meeting directs, and any business, other than that upon which a poll has been demanded may be proceeded with. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

On a poll, a Shareholder (including proxies of shareholders) entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairperson of the meeting shall be entitled to one additional vote.

REQUIREMENTS FOR ANNUAL GENERAL MEETINGS

A shareholders' general meeting shall either be an annual general meeting or an extraordinary general meeting. Shareholders' general meetings shall be convened by the board of Directors. The Board shall convene an annual shareholders' meeting once each year and within six months from the close of the preceding accounting year.

ACCOUNTS AND AUDIT

Preparation of financial report

The Company shall establish its financial and accounting system in accordance with the laws, administrative regulations and PRC accounting standards formulated by the finance regulatory department of the State Council.

The Board shall place before the Shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directive documents promulgated by regional government and competent authorities to be prepared by the Company. Such financial reports shall be verified by an accounting firm. The Company's financial reports shall be made available for Shareholders' inspection at the Company 20 days before the date of each shareholders' annual general meeting.

Each Shareholder of the Company shall be entitled to obtain a copy of the financial reports that are referred in the Articles of Association. The Company shall send the aforesaid financial reports to each of the overseas-listed foreign-invested Shareholders by prepaid mail at least 21 days before the date of every shareholders' annual general meeting to their addresses as shown in the register of shareholders. For holders of overseas-listed foreign Shares, the notice of a shareholders' meeting may, subject to laws, regulations and listing rules of stock exchange(s) on which the shares of the Company

may be listed, be served or provided through the Company's website or by such other means as shall be stipulated from time to time under the listing rules.

The financial statements of the Company shall, be prepared in accordance with PRC accounting standards and regulations, unless otherwise specified by the Stock Exchange where the Company's shares are listed, shall be prepared in accordance with either International Financial Reporting Standards, or that of the overseas place where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in an appendix to the financial statements. When the Company is to distribute its after-tax profit of a financial year, it is required to make distributions based on the lower of the Company's after-tax profits determined under the two accounting standards.

Any interim results or financial information published or disclosed by the Company shall be prepared and presented in accordance with PRC accounting standards and regulations, unless otherwise specified by the Stock Exchange where the Company's shares are listed, shall be prepared in accordance with either International Financial Reporting Standards or that of the overseas place where the Company's shares are listed.

The Company shall submit the interim financial reports within two months of the ending date of the first six months of each accounting year, submit the annual accounting report within four months of the ending date of each accounting year.

Appointment of accounting firms

The Company shall appoint independent accounting firms that are qualified under the relevant regulations of the PRC to audit the Company's annual financial reports and review other financial reports of the Company.

The accounting firms appointed by the Company shall hold office from the conclusion of the annual general meeting of Shareholders to the conclusion of the next annual meeting of Shareholders.

If there is any vacancy in the position of the accounting firms, the Board may, before the convening of the shareholders' general meeting, appoint an accounting firm(s) to fill that casual vacancy. But while any such vacancy continues, the accounting firms that currently assume the office, if any, may act.

The shareholders' general meeting may, by ordinary resolution, remove any accounting firm before the expiration of its office, notwithstanding the stipulations in the contract between the Company and the firm, but without prejudice to the relevant firm's right to claim, if any, for damages in respect of such removal.

The remuneration of accounting firms or the manner in which such firm is to be remunerated shall be determined by the shareholders' general meeting. For the accounting firm that is appointed by the Board, its remuneration shall be determined by the Board.

Change and removal of accounting firm

The Company's appointment of, removal of or non-reappointment of an accounting firm shall be determined by shareholders' general meetings and such decision shall be filed with the China securities regulatory authority.

Where it is proposed that any resolution be passed at a shareholders' general meeting concerning the appointment of an accounting firm, which is not an incumbent firm, to fill a casual vacancy in the office of the accounting firm, or reappointment of a retiring accounting firm which was appointed by the Board to fill a casual vacancy, or removal of the accounting firm before the expiration of its term of office, the following provisions shall be complied with:

- (1) before the notice of the shareholders' general meeting has been sent out, a copy of the proposal in relation to the appointment or removal shall be delivered to the accounting firm proposed to be appointed or proposing to leave its post or the accounting firm which has left its post within the relevant accounting year; leaving includes leaving by removal, resignation and retirement.
- (2) if the accounting firm leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall adopt the following measures (unless the representations are received too late): (i) in any notice delivered for the purpose of making of the resolution, state the fact of the representations having been made by the accounting firm leaving its post; and (ii) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association. If the accounting firm's representations were not sent in accordance with the preceding paragraph, the relevant accounting firm may require that such representations be read out at the shareholders' general meeting and may lodge further complaints.
- (3) an accounting firm which is leaving its post shall be entitled to attend the following meetings: (i) the shareholders' general meeting at which its term of office would otherwise have expired; (ii) any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and (iii) any shareholders' general meeting convened on its resignation. The accounting firm leaving its post is entitled to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former accounting firm of the Company.

Resignation of accounting firm

Where the Company removes or does not reappoint an accounting firm, it shall give prior notice to the accounting firm and that accounting firm is entitled to make representations and comments to the shareholders' general meeting. Where the accounting firm resigns its post, it shall make clear to the shareholders' general meeting whether there has been any impropriety.

Any accounting firm may resign its office by depositing at the Company's legal residence a resignation notice. That notice shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following representations: (i) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or (ii) a statement of any such circumstances. The Company shall within 14 days after receiving of such notice send a copy of the notice to the relevant governing authority. If the notice contains a statement under subparagraph (ii) of the preceding paragraph, a copy of such statement shall be placed at the Company for shareholders' inspection. The Company shall also send a copy of such statement by prepaid mail to every Shareholder of the overseas-listed foreign Shares at the address registered in the register of shareholders. The notice may, subject to laws, regulations and listing rules of stock exchange(s) on which the shares of the Company may be listed, be served or provided through the Company's website or by such other means as shall be stipulated from time to time under the listing rules.

Where the accounting firm's notice of resignation contains a statement of any circumstances which should be brought to the notice of the Shareholders or creditors of the Company, the accounting firm may require the Board to convene a shareholders' extraordinary general meeting for the purpose of giving an explanation of the circumstances connected with its resignation.

NOTICE OF MEETINGS AND BUSINESS TO BE CONDUCTED THEREAT

The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law. Except where the Company is in extraordinary situations such as a crisis, the Company shall not, without the approval of shareholders' general meeting in the form of special resolutions, enter into any contract with any person other than a Director, Supervisor, general manager or other senior management personnel whereby the management of the whole or a substantial part of the business of the Company is to be handed over to such person to be in charge of. Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meeting shall be convened by the Board. Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months:

- (1) when the number of Directors is less than the number required by the PRC Company Law or less than two-thirds of the number of Directors specified in the Articles of Association;
- (2) when the unrecovered losses of the Company amount to one-third of the total amount of its share capital;
- (3) when Shareholder(s) holding more than 10% (including 10%, proxy exclusive) of the Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting;

- (4) when deemed necessary by the Board or as requested by the Board of Supervisors;
- (5) when requested by over half of the independent non-executive Directors.

When the Company convenes a shareholders' general meeting, written notice of the meeting shall be given (either by electronic means or by post) 45 days before the date of the meeting to notify all of the Shareholders in the share register of the matters proposed to be considered and the date and the place of the meeting. When the Company calculates the period, it shall not include the day when the meeting is convened. A Shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to the Company 20 days before the date of the meeting.

When the Company convenes a shareholders' annual general meeting, the Board, the Board of Supervisors or the shareholders who individually or collectively holds more than 3% of the total voting shares of the Company shall have the right to propose motions, and the Company shall place matters in the proposed motions within the scope of functions and powers of the shareholders' general meeting on the agenda.

Unless in the circumstance set out in the preceding paragraph, the convener, after sending out the public notice of shareholders' general meeting, shall not amend or add any new matter to those that have already been listed in the notice of meeting.

The Company shall, based on the written replies received 20 days before the date of the shareholders' general meeting, calculate the number of voting shares represented by Shareholders who intend to attend the meeting. If the number of voting shares represented by the Shareholders who intend to attend the meeting reaches more than one half of the Company's total voting shares, the Company may hold the meeting. If not, then the Company shall within five days notify the Shareholders again by public notice of the matters proposed to be considered, the place and the date for the meeting. The Company may hold the meeting after the publication of such notice.

A notice of meeting of Shareholders shall comply with the following requirements:

- (1) be made in writing;
- (2) specify the place, the date and the hour of the meeting;
- (3) state the matters and motions to be discussed at the meeting;
- (4) list out the share registration date of shareholders who are entitled to attend the shareholders' general meeting;
- (5) provide the Shareholders with such information and explanations as are necessary for the Shareholders to exercise an informed judgement on the proposals before them. It principally includes (but is not limited to), where a proposal is made to amalgamate the Company, to repurchase Shares, to

reorganise the share capital or to restructure the Company in any other way, the conditions of the proposed transaction must be provided in detail together with the proposed contract (if any), and the cause and consequence of such proposal must be properly explained;

- (6) contain a disclosure of the nature and extent, if any, of the material interests of any Director, Supervisor, general manager or other senior management in the transaction proposed and the effect of the proposed transaction on such Director, Supervisor, general manager or other senior management in their capacity as shareholders in so far as it is different from the effect on the interests of the shareholders of the same class;
- (7) contain the full text of any special resolution proposed to be voted at the meeting;
- (8) contain conspicuously a statement that a Shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a Shareholder;
- (9) specify the time and place for lodging proxy forms for the relevant meeting;
- (10) contain the names and phone numbers of the long-term contact persons for the meeting.

The aforesaid provisions are applicable to the notices for the Shareholders' general meeting held by the Board of Supervisor or the Shareholders in accordance with the Articles of Association.

Notice of Shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid mail to their addresses as shown in the register of shareholders. To the holders of Domestic Shares and unlisted foreign capital Shares of the company, the notice shall be given in the form of a public notice, if to the holders of overseas listed foreign Shares, the notice shall be given in the form of an announcement via company's website or specified in the listing rules from time to time, provided that laws, administrative regulations and the relevant provisions of the securities regulatory authority where the Share listed have been confirmed.

The public notice prescribed in the preceding paragraph shall be published in one or more newspapers designated by the China securities regulatory authority or in the form which is in conformity with laws, administrative rules, regulations and the relevant provisions of the securities regulatory authority where the shares are listed within an interval between 45 days and 50 days before the date of the meeting. After the publication of such notice, the shareholders shall be deemed to have received the notice of the relevant shareholders' general meeting.

The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

- (1) work reports of the Board and the Board of Supervisors;
- (2) plans formulated by the Board for the distribution of profits and for making up losses;
- (3) appointment and removal of the members of the Board and members of the Board of Supervisors, their remuneration and method of payment;
- (4) annual preliminary and final budgets, balance sheet, income statement and other financial statements of the company; and
- (5) matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a shareholders' general meeting:

- (1) the increase or decrease of the company's share capital, the repurchase of the Company's Shares and the issuance of any class of Shares, warrants and other similar securities;
- (2) the issue of debentures of the Company;
- (3) the division, merger, dissolution, liquidation and change of the corporate form of the Company;
- (4) amendments to the Articles of Association; and
- (5) the external guarantees of our Company subject to deliberation and approval by the shareholders' general meeting;
- (6) the prices or amount of the transactions cumulated within 12 continuous months in relation to purchase or sale of the Company's assets that reach 30% of the total assets shown in the latest audit;
- (7) the stock option incentive plans of the Company;
- (8) any other matters considered by the shareholders' general meeting by way of an ordinary resolution that may have a material impact on the company and should be adopted by a special resolution.

THE CONVERSION AND TRANSFER OF SHARES

Subject to the approval of the securities regulatory authorities of the State Council, holders of Domestic Shares of the Company may proportionally convert the Domestic Shares they held into H Shares and such Shares may be listed and traded on the Hong Kong Stock Exchange. The conversion of Domestic Shares into H Shares and the listing and trading of such Shares on the Hong Kong Stock Exchange shall also comply with relevant domestic and Hong Kong laws, regulations and requirements. Unless required by the Hong Kong Stock Exchange, the conversion of Domestic Shares into H Shares and the listing and trading of such shares on the Hong Kong Stock Exchange do not require approval by a poll at a class meeting.

Unless otherwise stipulated in the laws, administrative regulations and by the Hong Kong Stock Exchange, Shares of the company shall be freely transferable and are not subject to any lien.

The alteration or rectification of each part of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

No changes in the shareholders' register due to the transfer of Shares may be made within 30 days before the date of a shareholders' general meeting or within 5 days before the record date for the Company's distribution of dividends.

POWER OF THE COMPANY TO PURCHASE ITS OWN SHARES

In accordance with the provisions of the Articles of Association, the Company may reduce its registered share capital. The Company may, with approval according to the procedures provided in the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- (1) cancellation of Shares for the reduction of the Company's capital;
- (2) merging with another company that holds Shares in the Company;
- (3) providing Shares as award to staff and workers of the Company;
- (4) requests from the Shareholders who demand the Company to buy back their shares due to dissents to the resolution of merger or dissolution of the Company passed by the shareholders' general meeting;
- (5) other circumstances permitted by laws and administrative regulations.

The Company may, with the approval of the relevant State governing authority, repurchase its shares, conducting the repurchase in one of the following ways:

- (1) making an offer of repurchase to all of its Shareholders on pro rata basis;
- (2) repurchase Shares through public dealing on a stock exchange;

- (3) repurchase by an off-market agreement; or
- (4) other methods permitted by China securities regulatory authority.

Where the Company repurchases its shares by an off-market agreement, the prior approval by the shareholders' general meeting shall be obtained in accordance with the Articles of Association. The Company may, with the prior approval of the shareholders' general meeting obtained in the same manner, revoke or vary a contract so entered into by the Company in the aforesaid way, or waive its rights under such contract.

A contract to repurchase shares includes (without limitation) an agreement to become obliged to repurchase or an acquisition of the right to repurchase Shares.

The Company shall not assign the contracts to repurchase Shares and its rights under such contracts.

Shares repurchased in accordance with law by the Company shall be cancelled within the period prescribed by laws and administrative regulations, and the Company shall apply to the original companies registration authority for registration of the change of its registered shares capital. The amount of the Company's registered Shares capital shall be reduced by the par value of those cancelled Shares.

Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

- (1) where the Company repurchases Shares of the Company at par value, payment shall be made out of book surplus distributable profits of the Company and proceeds of a fresh issue of Shares made for that purpose;
- (2) where the Company repurchases Shares of the Company at a premium to its par value, payment up to the par value shall be made out of the book surplus distributable profits of the Company and the proceeds of a fresh issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows: (i) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company; or (ii) if the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company and the proceeds of a fresh issue of Shares made for that purpose, provided that the amount paid out of the proceed of the fresh issue shall not exceed the aggregate of premiums received by the Company on the issue of the old Shares repurchased nor the amount of the Company's share premium account at the time of the repurchase (or of the capital reserve account) (including the premiums on the fresh issue);

- (3) payment by the Company in consideration of the following shall be made out of the Company's distributable profits: (i) acquisition of rights to repurchase Shares of the Company; (ii) variation of any contract to repurchase Shares of our Company; and (iii) release of any of the Company's obligations under any contract to repurchase Shares of the Company; and
- (4) after the Company's registered share capital has been reduced by the total par value of the cancelled Shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the par value portion of the Shares repurchased shall be recorded to the Company's share premium account (or the capital reserve account).

POWER FOR ANY SUBSIDIARY OF OUR COMPANY TO OWN SHARES IN THE COMPANY

There are no provisions in the Articles of Association preventing ownership of Shares in the Company by a subsidiary.

DIVIDENDS AND OTHER METHODS OF PROFITS DISTRIBUTION

The Company may distribute dividends in the following manner:

- (1) cash; or
- (2) Stock.

Dividends declared by the Company to be payable to holders of domestic shares shall be declared in Renminbi, and paid in Renminbi. Those payable to holders of domestic listed foreign Shares shall be declared in Renminbi, and paid in U.S. Dollar. Those payable to holders of H shares shall be declared in Renminbi, and paid in HKD. Distribution of dividends and other payments by the Company to holders of foreign shares shall be in accordance with the relevant foreign exchange administration regulations of the People's Republic of China. In the absence of such regulations, the applicable conversion rate shall be the average mid-point rate of the relevant foreign exchange as published by the People's Bank of China on its website for the period of seven working days immediately prior to the date of declaration of such dividend and other payments.

The Company shall appoint receiving agents on behalf of holders of overseas-listed foreign shares. The receiving agents shall receive on behalf of such shareholders dividends distributed and all other monies owing by the Company in respect of their overseas-listed foreign shares.

The appointment of such receiving agents shall comply with laws or relevant rules required by the stock exchange on which the shares are listed. The receiving agents appointed by the Company on behalf of holders of the overseas-listed foreign shares

traded on the Hong Kong stock exchange shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

The Company may exercise the power to revert unclaimed dividends to the Company in accordance with relevant PRC laws and regulations and rules imposed by the Hong Kong Stock Exchange, but such power should not be exercised until the relevant applicable period has expired. The Company may stop sending dividend cheques by mail to certain holders of the overseas-listed foreign shares who failed to withdraw two successive dividend cheques or to whom the initial dividend cheques could not be delivered and bounced.

The Company is entitled to sell the Shares held by holders of the overseas-listed foreign shares in a reasonable manner according to the opinions of the Board when such holders could not be reached, but subject to the following conditions: dividends have been distributed on such Shares at least three times within 12 years, provided that no one has ever claimed those dividends within that 12-year period; in addition to the above, the Company, after the expiration of 12 years, published a notice on one or more newspapers of the place where the Shares were listed, stating its intention to sell the Shares, and informed the stock exchange on which such Shares were listed.

Proxies

Any Shareholder entitled to attend and vote at a meeting of the shareholders shall be entitled to appoint one or more other persons (whether a shareholder or not) as his proxies to attend and vote on his behalf, and a proxy so appointed shall:

- (1) have the right as the shareholder to speak at the meeting;
- (2) have authority to demand or join in demanding a poll; and
- (3) have the right to vote by hand or on a poll, but if a shareholder has appointed more than one proxy, those proxies may only vote on a poll.

If the Shareholder is a legal entity, its legal representative or such person as is authorised by resolution of its Board or other governing body to act as its representative may attend at the meetings of Shareholders of the Company as a representative of the Shareholder. If it is the legal representative who attends the meeting, he should produce his own Identity Card, stock account card and any certificate that could prove his identity as a legal representative and the stock certificate; if it is the appointed proxy who attends the meeting, he should produce his own Identity Card, the instrument of proxy issued by the legal representative of the Shareholder entity in writing in accordance with law, stock account card and the stock certificate.

The instrument appointing a voting proxy shall be deposited at the residence of the Company or at such other place as specified for that purpose in notice convening the meeting, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the resolution. If the instrument appointing a voting proxy is signed by a person under a power of attorney or other

authority on behalf of the appointer, a notary certified copy of that power of attorney or other authority, shall be deposited at the residence of the Company or at such other place as is specified for that purpose in the notice convening the meeting.

Any form issued to a Shareholder by the Board of the Company for use by him for appointing a Shareholder proxy shall be such as to enable the shareholder according to his intention, to instruct the proxy to vote in favour of or against each resolution at the meeting. Such a form shall contain a statement that in the absence of instructions by the shareholder the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the relevant shares, provided that no notice in writing of such affairs as aforesaid shall have been received by the Company before the commencement of the relevant meeting at which proxy is used.

CALLS ON SHARES AND FORFEITURE OF SHARES

There are no provisions in the Articles of Association of the Company relating to the making of calls on Shares or for the forfeiture of Shares.

RIGHTS OF SHAREHOLDERS (INCLUDING INSPECTION OF REGISTER)

The ordinary shareholders of the Company shall enjoy the following rights:

- (1) the right to dividends and other distributions in proportion to the number of Shares held;
- (2) to participate in, or appoint a shareholder proxy by law to participate in and exercise corresponding voting rights at the Shareholders' general meeting;
- (3) the right of supervisory management over the Company's business operations, and the rights to present proposals or to raise enquires;
- (4) to transfer the shares held according to the provisions of the laws, administrative rules and the Articles of Association;
- (5) the right to obtain relevant information in accordance with the provisions of the Articles of Association, including: (i) the right to obtain a copy of the Articles of Association, subject to payment of the cost of such copy; (ii) the right to inspect and copy, subject to payment of a reasonable charge: (a) all parts of the register of shareholders; (b) personal particulars of each of the Directors, Supervisors, General Manager and other senior management as follows: (1) present name and alias and any former name and alias; (2) principal address (residence); (3) nationality; (4) primary and all other part-time occupations; and (5) identification document and its number; (c) report on the state of the Company's share capital; (d) the latest audited

financial reports of the Company, and the reports of the Board, auditor and Supervisor; (e) the Special Resolutions of the Company; (f) reports showing the aggregate par value, quantity, maximum and minimum price paid in respect of each class of Shares repurchased by the Company since the end of the last accounting year and the aggregate amount incurred by the Company for this purpose; (g) a copy of the latest annual quality report that has been submitted to the SAIC or has filed with other governing authorities; and (h) minutes of shareholders' general meetings;

- (6) in the event of the termination or liquidation of the Company, to participate in the distribution of remaining assets of the Company in accordance with the number of Shares held;
- (7) to request the Company to purchase Shares of Shareholders objecting to a resolution adopted at the Shareholders general meeting concerning the merger or separation of the Company; and
- (8) other rights conferred by laws, administrative regulations and the Articles of Association.

QUORUM FOR SHAREHOLDERS' GENERAL MEETINGS AND SEPARATE CLASS MEETINGS

The Company may calculate the number of voting Shares represented by those shareholders from whom the Company has received, 20 days before the meeting, notices of intention to attend the meeting. The Company may convene a shareholders' general meeting where the number of voting Shares represented by those Shareholders who intend to attend the meeting reaches more than one half of the Company's voting Shares; if that number is not reached, the Company shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, the Company may hold the shareholders' general meeting.

Please refer to the Section headed "Variation of Rights of Existing Shares or Classes of Shares" above for the requirements of convening of a shareholders' class meeting and the quorum.

RIGHTS OF THE MINORITIES IN RELATION TO FRAUD OR OPPRESSION

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange on which Shares of the Company are listed, a controlling shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of the Company:

- (1) to release Director or Supervisor of his duty to act honestly in the best interests of the Company;

- (2) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person), in any guise, of the Company's assets, including (without limitation) opportunities beneficial to the Company; or
- (3) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to distributions and voting rights save pursuant to a restructuring in relation to the Company submitted to shareholders' general meeting for approval in accordance with the Articles of Association of the Company.

For these purposes, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- (1) he alone, or acting in concert with others, has the power to elect more than half of the Directors;
- (2) he alone, or acting in concert with others, has the power to exercise or to control the exercise more than of 30% (including 30%) of the voting rights in the Company;
- (3) he alone, or acting in concert with others, holds more than 30% (including 30%) of the issued and outstanding shares of the Company; or
- (4) he alone, or acting in concert with others, in any other manner controls the Company in fact.

The phrase of "acting in concert" referred in the paragraphs above means the act or the fact that an investor collectively with other investors, through an agreement or other arrangements, extend the number of voting Shares they can control of a public Company.

See also the Section headed "Variation of Rights of Existing Shares or Classes of Shares" above.

PROCEDURES ON LIQUIDATION

The Company shall be dissolved and liquidated in accordance with law upon the occurrence of any of the following events:

- (1) the term of business of the Company has expired;
- (2) a resolution for dissolution is passed by shareholders' general meeting;
- (3) dissolution is necessary due to a merger or division of the Company;
- (4) be declared bankrupt due to unable to repay debts;

- (5) The business license is cancelled or it is ordered to close down or to be dissolved according to the laws;
- (6) Where our Company encounters significant difficulties in business and management, continuous survival may be significantly detrimental to the interests of the Shareholders, and the difficulties may not be overcome through other means, Shareholders who hold more than 10% of the Shares carrying voting rights may request the People's Court to dissolve our Company; or
- (7) Other circumstances where our Company is ordered to close by laws and regulations.

Where the Board decides to liquidate the Company (due to causes other than the declaration of insolvency), the Board shall, in its notice convening a shareholders' general meeting to consider the proposal to the effect, state that the Board has made full inquiry into the affairs of the Company and is of the opinion that the Company can pay its debts in full within 12 months after the commencement of the liquidation.

Upon the passing of the resolution by the shareholders' general meeting for the liquidation of the Company, all functions and powers of the Board of the Company shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation and to present a final report to the shareholders' general meeting on completion of the liquidation.

OTHER PROVISIONS MATERIAL TO THE COMPANY AND THE SHAREHOLDERS

General Provisions

The Company is a joint stock limited company in perpetual existence.

The Articles of Association constitute a legally binding document regulating the Company's organisation and activities since the date it becomes effective, and the rights and obligations between the Company and each shareholder and among the shareholders interest.

The Company may invest in other companies, and may assume a liability only to the extent limited by the amount of the capital contribution made into that company. Unless otherwise provided by law, the Company shall not become jointly liable for liabilities of the enterprise it invested in.

The Company may, based on its requirements for operation and development and in accordance with the relevant provisions of the Articles of Association, approve an increase in capital.

The Company may increase its capital in the following ways:

- (1) offering new shares to non-specialty-designated investors for subscription;
- (2) placing new shares to its existing shareholders;
- (3) distributing new shares to its existing shareholders;
- (4) transferring shares from the capital reserve; and
- (5) any other way permitted by law and administrative regulations.

The Company's increase in capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by relevant national laws and administrative regulations.

When the Company registers its share capital, it must draw up a balance sheet and an inventory of assets. The company shall notify creditors within ten days of the date of the resolution for reduction of registered capital and shall make an announcement on newspapers recognised by the stock exchange where the shares of the company are listed within 30 days. A creditor has the right within 30 days of receiving the notice or, in the case who does not receive the notice, within 45 days of the date of the announcement, to demand the Company to repay its debts or provide a corresponding guarantee for such debt. The Company's registered capital after reduction shall not be less than the statutory minimum amount.

The ordinary shareholders of the Company shall assume the following obligations:

- (1) to abide by laws, administrative regulations and the Articles of Association;
- (2) to pay subscription funds according to the number of shares subscribed and the method of subscription;
- (3) not to withdraw shares, unless in the circumstances set out by laws, administrative regulations and the Articles of Association;
- (4) not to damage the interests of the Company or the interests of other shareholders by abuse of shareholders' rights; not to damage the interests of the Company's creditors by abuse of the status of the Company as an independent legal person or the limited liability of the shareholders; the shareholder of the Company shall be liable for the losses caused by their abuse of rights to the Company or other shareholders in accordance with law. The shareholders of the Company shall be jointly liable for the Company's debts

if, due to their abuse of the Company's independent legal person status and limited shareholder liability, serious damages were caused to the creditors of the Company; and

- (5) to assume any other obligation required by laws, administrative regulations and the Articles of Associations.

The Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

Board

The Board is responsible to the shareholders' general meeting and exercises the following functions and powers:

- (1) to be responsible for convening shareholders' general meetings and to report on its work to the shareholders' general meeting;
- (2) to implement the resolutions of the shareholders' general meetings;
- (3) to decide on the Company's business plans, investment plans, detailed annual business objectives, and financing plans other than by ways of issue of corporate bonds or other securities and of listing;
- (4) to formulate the Company's annual financial budget and final accounts;
- (5) to formulate the Company's profit distribution plan and loss recovery plan;
- (6) to formulate proposals for the increase or decrease of the company's registered capital, and plans for the issue of corporate bonds or other securities, and the listing plan;
- (7) to prepare plans for material acquisition, repurchase of the Company's Shares, or the merger, division, dissolution or change of the corporate form of the company;
- (8) to decide on the establishment of the company's internal management structure, and to decide on the establishment and cancellation of the company's branches and other sub-branches;
- (9) to elect the company's chairman; to nominate, appoint or remove the company's general manager;
- (10) to appoint or remove secretaries of the Board and directors of specialised committees under the Board based on the nominations of the chairman of the board;

- (11) to appoint or remove the Company's deputy managers, Chief Financial Officer, and to decide on the matters of their remuneration and reward based on the nominations of the general manager;
- (12) to formulate the Company's basic management system;
- (13) to formulate proposals for any amendment to the Articles of Association of the Company;
- (14) to formulate the stock option incentive plans of the company;
- (15) to manage the affairs in relation to information disclosure of the company;
- (16) to decide on the establishment of special committees;
- (17) to decide on and to monitor the implementation of the company's risk management system, including risk assessments, financial control, internal audit, legal risk control;
- (18) to propose to the shareholders' general meetings the appointment or change of the accounting firm to conduct auditing of the company;
- (19) to receive regular or irregular work reports submitted by the company's general manager or senior management appointed by the general manager, and to approve the work reports of the general manager;
- (20) the external guarantees granted by the Company that are not required to be reviewed and approved by the shareholders' general meeting set out in the Articles of Associations;
- (21) to decide on affairs in relation to the purchase and sale of assets, pledge of assets, entrusted financing and connected transactions within the scope of authorisation of the shareholders' general meeting;
- (22) to exercise other functions and powers conferred by laws and regulations, the listing rules of the stock exchange on which the shares of the company are listed, the shareholders' general meetings and the Articles of Association.

Board meetings shall be held at least four times a year and convened by the chairman of the Board. A 14 days' prior written notice of meeting shall be given to all directors.

Meetings of the Board shall be held only if more than half of the Directors are present. Each Director shall have one vote. Where the numbers of votes cast for and against a resolution are equal, the chairman of the Board shall have an additional vote.

Board of Supervisors

The Company shall have a Board of Supervisors. The Directors, senior management and the Chief Financial Officer shall not act as Supervisors. The Board of Supervisors shall be composed of three Supervisors. The term of office of Supervisors shall be three years, renewable upon re-election and reappointment. The Board of Supervisors shall have one chairman. The election or removal of the chairman of the Board of Supervisors shall be made by the affirmative vote of more than two-thirds of the members of the Board of Supervisors. Resolutions of the Board of Supervisors shall be made by the affirmative vote of more than two-thirds of the members of the Board of Supervisors.

At least one-third of the Supervisors shall be the representatives of staff and workers of the Company. The representative of staff and workers of the Company as Supervisors shall be elected and replaced by the staff and workers of the Company democratically thereby.

The Board of Supervisors shall be accountable to the shareholders' general meeting and exercise the following functions and powers in accordance with law:

- (1) to examine the Company's financial affairs;
- (2) to supervise the performance of the Directors and Senior Management of their duties, and propose to remove the Directors, Supervisors and senior management for violation of the applicable laws, regulations, the Articles of Association or the resolutions of the shareholders' general meeting;
- (3) to demand rectification from a Director and Senior Management when the acts of such persons is harmful to the Company's interest, and to report it to the shareholders' general meeting or governing authorities at the national level when necessary;
- (4) to inspect financial reports, business reports, profit distribution plans and other financial information to be submitted by the Board at the shareholders' general meeting, and if in doubt, registered accountants and certified auditors may be hired to provide assistance on behalf of the Company;
- (5) to propose to convene a shareholders' extraordinary general meeting, and to convene and preside over shareholders' general meetings when the Board fails to perform the duty of convening and presiding over the general meeting;
- (6) to make proposals to the shareholders' general meeting;
- (7) to negotiate with the Directors and senior management on behalf of the company, or to institute a suit to the Directors and senior management;
- (8) to propose to convene an extraordinary meeting of the Board of Directors;
- (9) to elect the chairman of Board of Supervisors; and

- (10) such other functions as provided by laws, regulations or these Articles of Association.

Members of the Board of Supervisors shall be present at Board meetings. A supervisor shall carry out his duties honestly and faithfully in accordance with laws, administrative regulations and these Articles of Association.

General manager of the Company

The Company shall have one general manager, who shall be appointed and dismissed by the Board. The general manager shall be accountable to the Board and exercise the following functions and powers:

- (1) to be in charge of the Company's production, operation and management, and report to the Board;
- (2) to organise the implementation of the resolutions of the Board;
- (3) to organise the implementation of the Company's annual business plan, investment and funding plan;
- (4) to propose plans for the establishment of the Company's internal management structure;
- (5) to propose plans for the establishment of the Company's branches and sub-branches;
- (6) to propose the Company's basic management system;
- (7) to formulate detailed rules and regulations of the Company;
- (8) to propose the appointment or dismissal of the Company's deputy managers and chief financial officer, and to advise on their remuneration;
- (9) to appoint or dismiss other management personnel other than those required to be appointed or dismissed by the Board, and decide on their assessment, remuneration, incentive and punishment; and
- (10) other functions and powers conferred by these Articles of Association and the Board.

The General Manager of the Company shall be present at Board meetings.

Chairman of the Board

In case where the chairman of the Board cannot perform the powers abovementioned, a director should be elected by more than half of all of the Directors to perform the powers.

Secretary of the Board

The secretary of the Board shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board. The scope of responsibilities for the secretary of the Board includes:

- (1) to be responsible for communication and coordination between the Company and the related parties, stock exchange and the securities regulatory authority, to ensure that the Company legally prepare and submit reports and documents as required by the regulatory authorities;
- (2) to be responsible for information disclosure of the Company, to procure the Company to formulate and implement the information disclosure system and material information internal reporting system, to procure the Company and the related parties to fulfil the information disclosure obligation in accordance with laws and to submit regular reports and temporary reports to the stock exchange;
- (3) to coordinate the relationship between the Company and its investors, to handle visits of the investors, to answer questions raised by the investors, and to provide the investors with information disclosed by the Company;
- (4) to make preparations for Shareholders' general meetings and Board meetings in accordance with a specified procedure, and to prepare and submit relevant documents of the meetings;
- (5) to attend Board meetings and prepare and sign the minutes of the meetings;
- (6) to be responsible for confidentiality issues relating to information disclosure of the Company, to formulate confidentiality measures, to procure the Directors, Supervisors, general manager and other senior management and related informed persons to keep all information confidential before disclosure thereof, make prompt responsive remedies in the event of divulgence of inside information and report to the stock exchange;
- (7) to be responsible for keeping the register of Shareholders, the register of Directors, information on shareholdings of major Shareholders, Directors, Supervisors, general manager and other senior management, and documents and minutes of the Shareholders' general meeting and Board meetings, to ensure the Company has complete organisational documents and records, and to ensure the persons with right of access to relevant records and documents of the Company to have the said records and documents in time;

- (8) to assist Directors, Supervisors, general manager and other senior management to learn about information disclosure related laws, regulations, rules, listing rules of the stock exchange, and the Articles of Association, and the provisions in the listing agreements concerning their legal liabilities;
- (9) to procure the Board to exercise functions and powers in accordance with law; to remind the attending directors where the resolutions to be made by the Board do not comply with the relevant laws, regulations, rules, listing rules and other rules of the stock exchange, and the Articles of Association, and request the supervisors present at meeting to express their opinions; to record the opinions of relevant supervisors and persons in the minutes if the Board insists on making the aforesaid resolutions, and report to the stock exchange;
- (10) to fulfil other duties specified in the applicable laws, regulations, rules, listing rules and other rules of the stock exchange, and the Articles of Association.

Dispute Resolution

Whenever any dispute or claim arise between holders of the overseas-listed foreign shares and the Company, or between such Shareholders and the Company's Directors, Supervisors, general managers or other Senior Management, or between such Shareholders and Shareholders of non-overseas-listed foreign shares, based on the rights and obligations set out in the Articles of Association, the PRC Company Law and other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration. Unless otherwise provided by laws or administrative regulations, the laws that apply to resolve the aforementioned disputes or claims shall be PRC laws.

Where the aforesaid dispute or claim is referred to arbitration, the entire claim or dispute shall be referred to arbitration, and all persons who have a cause of action based on the same facts or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is the Company or the Company's Shareholder, Director, Supervisor, general manager or other senior management. Disputes in relation to the identification of Shareholders and disputes in relation to the share register need not be referred to arbitration.

A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

The award of an arbitration body shall be final and binding on all parties.

1. FURTHER INFORMATION ABOUT OUR COMPANY**A. Establishment of our Company**

The predecessor of our Company, Chunli Limited, was incorporated in Beijing, the PRC under the laws of the PRC as a limited liability company on 12 February 1998. On 17 September 2010, Chunli Limited was restructured as a joint stock limited company under the laws of the PRC. After the restructuring, Chunli Limited was renamed as Beijing Chunlizhengda Medical Instruments Co., Ltd. (北京市春立正達醫療器械股份有限公司).

Our Company has established its principal place of business at 19/F, Nan Dao Commercial Building, 359–361 Queen’s Road Central, Hong Kong and has been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XVI of the Hong Kong Companies Ordinance on 12 May 2014. For the purpose of such legislation, Mr. Ip Pui Sum (葉沛森), the joint company secretary of our Company, has been appointed as our Company’s authorised representative for the acceptance of service of process in Hong Kong.

For the purpose of Rule 3.05 of the Listing Rules, our Company has appointed Mr. Ip Pui Sum and Mr. Ding Gang (丁罡) as authorised representatives to act as our Company’s principal channels of communication with the Hong Kong Stock Exchange.

As our Company was established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of certain provisions of certain relevant aspects of the laws and regulations of the PRC and a summary of the Articles of Association are set out in Appendix V — “Summary of Principle Legal and Regulatory Provisions” and Appendix VI — “Summary of Articles of Association” to this prospectus respectively.

B. Changes in share capital of our Company

The registered capital of Chunli Limited, the predecessor of our Company, was RMB300,000 when established on 12 February 1998. Chunli Limited was jointly established by Mr. Shi and Ms. Yue, in which 66.67% equity interest was held by Mr. Shi and 33.33% was held by Ms. Yue.

On 18 December 2001, Chunli Limited increased its registered capital from RMB300,000 to RMB1,600,000, of which each of Mr. Shi and Ms. Yue made a cash contribution of RMB650,000. As a result of such capital contribution, Mr. Shi and Ms. Yue held 53.1% and 46.9% equity interest respectively.

On 2 July 2010, Chunli Limited increased its registered capital from RMB1,600,000 to RMB1,866,252, and such increase was contributed by nine equity holders, namely Gu Changyue, Xin'an Caifu, Zhang Zhaohui, Sun Weiqi, Lin Yiming, Ni Xuezhen, Huang Dong, He Rongmei and Chen Xusheng, by way of cash.

Our Company was established in September 2010 as a joint stock limited company pursuant to the restructuring of Chunli Limited, the registered capital of our Company was RMB50,000,000 divided into 50,000,000 Shares of nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the completion of the Global Offering will be RMB66,670,000, consisting of 50,000,000 Domestic Shares and 16,670,000 H Shares, with a nominal value of RMB1.00 each.

Save as disclosed above, as at the Latest Practicable Date, there has been no alteration in our share capital since the date of our incorporation.

C. Written resolutions of the Shareholders of our Company

Pursuant to the written resolutions passed by the Shareholders of our Company on 20 May 2013, 12 June 2014, 30 January 2015 and 23 February 2015, the following resolutions were, among other things, approved:

- (a) approving the issue of H Shares by our Company and the Listing;
- (b) the Board was authorised, among other things, to handle all matters relating to, among others, the issue of H Shares and the Listing;
- (c) subject to the completion of the Global Offering, the Articles of Association has been approved and adopted, which shall only become effective on the Listing Date.

2. OUR SUBSIDIARY

Our subsidiary, Zhao Yi Te, was established on 8 June 2006, with a registered capital of RMB660,000. Before the establishment of our Company, Chunli Limited was the holding company of the subsidiary of the Group. Our Company has replaced Chunli Limited and became the holding company of the subsidiary on 17 September 2010 whereupon Chunli Limited was restructured as a joint stock limited company. Since its establishment, Zhao Yi Te has made no alteration in its share capital and has been wholly owned by us.

Save as disclosed above, there has been no alteration in the share capital of our subsidiary within the two years immediately preceding the date of this prospectus.

3. REORGANISATION

Please refer to the section headed "History and Development — Corporate History — Restructured as joint stock limited company" in this prospectus.

4. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of material contracts



The following contracts (not being contracts in the ordinary course of business) have been entered into by our Company and/or our subsidiary within the two years preceding the date of this prospectus which are or may be material:

- (a) a state-owned property transfer agreement (國有產權交易合同) dated 13 December 2013, whereby Xin'an Caifu agreed to transfer all of its equity interest in our Company (2.67% of the total registered capital of our Company) to Mr. Shi and Ms. Yue for a total consideration of RMB14,180,000;
- (b) the Deed of Non-competition;
- (c) the Deed of Indemnity; and
- (d) the Hong Kong Underwriting Agreement.

B. Our intellectual property rights

As at the Latest Practicable Date, we had registered the following trademarks which are material to our business:

No.	Trademark	Registered Owner	Class ⁽¹⁾	Registration No.	Validity Period	Place of Application
1		Our Company	10	6209594	7 January 2010 – 6 January 2020	PRC
2		Our Company	10	6209593	14 January 2010 – 13 January 2020	PRC
3		Our Company	10	7109455	7 July 2010 – 6 July 2020	PRC
4		Our Company	10	7109454	7 July 2010 – 6 July 2020	PRC
5		Our Company	10	7109452	7 July 2010 – 6 July 2020	PRC
6		Our Company	10	7109451	7 July 2010 – 6 July 2020	PRC

No.	Trademark	Registered Owner	Class ⁽¹⁾	Registration No.	Validity Period	Place of Application
7		Our Company	10	302900736	20 February 2014 – 19 February 2024	Hong Kong
8		Our Company	10	12902093	14 December 2014 – 13 December 2024	PRC

Note:

- Class 10 covers surgical, medical, dental and veterinary apparatus and instruments and artificial limbs, eyes and teeth; orthopedic articles; suture materials.

As at the Latest Practicable Date, we had been granted with the following patents in the PRC which are material to our business:

No.	Patent	Patentees	Class	Patent Certificate No.	Expiry Date
1	Upper femur hip prosthesis (股骨上段髖關節假體)	Our Company	Invention	ZL200910088380.8	1 July 2029
2	New axis knee joint protheses (新軸心式膝關節假體)	Our Company	Invention	ZL200910088381.2	1 July 2029
3	Self-locking screw nuts (自鎖螺母)	Our Company	Invention	ZL200910089497.8	20 July 2029
4	Vertebral column screw & rod connector (脊柱釘棒連接器)	Our Company	Invention	ZL200910090623.1	31 August 2029
5	Metal impactor for cementless cup (金屬白打入器)	Our Company	Invention	ZL200910093022.6	16 September 2029
6	Femoral stem broach handle (髖關節股骨柄 持柄器)	Our Company	Invention	ZL200910093023.0	16 September 2029
7	Medical broach (醫用銼刀)	Our Company	Invention	ZL201010140708.9	1 April 2030

No.	Patent	Patentees	Class	Patent Certificate No.	Expiry Date
8	Slide hammer (滑錘)	Our Company	Invention	ZL201110005465.2	11 January 2031
9	Implantable self-locking connector (外科植入物的自鎖固定件)	Our Company	Invention	ZL201110003699.7	11 January 2031
10	Pelvic acetabular prosthesis (骨盆髖臼假體)	Our Company	Utility Model	ZL200920109734.8	1 July 2019
11	Self-locking connector (自鎖式連接器)	Our Company	Utility Model	ZL200920110154.0	20 July 2019
12	Hip joint prostheses (髖關節假體)	Our Company	Utility Model	ZL200920246643.9	20 October 2019
13	Vertical groove stem hip joint prostheses (豎槽柄髖關節假體)	Our Company	Utility Model	ZL200920246642.4	20 October 2019
14	Cemented acetabular cup (水泥臼)	Our Company	Utility Model	ZL200920246641.X	20 October 2019
15	Non-fusion spinal fixation system (脊椎非融合固定裝置)	Our Company	Utility Model	ZL201020247832.0	22 June 2020
16	Cementless cup (壓配臼)	Our Company	Utility Model	ZL201020247789.8	22 June 2020
17	Artificial intervertebral disc (人工椎間盤)	Our Company	Utility Model	ZL201020247777.5	22 June 2020
18	Surface hip joint (表面髖關節)	Our Company	Utility Model	ZL201120008156.6	11 January 2021
19	Femoral sizing guide (股骨測量器)	Our Company	Utility Model	ZL201220645174.X	28 November 2022
20	Tibial plateau impactor (脛骨平台墊壓入器)	Our Company	Utility Model	ZL201220645541.6	28 November 2022

No.	Patent	Patentees	Class	Patent Certificate No.	Expiry Date
21	Canal drill guide (髓內定位器)	Our Company	Utility Model	ZL201220645544.X	28 November 2022
22	4 in 1 cutting block (一種四面截骨導向器)	Our Company	Utility Model	ZL201220646234.X	28 November 2022
23	Small thighbone handles (小型股骨柄)	Our Company	Utility Model	ZL201320180490.9	10 April 2023

As at the Latest Practicable Date, we had applied for the following patents in the PRC which are material to our business:

No.	Patent name	Applicant	Class	Application No.	Application Date
1	Pressing rod combination (壓棒組合器械)	Our Company	Invention	201210015560.5	18 January 2012
2	A type of ligament fixation anchoring kit (一種韌帶固定用錨釘套件)	Our Company	Invention	201210015575.1	18 January 2012
3	A type of bipolar head prostheses (一種雙極頭假體)	Our Company	Invention	201210018271.0	20 January 2012
4	Hip joint prostheses (髖關節假體)	Our Company	Invention	201210016471.2	18 January 2012
5	Dissection tibia plateau prostheses (解剖型脛骨平台假體)	Our Company	Invention	201310201704.0	27 May 2013
6	Y-design anterior plate (Y型前路骨板)	Our Company	Invention	201110312729.9	14 October 2011
7	A type of improved acetabular cup (一種改進的髖臼杯)	Our Company	Invention	201310129809.X	15 April 2013

As at the Latest Practicable Date, we had registered the following domain name:

Domain name	Registrant	Date of Registration	Expiry Date
www.clzd.com	Our Company	29 July 2005	29 July 2015

C. Licenses and registration certificates required for our production and operation

As at the Latest Practicable Date, we had been granted with the following licenses and registration certificates in the PRC which are material to our business:

Medical Device Production Enterprise License (醫療器械生產企業許可證)

Name	License no.	Registered owner	Registration entity	Scope of production	Date of issuance	Expiry date	Production address
Medical Device Production Enterprises License	Jing Yao Jian Xie Sheng Chan Xu No. 2000395	Our Company	BFDA	Class III: III-6846-1 implants, III-6846-2 artificial organs	20 August 2012	19 April 2015	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing

Medical Device Distributing Enterprise License (醫療器械經營企業許可證)

No.	Name	License no.	Registered owner	Issuing entity	Scope of business	Date of issuance	Validity period
1.	Medical Device Trading Enterprises License	Jing 230112	Our Company	BFDA	Class III: Implant materials and artificial organs, medical suture materials and bonding medicament; Class II: physiotherapy and rehabilitation equipment, orthopedics surgery devices, equipment and apparatus for operation rooms, accidents and emergency rooms and clinics	8 October 2010	8 October 2010 – 7 October 2015
2.	Medical Device Trading Enterprises License	Jing 060844	Zhao Yi Te	BFDA	Class III: Implant materials and artificial organs, medical suture materials and bonding medicament; Class II: orthopedics surgery devices	10 May 2012	8 April 2011 – 7 April 2016

Medical Device Registration Certificate

No.	Name	Registration no.	Registration owner	Issuing entity	Product name	Production address	Date of issuance	Expiry date
1	Medical Device Registration Certificate	Jing Yao Jian Xie (Zhun) Zi 2013 No. 1100959	Our Company	BFDA	Knee joint surgical device	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	10 September 2013	9 September 2017
2	Medical Device Registration Certificate	Jing Yao Jian Xie (Zhun) Zi 2013 No. 1100958	Our Company	BFDA	Spinal fixation system surgical device	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	10 September 2013	9 September 2017
3	Medical Device Registration Certificate	Jing Yao Jian Xie (Zhun) Zi 2013 No. 1100956	Our Company	BFDA	Hip joint surgical device	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	10 September 2013	9 September 2017
4	Medical Device Registration Certificate	Jing Yao Jian Xie (Zhun) Zi 2013 No. 1100957	Our Company	BFDA	Shoulder joint surgical device	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	10 September 2013	9 September 2017
5	Medical Device Registration Certificate	Jing Yao Jian Xie (Zhun) Zi 2013 No. 1100960	Our Company	BFDA	Elbow joint surgical device	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	10 September 2013	9 September 2017

No.	Name	Registration no.	Registration owner	Issuing entity	Product name	Production address	Date of issuance	Expiry date
6	Medical Device Registration Certificate	Guo Shi Yao Jian Xie (Zhun) Zi 2013 No. 3461754	Our Company	CFDA	CS series anterior spinal fixation system	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	31 October 2013	30 October 2017
7	Medical Device Registration Certificate	Guo Shi Yao Jian Xie (Zhun) Zi 2014 No. 3460910	Our Company	CFDA	Hip joint prosthesis (Titanium)	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	26 May 2014	25 May 2018
8	Medical Device Registration Certificate	Guo Shi Yao Jian Xie (Zhun) Zi 2014 No. 3461619	Our Company	CFDA	Hip joint prosthesis (Co-Cr-Mo alloy)	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	11 September 2014	10 September 2019
9	Medical Device Registration Certificate	Guo Shi Yao Jian Xie (Zhun) Zi 2013 No. 3460760	Our Company	CFDA	Knee joint prosthesis	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	28 May 2013 (25 November 2014) <i>(Note)</i>	27 May 2017
10	Medical Device Registration Certificate	Guo Shi Yao Jian Xie (Zhun) Zi 2013 No. 3460873	Our Company	CFDA	Elbow joint prosthesis	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	24 June 2013	23 June 2017

No.	Name	Registration no.	Registration owner	Issuing entity	Product name	Production address	Date of issuance	Expiry date
11	Medical Device Registration Certificate	Guo Shi Yao Jian Xie (Zhun) Zi 2013 No. 3460995	Our Company	CFDA	Shoulder joint prosthesis	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	8 July 2013 (25 November 2014) <i>(Note)</i>	7 July 2017
12	Medical Device Registration Certificate	Guo Shi Yao Jian Xie (Zhun) Zi 2013 No. 3461218	Our Company	CFDA	CF series posterior spinal fixation system	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	20 August 2013	19 August 2017
13	Medical Device Registration Certificate	Guo Shi Yao Jian Xie (Zhun) Zi 2013 No. 3461097	Our Company	CFDA	Posterior cervical vertebra fixation system	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	31 July 2013	30 July 2017
14	Medical Device Registration Certificate	Guo Shi Yao Jian Xie (Zhun) Zi 2013 No. 3461412	Our Company	CFDA	Anterior cervical fixation system	No. 17 Xin Mi Road, Jin San Jiao Development Zone, Huoxian Town, Tongzhou District, Beijing; No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing	16 September 2013	15 September 2017

Note: As approved by the CFDA, No. 10 Xin Mi Xi Er Road, Huoxian Town, Tongzhou District, Beijing was added as an additional production address of the Company.

5. DISCLOSURE OF INTERESTS

A. Particulars of Directors' and Supervisors' Service Contracts

Each of our executive Directors, non-executive Directors and independent non-executive Directors has entered into a service contract with us, pursuant to which each Director is appointed for a term of three years with effect from 16 April 2014 except for Mr. Cheung Ying Kwan whose service contract will take effect on the Listing Date, subject to re-election in accordance with our Articles of Association and the Listing Rules, until terminated in accordance with the terms and conditions of the service contract or by either party with no less than one month's prior notice in writing. All our executive Directors and non-executive Director are entitled to a fixed annual salary which is determined according to the criteria and standard approved by shareholders' meeting. The director's fee for each our independent non-executive Directors is RMB100,000 per annum.

Each of the Supervisors has also entered into a contract in respect of, among others, compliance with relevant laws and regulations and observation of the Articles of Association, pursuant to which each Supervisor is appointed for a term of three years with effect from 16 April 2014 until terminated in accordance with the terms and conditions of the service contract or by either party with no less than one month's prior notice in writing. Our Supervisors are entitled to a fixed annual salary which is determined according to the criteria and standard approved by shareholders' meeting.

Save as disclosed above, none of our Directors or supervisors has or will enter into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without the payment of compensation other than statutory compensation).

B. Directors' and Supervisors' Remuneration

For the three financial years ended 31 December 2013 and for the nine months ended 30 September 2014, the aggregate amount of remuneration and other benefits in kind (including our contribution to the pension scheme on behalf of our Directors, Directors' fees, housing allowances and other allowances) or any bonuses paid to our Directors and Supervisors were approximately RMB1.2 million, RMB1.3 million, RMB1.3 million and RMB1.0 million, respectively.

Under the arrangements currently in force as at the date of this prospectus, the aggregate amount of remuneration and benefits in kind payable by us to our Directors and Supervisors for the year ended 31 December 2014, is expected to be approximately RMB1.3 million.

C. Interests and short positions of the Directors, Supervisors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations after the Global Offering

Immediately following completion of the Global Offering, assuming that the Over-allotment Option is not exercised, the interests or short positions of each of our Directors, Supervisors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors):

Name of Director	Class of Shares held after the Global Offering	Nature of interest/capacity	Number of Shares held after the Global Offering	Approximate	Approximate
				percentage of shareholding in the relevant class of Shares after the Global Offering ⁽¹⁾	percentage of shareholding in the total share capital of our Company after the Global Offering ⁽²⁾
Mr. Shi ⁽³⁾	Domestic Shares	Beneficial owner/ Interest of spouse	24,237,087	48.5%	36.4%
			18,762,913	37.6%	28.1%
Ms. Yue ⁽⁴⁾	Domestic Shares	Beneficial owner/ Interest of spouse	18,762,913	37.6%	28.1%
			24,237,087	48.5%	36.4%
Lin Yiming ⁽⁵⁾	Domestic Shares	Beneficial owner	1,160,000	2.3%	1.7%

Notes:

- (1) The calculation is based on the total number of Domestic Shares held after the Global Offering, assuming the Over-allotment Option is not exercised.
- (2) The calculation is based on the total number of 66,670,000 Shares in issue after the Global Offering, assuming the Over-allotment Option is not exercised.
- (3) Mr. Shi is the husband of Ms. Yue. Under the SFO, Mr. Shi will be deemed to be interested in the same number of Shares in which Ms. Yue is interested.

- (4) Ms. Yue is the wife of Mr. Shi. Under the SFO, Ms. Yue will be deemed to be interested in the same number of Shares in which Mr. Shi is interested.
- (5) Lin Yiming is our non-executive Director.

D. Interests and short positions of the substantial shareholders in the Shares and underlying Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as our Directors are aware, immediately following completion of the Global Offering, assuming that the Over-allotment Option is not exercised, the following Shareholders will have or be deemed or taken to have an interest and/or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Shareholder	Class of Shares held after the Global Offering	Nature of interest/ capacity	Number of Shares held after the Global Offering	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering ⁽¹⁾	Approximate percentage of shareholding in the total share capital of our Company after the Global Offering ⁽²⁾
Mr. Shi ⁽³⁾	Domestic Shares	Beneficial owner	24,237,087	48.5%	36.4%
		Interest of spouse	18,762,913	37.6%	28.1%
Ms. Yue ⁽⁴⁾	Domestic Shares	Beneficial owner	18,762,913	37.6%	28.1%
		Interest of spouse	24,237,087	48.5%	36.4%

Notes:

- (1) The calculation is based on the total number of Domestic Shares held after the Global Offering, assuming the Over-allotment Option is not exercised.
- (2) The calculation is based on the total number of 66,670,000 Shares in issue after the Global Offering, assuming the Over-allotment Option is not exercised.
- (3) Mr. Shi is the husband of Ms. Yue. Under the SFO, Mr. Shi will be deemed to be interested in the same number of Shares in which Ms. Yue is interested.
- (4) Ms. Yue is the wife of Mr. Shi. Under the SFO, Ms. Yue will be deemed to be interested in the same number of Shares in which Mr. Shi is interested.

E. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors, Supervisors or the chief executive of our Company has any interests or short positions in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules;
- (b) none of the Directors is aware of any person who will have an interest or short position in our Shares or underlying shares of our Company which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (c) none of our Directors nor any of the parties listed in the paragraph headed “6. Other Information — F. Qualifications of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;
- (d) none of the parties listed in the paragraph headed “6. Other information — F. Qualifications of experts” in this Appendix:
 - (i) has any shareholding in any member of our Group; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (e) none of our Directors nor any of the parties listed in the paragraph headed “6. Other information — F. Qualifications of experts” in this Appendix is interested in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

- (f) none of our Directors, Supervisors, their respective associates or our Shareholders (which to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in any of the five largest suppliers and the top five customers of our Group; and
- (g) none of our Directors or Supervisors has or may have interest in any business which, directly or indirectly, competed or might compete with our business.

6. OTHER INFORMATION

A. Estate duty, taxation and other indemnities

Our Directors have advised that no material liability for estate duty is likely to fall on our Company or our subsidiary.

The Controlling Shareholders (collectively, the “**Indemnifiers**”) have entered into a Deed of Indemnity with and in favour of our Company (for itself and on behalf of its subsidiaries) (being one of the material contracts referred to in the paragraph headed “4. Further Information About Our Business — A. Summary of material contracts” in this Appendix) to provide indemnities, subject to the Global Offering becoming unconditional, on a joint and several basis in respect of any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by the Group incurred in connection with the non-compliance regarding:

- (i) the failure by any member of the Group to make full contribution to the housing provident fund for all of its employees in accordance with the applicable PRC regulations; and
- (ii) the failure by any member of the Group to make full contribution to the social insurance for all of its employees in accordance with the applicable PRC regulations.

as described in the section headed “Business — Legal Proceedings and Compliance” in this prospectus.

Under the Deed of Indemnity, the Indemnifiers have also given indemnities to the Group on a joint and several basis in relation to (i) all the losses that our Group would incur as a result of the title dispute regarding the lease of our Tongzhou First Production Base, and (ii) the amount of any and all taxation which might be payable by any member of the Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Listing Date or any event or transaction entered into or occurring on or before the Listing Date.

The Deed of Indemnity does not cover any claim and the Indemnifiers shall be under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in any audited accounts of any member of the Group for any period up to 30 September 2014; or
- (b) to the extent that such taxation or liability falling on any member of the Group in respect of its accounting period commencing from 30 September 2014 unless liability for such taxation would not have arisen but for some act or omission of or transaction voluntarily effected by any of such members of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or as part of an acquisition and disposition of capital assets conducted in the ordinary course after 30 September 2014; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 September 2014 or pursuant to any statement of intention made in this prospectus; or
- (c) to the extent that such taxation arises or is incurred as a result of a retrospective change in laws or interpretation and practice by the Hong Kong Inland Revenue Department or other relevant authority or a retrospective increase of tax rates coming into force after the date on which the Global Offering becomes unconditional; or
- (d) to the extent that any provisions or reserve made for taxation in the audited accounts of any member of the Group up to 30 September 2014 which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to this item (d) to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

B. Litigation

As of the Latest Practicable Date, our Company was not involved any litigation, arbitration or administrative proceedings of material importance. So far as our Directors are aware, no such litigation, arbitration or administrative proceedings are pending or threatened against any member of our Group.

C. Sole Sponsor

The Sole Sponsor, China Everbright Capital, has declared its independence pursuant to Rule 3A.07 of the Listing Rules.

The Sole Sponsor has made an application on our behalf to the Listing Committee for listing of, and permission to deal in, our H Shares. All necessary arrangements have been made enabling the securities to be admitted into the CCASS. The Sole Sponsor's fee is approximately RMB4.3 million.

D. Compliance Adviser

Our Company will, upon the Listing, appoint China Everbright Capital as our compliance adviser in compliance with Rule 3A.19 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and terminate on the date on which we distribute our annual reports in respect of our financial results for the first full financial year after the Listing Date and such appointment may be extended by mutual agreement.

E. Preliminary expenses

The preliminary expenses of restructuring our Company from a limited liability company to a joint stock limited company were approximately RMB310,000 which has been paid by our Company.

F. Qualifications of experts

The qualifications of the experts who have given opinion or advice in this prospectus are as follows:

Name	Qualification
China Everbright Capital Limited	A licensed corporation registered for Type 1 (dealing in securities), Type 4 (advising on securities), and Type 6 (advising on corporate finance) of the regulated activities under the SFO
Pan-China Certified Public Accountants LLP	Certified Public Accountants
V & T Law Firm	Qualified legal advisers of the Company as to PRC law

G. Consents of experts

Each of China Everbright Capital Limited, Pan-China Certified Public Accountants LLP and V & T Law Firm has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its reports and/or letters and/or opinions and/or the references to its name included herein in the form and context in which they are respectively included.

H. Taxation on holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty. The current rate of Hong Kong stamp duty of such sale, purchase and transfer is HK\$2.00 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred.

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares. None of our Company, the Sole Sponsor, the Underwriters, any of their respective directors or any other persons or parties involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in our Shares.

I. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

J. No material adverse change

Save as disclosed in this prospectus, our Directors confirm that there has been no material adverse change in our financial or trading position since 30 September 2014.

K. Promoter

The Promoters of our Company are Mr. Shi, Ms. Yue, Sun Weiqi, Xin'an Caifu, Jin Jie, Lin Yiming, Gu Changyue, Huang Dong, Wang Haiya, He Rongmei, Ni Xuezhen, Zhang Zhaohui and Chen Xusheng.

L. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital, if any, of our Group is under option or is agreed conditionally or unconditionally to be put under option;
- (c) we have no founder or management or deferred shares;
- (d) no debentures of any member of our Group have been issued or agreed to be issued;
- (e) we have no outstanding convertible debt securities or debentures;
- (f) within the two years immediately preceding the date of this prospectus, no commission, discount, brokerage or any other special term has been granted in connection with the issue or sale of any share or loan capital of our Company or its subsidiary;
- (g) there are no arrangements under which future dividends are waived or agreed to be waived;
- (h) there have been no interruptions in our business which may have or have had a significant effect on the financial position in the last 12 months;
- (i) no part of the equity or debt securities of our Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought;
- (j) our Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited company and does not expect to be subject to the Sino-Foreign Joint Venture Law of the PRC (中華人民共和國中外合資經營企業法); and
- (k) our Directors confirm that there has been no material adverse change in the financial and trading position or prospects of our Group since 30 September 2014 (being the date to which the latest audited consolidated financial statements of our Group were made up).

M. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX VIII	DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION
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DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration include:

- (a) a copy of each of the **WHITE** and **YELLOW** Application Forms;
- (b) the written consents referred to in the paragraph headed “Statutory and General Information — 6. Other Information — G. Consents of experts” in Appendix VII to this prospectus; and
- (c) copies of the material contracts referred to in the section headed “Statutory and General Information — 4. Further Information About Our Business — A. Summary of material contracts” in Appendix VII to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Boughton Peterson Yang Anderson in association with Zhong Lun Law Firm at Room 409, 4/F, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association of our Company;
- (b) the accountants’ report prepared by Pan-China Certified Public Accountants LLP, the text of which is set out in Appendix I to this prospectus;
- (c) the audited accounts of the Group and of the Company for the three financial years ended 31 December 2013 and the nine months ended 30 September 2014;
- (d) the accountants’ report on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this prospectus;
- (e) the PRC legal opinions issued by V & T Law Firm, our PRC Legal Advisers;
- (f) the written consents of experts referred to in the section headed “Statutory and General Information — 6. Other Information” in Appendix VII to this prospectus;
- (g) the material contracts referred to in the section headed “Statutory and General Information — 4. Further Information About Our Business” in Appendix VII to this prospectus;
- (h) the service contracts referred to in the paragraph headed “Statutory and General Information — 5. Disclosure of Interests” in Appendix VII to this prospectus;

- (i) the PRC Company Law, the Special Regulations and the Mandatory Provisions, together with an unofficial English translation; and
- (j) the letters relating to the profit estimate from Pan-China Certified Public Accountants LLP and the Sole Sponsor, the text of which are set out in Appendix III to this prospectus.



北京市春立正達醫療器械股份有限公司
Beijing Chunlizhengda Medical Instruments Co., Ltd.*